

Annual Report 2020

Report of the Remuneration Committee

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Letter from the Remuneration Committee Chair

Dear Stakeholder,

On behalf of the Remuneration Committee, I am pleased to report on the Committee's activities in 2020 and to present the 2020 Remuneration Report on behalf of the Board of Management and the Supervisory Board.

An important milestone in 2020 was the update of the Remuneration Policy for the Board of Management and the Supervisory Board respectively, as approved by our shareholders during the 2020 Annual General Meeting of Shareholders. The relevant proposals followed the implementation of the revised EU Shareholders Rights Directive (2017/828) into Dutch law (effective December 2019). To ensure that the Remuneration Committee was able to properly consider all feedback before submitting final remuneration packages to our shareholders, the Remuneration Committee initiated a dedicated remuneration roadshow in the second half of 2019, engaging with a number of the company's shareholders (in aggregate representing approximately 35% of the issued share capital) and institutional advisory organizations.

As part of the update of the Remuneration Policy and the Long-Term Incentive Plan for the Board of Management, the following changes were made (compared to the previous 2017 versions):

- **Long-Term Incentive** - to explicitly link the Remuneration Policy to our purpose and our contribution to society, a sustainability criterion (non-financial) has been introduced in the Long-Term Incentive in addition to the financial criteria TSR and EPS. In addition, the TSR vesting schedule has been changed, reducing pay-out at and around median performance.
- **Annual Incentive (individual element)** - to enhance transparency, five performance categories have been defined for the individual element of the Annual Incentive (20% weighting). Each year, relevant categories will be chosen and disclosed ex-ante in the Annual Report. Related targets will be set for each of the members of the Board of Management.
- **Quantum Peer Group** - the Quantum Peer Group for compensation benchmarking purposes changed from 26 to 24 companies. Alcatel Lucent was excluded as it was acquired by Nokia (which was already included in the Quantum Peer Group), and Essilor International was excluded after its merger into a company with a business profile with less relevance for Philips.

During the 2020 Annual General Meeting of Shareholders, our shareholders approved the 2019 Remuneration Report (by a 92.06% for vote). Based on our shareholder engagement, we noted the request for an increased level of transparency in the Remuneration Report, and therefore we further increased disclosures in our 2020 Remuneration Report. For example, we have updated the annual incentive disclosure tables, showing the realized financial performance, the selected individual performance criteria and the assessment of performance for the individual targets of the 2020 annual incentive. During its regular meetings throughout the year, the Remuneration Committee obtained updates on remuneration-related developments and societal trends. Overall, the Remuneration Committee concluded that our Remuneration Policy and its implementation are well aligned with market practice and the prevailing corporate governance requirements, while it enables us to achieve alignment of the remuneration of the Board of Management with Philips' purpose and strategy.

Impact of COVID-19

As highlighted in the letter from the Chairman of the Supervisory Board within Supervisory Board report included in the Company's Annual Report 2020, Philips demonstrated resilience and agility in the face of the COVID-19 pandemic and the healthcare and economic challenges it unleashed. The Remuneration Committee is mindful of the measures the company took in the first half of 2020 to further enhance its liquidity position, in view of the possible continued impact of the COVID-19 pandemic. As part of these measures, the 2019 Annual Incentive for the Board of Management was paid out in shares, which will be subject to the 5-year holding period as prescribed by the Dutch Corporate Governance Code. Group-wide, merit and promotional salary increases for senior management were delayed from April 1, 2020 to October 1, 2020.

Looking back, the Remuneration Committee acknowledges that COVID-19 has impacted Philips' results in the year. Demand for our professional healthcare products and solutions to help diagnose, treat, monitor and manage COVID-19 patients increased strongly. At the same time, COVID-19 led to the postponement of installations and elective procedures in hospitals, which impacted parts of our business, and there was a decline in consumer activity, as a result of which our Personal Health businesses have been impacted. Overall, COVID-19 had an impact on Philips' business performance in 2020. Management is to be commended strongly for leading the Company through the pandemic and achieving a satisfactory result for the year. Please refer to Strategy and Businesses, starting on page 9 and Financial performance, starting on page 26 of our Annual Report 2020 for more information on the effects of COVID-19.

The composition of the Remuneration Committee and its activities

In 2020 the Remuneration Committee was chaired by Christine Poon. Its other members were Jeroen van der Veer, Orit Gadiesh and (since May 2020) Paul Stoffels. The Committee is responsible for preparing decisions of the Supervisory Board on the remuneration of individual members of the Board of Management and the Executive Committee, as well as the policies governing this remuneration. In performing its duties and responsibilities, the Remuneration Committee is assisted by an external consultant and an in-house remuneration expert. For a full overview of the responsibilities of the Committee, please refer to the Charter of the Remuneration Committee, as outlined in Chapter 3 of the Rules of Procedure of the Supervisory Board (which are published on the company's website).

Our annual Remuneration Committee cycle enables us to have an effective decision-making process supporting the determination, review and implementation of the Remuneration Policy. The main (recurring) activities during the annual cycle are outlined below:

July to September:	October to December:	January to March:	April to June:
<ul style="list-style-type: none"> Review the Remuneration Policy in line with the business strategy and priorities and assess the need for changes 	<ul style="list-style-type: none"> Engage in stakeholder dialogues regarding the Remuneration Policy and proposed changes for the next year (if any) 	<ul style="list-style-type: none"> Evaluate business performance and achievement of Annual and Long-Term Incentive targets 	<ul style="list-style-type: none"> Effectuate compensation level changes
<ul style="list-style-type: none"> Review the Remuneration Committee Charter 	<ul style="list-style-type: none"> Assess compensation levels against the median of the Quantum Peer Group for compensation benchmarking purposes 	<ul style="list-style-type: none"> Rigorous target setting of the performance metrics for the upcoming year and multi-year LTI cycle 	<ul style="list-style-type: none"> Prepare and hold the Annual General Meeting of Shareholders including a discussion on the implementation of the Remuneration Policy
	<ul style="list-style-type: none"> Conduct scenario analyses 	<ul style="list-style-type: none"> Set compensation levels for the upcoming year based on the assessment against the Quantum Peer Group 	
	<ul style="list-style-type: none"> Prepare Remuneration Report for the previous year 		

The Committee met six times in 2020. All Committee members were present during these meetings.

At Philips, our purpose is to improve people's health and well-being through meaningful innovation. The Remuneration Committee believes that the Remuneration Policy (and Long-Term Incentive Plan) for the Board of Management supports this purpose. Please refer to the Remuneration Report below, for the way the Remuneration Policy has been implemented in the year 2020.

Christine Poon

Chairwoman of the Remuneration Committee

Remuneration report 2020

In this Remuneration Report, the Supervisory Board provides a comprehensive overview, in accordance with article 2:135b of the Dutch Civil Code, of the remuneration paid and owed to the individual members of the Board of Management and the Supervisory Board respectively in the financial year 2020.

Board of Management

Summary of Remuneration Policy

The Remuneration Policy and Long-Term Incentive Plan for the Board of Management have been adopted and approved respectively by the Annual General Meeting of Shareholders 2020, which took place on April 30, 2020.

The objectives of the Remuneration Policy for the Board of Management are: to focus them on delivering on our purpose and strategy, to motivate and retain them, and to create stakeholder value.

Thus, the Remuneration Policy:

- Supports improving the company's overall performance and enhancing the long-term value of the company;
- Directly supports our purpose 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;
 - c) enabling us to motivate, retain and attract world-class talent in order to support our purpose of improving people's health and well-being through meaningful innovation and our goal of addressing our customers' healthcare challenges (delivering on the Quadruple Aim);
 - d) stimulating share ownership to create alignment with shareholders and encourage employees to act as stewards and ambassadors of the company;
- Encourages the company and its employees to act responsibly and sustainably;
- Delivers value for our stakeholders, such as shareholders, customers, consumers and employees, by continuously engaging with them and make a positive contribution to society at large;
- Leads to fair and internally consistent pay levels by taking into account internal pay ratios.

Main elements of the Remuneration Policy

Compensation element	Purpose and link to strategy	Operation	Policy Level
Total Direct Compensation	To support the Remuneration Policy's objectives, the Total Direct Compensation 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'.	The Supervisory Board ensures that a competitive remuneration package for Board-level executive talent is maintained and benchmarked. The positioning of Total Direct Compensation is reviewed against benchmark data on an annual basis and is recalibrated if and when required. To establish this benchmark, data research is carried out each year on the compensation levels in the Quantum Peer Group.	Total direct remuneration is aimed at or close to, the median of the Quantum Peer Group.
Annual Base Compensation	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 and any adjustments made by the Supervisory Board are based on factors including the median of Quantum Peer Group data and performance and experience of the individual member. The annual review date for the base salary is typically before April 1.	The individual salary levels are shown in this Remuneration Report.
Annual Incentive	Variable cash bonus incentive of which achievement is tied to specific financial and non-financial targets derived from the company's annual strategic plan. These targets are set at challenging levels and are partly linked to the results of the company (80% weighting) and partly to the contribution of the individual member (20% weighting).	The payout in any year relates to the achievements of the preceding year. Metrics are disclosed ex-ante in the Remuneration Report and there will be no retroactive changes to the selection of metrics used in any given year once approved by the Supervisory Board and disclosed.	President & CEO On-target: 100% Maximum: 200% of Annual Base Compensation. Other BoM members On-target: 80% Maximum: 160% of Annual Base Compensation.

Compensation element	Purpose and link to strategy	Operation	Policy Level
Long-Term Incentive	Our Long-Term Incentives form a substantial part of total remuneration, with payouts contingent on achievement of challenging EPS targets, relative TSR performance against a high performing peer group and sustainability objectives that are directly aligned with our purpose to make the world healthier and more sustainable through innovation.	The annual award size is set by reference to a multiple of base salary. The actual number of performance shares to be awarded is determined by reference to the average of the closing price of the Royal Philips share on the day of publication of the first quarterly results and the four subsequent trading days. Dependent upon the achievement of the performance conditions, cliff-vesting applies three years after the date of grant. During the vesting period, the value of dividends will be added to the performance shares in the form of shares. These dividend-equivalent shares will only be delivered to the extent that the award actually vests.	President & CEO Annual grant size: 200% of Annual Base Compensation. Other BoM members Annual grant size: 150% of Annual Base Compensation. Maximum vesting opportunity is 200% of the number of performance shares granted.
Mandatory share ownership and holding requirement	To further align the interests of executives to those of stakeholders and to motivate the achievement of sustained performance.	The guideline for members of the Board of Management is to hold at least a minimum shareholding in the company. Until this level has been reached the members of the Board of Management are required to retain all after-tax shares derived from any Long-Term Incentive Plan. All Board of Management members have reached the required share ownership level. The shares granted under the Long-Term Incentive Plan shall be retained for a period of at least 5 years or until at least the end of their contract period if this period is shorter. The guideline does not require members of the Board of Management to purchase shares in order to reach the required share ownership level.	The minimum shareholding requirement is 400% of annual base compensation for the CEO and 300% for other members of the Board of Management.

Compensation element	Purpose and link to strategy	Operation	Policy Level
Pension	Pension plan and pension contribution intended to result into an appropriate level at retirement.	<ol style="list-style-type: none"> Defined Contribution plan with fixed contribution (applicable to all executives in the Netherlands – capped at EUR 110,111). Gross allowance of 25% of annual base compensation exceeding EUR 110,111. Temporary gross transition allowance offsetting historical plan changes. 	
Additional arrangements	To aid retention and remain competitive within the marketplace	Additional arrangements include expense and relocation allowances, medical insurance, accident insurance and company car arrangements, which are in line with other Philips executives in the Netherlands. The members of the Board of Management also benefit from coverage under the company's Directors & Officers (D&O) liability insurance. The company does not grant personal loans to members of the Board of Management.	

Peer Groups

We use a Quantum Peer Group for remuneration benchmarking purposes, and therefore we aim to ensure that it includes business competitors, with an emphasis on companies in the healthcare, technology-related or consumer products area, and other companies we compete with for executive talent. The Quantum Peer Group consists of predominantly Dutch and other European companies, plus a minority (up to 25%) of US-based global companies, of comparable size, complexity and international scope.

Philips Group

Quantum Peer Group 2020

European companies		Dutch companies	US companies
Atos	Nokia	Ahold Delhaize	Becton Dickinson
BAE Systems	Reckitt Benckiser	AkzoNobel	Boston Scientific
Capgemini	Roche	ASML	Danaher
Electrolux	Rolls-Royce	Heineken	Medtronic
Ericsson	Safran		
Essity	Siemens Healthineers		
Fresenius Medical Care	Smith & Nephew		
Henkel & Co	Thales		

In addition, we use a TSR Performance Peer Group to benchmark our relative Total Shareholder Return performance for Long-Term Incentive purposes and against our business peers in the health technology market and other markets in which we compete. The companies we have selected for this peer group include predominantly US-based healthcare companies. Given that a substantial number of relevant competitors are US-headquartered, the weighting of US-based healthcare companies is more notable than for the Quantum Peer Group.

Philips Group

TSR Performance Peer Group 2020

US companies	European companies	Japanese companies
Becton Dickinson	De'Longhi	Hitachi
Boston Scientific	Elekta	Terumo
Cerner	Fresenius Medical Care	
Danaher	Getinge	
General Electric	Groupe SEB	
Hologic	Siemens Healthineers	
Johnson & Johnson	Smith & Nephew	
Medtronic		
Resmed		
Stryker		

The Remuneration Policy and the Long-Term Incentive Plan allow changes to the peer groups to 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: following a delisting of a company or, a merger of two peer companies), or six companies in total during the four years following adoption and approval of the Remuneration Policy and the Long-Term Incentive Plan respectively (or, if earlier, until the adoption or approval of a revised Remuneration Policy or revised Long-Term Incentive Plan). In addition to these changes, in view of Philips' planned portfolio change through the divestment of its Domestic Appliances business, the Supervisory Board may decide to remove Groupe SEB and De'Longhi from the TSR Performance Peer Group and replace them by other business competitors in the health technology market. No changes were made to either peer group during 2020.

Services agreements

The members of the Board of Management are engaged by means of a services agreement (*overeenkomst van opdracht*). Termination of the contract by either party is subject to six months' notice period. The severance payment is set at a maximum of one year's annual base compensation. No severance payment is due if the agreement is terminated early on behalf of the Board of Management member or in the case of urgent cause (*dringende reden*) as defined in article

7:678 and further in the Dutch Civil Code. The term of the services agreement is aligned with the term for which the relevant member has been appointed by the General Meeting of Shareholders (which is a maximum period of four years, it being understood that this period expires no later than at the end of the AGM held in the fourth year after the year of appointment).

Philips Group

Contract terms for current members 2020

	end of term
Frans van Houten	AGM 2023
Abhijit Bhattacharya	AGM 2023
Marnix van Ginneken	AGM 2021

Remuneration of the Board of Management in 2020

The Supervisory Board has determined the 2020 pay-outs and awards to the members of the Board of Management, upon the proposal of the Remuneration Committee, in accordance with the Remuneration Policy and Long-Term Incentive Plan as adopted and approved respectively by our shareholders during the 2020 Annual General Meeting of Shareholders. In addition, the Supervisory Board has determined the 2020 pay-out of the 2018 Long-Term Incentive Plan, of which the performance period ended on December 31, 2020. This was done in accordance with the Long-Term Incentive Plan as approved during the 2017 Annual General Meeting of Shareholders.

The Remuneration Committee annually conducts a scenario analysis. This includes the calculation of remuneration under different scenarios, whereby different Philips performance assumptions and corporate actions are examined. The Supervisory Board concluded that the relationship between the strategic objectives and the chosen performance criteria for the 2020 Annual Incentive, as well as 2018 Long-Term Incentive performance criteria, were adequate.

Annual Base Compensation

The annual compensation of the members of the Board of Management has been reviewed as part of the regular remuneration review. In the case of Frans van Houten and Abhijit Bhattacharya, the annual compensation remained unchanged in 2020 compared to 2019 at EUR 1,325,000 and EUR 785,000 respectively. As a result of the review, the annual compensation of Marnix van Ginneken has been increased per October 1, 2020, from EUR 575,000 to EUR 595,000. This increase was made to move the total compensation level closer to the market median level, as well as to reflect internal relativities. Typically, the salary increase is implemented on April 1, however all merit and promotional salary increases for senior management globally were delayed from April 1, 2020 to October 1, 2020.

2020 Annual Incentive

The Annual Incentive performance has been assessed based on:

Company financial results (80% weighting)

To support the performance culture, the financial targets we set are at group level for all members of the Board of Management. EBITA^{*)} and free cash flow^{*)} for Annual Incentive calculation purposes are corrected for restructuring and acquisition related costs as well as specific unexpected events which are outside of management's control, to the extent they have not been reflected in the original targets. The 2020 realizations, shown in the following table, reflect the performance on the criteria at Group level that apply to the Board of Management. The performance on the comparable sales growth^{*)} and EBITA^{*)} based criteria were below target, whereas the performance on the free cash flow^{*)} based criterion was above target.

Financial performance criteria	Weighting as % of target Annual Incentive	Assessment of performance				resulting payout as % of target	Weighted pay-out as % of target Annual Incentive
		threshold performance	target performance	maximum performance	realized performance		
Comparable Sales Growth ¹⁾	30%	2.3%	4.3%	6.3%	2.5%	55.0%	17%
EBITA ¹⁾	30%	10.4%	12.4%	14.4%	10.7%	57.5%	17%
Free Cash Flow ¹⁾	20%	1,096	1,505	1,914	1,852	185.1%	37%
Total	80%						71%

¹⁾ Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information, starting on page 224](#).

Individual targets based on area of responsibility (20% weighting)

To determine the payout levels for the individual goals, the Supervisory Board applies a holistic assessment as to the performance against the set goals as well as the relative weighting of the goal categories. Overall, the Supervisory Board commends the Board of Management on their strong performance in 2020, taking into account the exceptional challenges caused by the COVID-19 pandemic.

Board of Management Member	Individual Performance criteria	Assessment of performance	Weighted pay-out as% of target Annual Incentive
Frans van Houten	Strategy execution	<ul style="list-style-type: none"> Grown solutions sales as a % of revenue above target Executed on strategic M&A according to plan and divestment of Domestic Appliances on track 	27%
	Quality & operational excellence	<ul style="list-style-type: none"> Productivity targets achieved in line with plan On track to comply with EU MDR and Consent Decree relating to US defibrillator business Structural progress on quality agenda 	
	People & organization	<ul style="list-style-type: none"> Strengthened Executive Committee Increased employee engagement score in line with target Significant progress made in the deployment of the Philips Business System 	
Abhijit Bhattacharya	Strategy execution	<ul style="list-style-type: none"> Philips IT Landscape to enable new functionalities progressed according to plan Executed on strategic M&A according to plan and divestment of Domestic Appliances on track, including disentanglement 	24%
	Quality & operational excellence	<ul style="list-style-type: none"> Productivity targets achieved in line with plan Delivered on Philips' Finance, IT and GBS (Global Business Services) transformation plans 	
	People & organization	<ul style="list-style-type: none"> Employee engagement score increased in line with target Significant progress made in the deployment of the Philips Business System 	
Marnix van Ginneken	Strategy execution	<ul style="list-style-type: none"> Executed on strategic M&A according to plan and divestment of Domestic Appliances on track Successful management of a number of legal matters 	21%
	Quality & operational excellence	<ul style="list-style-type: none"> Consolidated legal manufacturers and quality management systems in line with plan 	
	People & organization	<ul style="list-style-type: none"> Further developed the Government and Public Affairs function Employee engagement score increased in line with target Significant progress made in the deployment of the Philips Business System 	

Overall this leads to the following total Annual Incentive realization and payout (payout in 2021):

Annual Incentive realization 2020 in EUR unless otherwise stated

	Annual incentive opportunity		Realized annual incentive			
	Target as a % of base compensation	Target Annual Incentive	Financial performance (weighted pay-out %)	Individual performance (weighted pay-out %)	Payout as % of target Annual Incentive	Realized annual incentive
Frans van Houten	100%	1,325,000	71%	27%	98%	1,298,500
Abhijit Bhattacharya	80%	628,000	71%	24%	95%	596,600
Marnix van Ginneken	80%	476,000	71%	21%	92%	437,920

^{*)} Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information, starting on page 224](#).

2021 Annual Incentive

The Annual Incentive criteria consist of:

Financial criteria (80% weighting):

For the year 2021, the following financial indicators of the company's results are selected to ensure alignment with the key (strategic) priorities in the year:

- Profit/margin
- Revenue/growth
- Cash flow

Individual criteria (20% weighting):

The contribution of the individual member is assessed based on areas of responsibility, for which annually two to a maximum of five performance categories are selected for each Board of Management member from the following list:

- Customer results
- Quality & operational excellence
- Strategy execution
- People & organization
- ESG/Sustainability

For the year 2021, the following performance categories are selected to ensure alignment with the key (strategic) priorities in the year:

Board of Management Member	Selected performance categories
Frans van Houten	<ul style="list-style-type: none"> • Customer Results • Quality & operational excellence • Strategy execution • People & organization • ESG/Sustainability
Abhijit Bhattacharya	<ul style="list-style-type: none"> • Customer Results • Quality & operational excellence • Strategy execution • People & organization
Marnix van Ginneken	<ul style="list-style-type: none"> • Quality & operational excellence • Strategy execution • People & organization • ESG/Sustainability

2018 Long-Term Incentive

The 3-year performance period of the 2018 performance share grant ended on December 31, 2020. The payout results are explained below.

TSR (50% weighting)

A ranking approach to TSR applies with Philips itself included in the TSR Performance Peer Group. TSR scores are calculated based on a local currency approach and by taking a 3-month averaging period prior to the start and end of the 3-year performance period. The performance incentive pay-out zone is outlined in the following table, which results in zero vesting for performance below the 40th percentile and 200% vesting for performance levels above the 75th percentile. The incentive zone range has been constructed such that the average pay-out over time is expected to be approximately 100%.

Philips Group

Performance-incentive zone for TSR in %

Position	20-14	13	12	11	10	9	8	7	6	5-1
Payout	0	60	80	100	120	140	160	180	190	200

The TSR achieved by Philips during the performance period was 35.03%, using a start date of October 2017 and end date of December 2020. This resulted in Philips being positioned at rank 9 in the TSR performance peer group shown in the following table, resulting in a TSR achievement of 140%.

TSR results LTI Plan 2018 grant: 35.03%

Company	total return	rank number
Danaher	150.51%	1
ResMed	150.36%	2
Hologic	76.98%	3
Terumo	70.86%	4
Elekta	53.78%	5
Stryker	53.70%	6
Gentige	50.72%	7
Medtronic	47.01%	8
Philips	35.03%	9
Boston Scientific	30.68%	10
Siemens Healthineers	26.15%	11
Smith & Nephew	16.65%	12
Becton Dickinson	15.72%	13
De'Longhi	15.05%	14
Johnson & Johnson	14.91%	15
Cerner	8.95%	16
Groupe SEB	(3.31)%	17
Hitachi	(3.59)%	18
Fresenius Medical	(13.20)%	19
General Electric	(51.05)%	20

Adjusted EPS growth (50% weighting)

The LTI Plan EPS payouts and targets set at the beginning of the performance period were as follows:

Philips Group LTI Plan EPS payouts

	Below threshold	Threshold	Target	Maximum	Actual
EPS (euro)	<1.23	1.23	1.43	1.63	1.45
Payout	0%	40%	100%	200%	110%

LTI Plan EPS is based on the underlying income from continuing operations attributable to shareholders, as included in the Annual Report, adjusted for changes in accounting principles. Furthermore, the Supervisory Board has also deemed it appropriate to make adjustments relating to certain other items that were not contemplated when the targets were set in 2018. These relate to the profit and loss impact of acquisitions and divestitures, impact of foreign exchange variations versus plan and profit and loss impact of legal cases and pension de-risking. The sum of these adjustments increased the achieved LTI Plan EPS by

EUR 0.16. The resulting LTI Plan EPS achievement was determined by the Supervisory Board as 110%.

In view of the above, the following performance achievement and vesting levels have been determined by the Supervisory Board in respect of the 2018 grant of performance shares:

Philips Group

Performance achievement and vesting levels

	achievement	weighting	vesting level
TSR	140%	50%	70%
EPS	110%	50%	55%
Total			125%

2021 Long-Term Incentive

The vesting of the 2021 Long-Term Incentive grant consisting of performance shares is subject to performance over a period of 3 years and based on two financial criteria and one non-financial criterion:

- 50% weighting: Relative Total Shareholder Return ('TSR')
- 40% weighting: Adjusted Earnings per Share growth ('EPS')
- 10% weighting: Sustainability objectives

Please refer to the Long-Term Incentive Plan published on the company's website for more information.

Pension

The following pension arrangement is in place for the members of the Board of Management working under a Dutch contract:

- Flex ES Pension Plan in the Netherlands, which is a Collective Defined Contribution plan with a fixed contribution of (currently) 30.3% (including an own contribution of 2%) of the maximum pensionable salary of EUR 110,111 (effective January 1, 2020) minus the offset. The Flex ES Plan has a target retirement age of 68 and a target accrual rate of 1.85%;
- A gross Pension Allowance equal to 25% of the base compensation exceeding EUR 110,111;
- A temporary gross Transition Allowance, for a maximum period of 8 years (first 5 years in full; year 6: 75%; year 7: 50%, year 8: 25%) for members of the Board of Management who were participants of the former Executive Pension Plan. The level of the allowance is based on the age and salary of the Board member on December 31, 2014.

For further details on the pension allowances and pension scheme costs, please refer to Pensions / section 4.1.2 of the Annual Report.

Total remuneration costs in 2020

The following table gives an overview of the costs incurred by the company in 2020 and 2019 in relation to the remuneration of the Board of Management. Costs related to performance shares and restricted share right grants are recognized by the company over a number of years. Therefore, the costs mentioned below in the performance shares and restricted share rights columns are the accounting cost of multi-year Long-Term Incentive grants to members of the Board of Management.

Philips Group

Remuneration Board of Management ¹⁾ in EUR

	reported year	annual base compensation ²⁾	Costs in the year							Fixed-variable remuneration ⁶⁾
			base compensation	realized annual incentive	performance shares ³⁾	pension allowances ⁴⁾	pension scheme costs	other compensation ⁵⁾	total cost	
F.A. van Houten	2020	1,325,000	1,325,000	1,298,500	2,874,467	565,922	27,001	62,176	6,153,067	32%-68%
	2019	1,325,000	1,295,000	1,091,800	2,235,166	559,052	26,380	52,713	5,260,111	37%-63%
A. Bhattacharya	2020	785,000	785,000	596,600	1,295,996	233,126	27,001	70,267	3,007,990	37%-63%
	2019	785,000	770,000	517,472	995,483	230,006	26,380	63,265	2,602,606	42%-58%
M.J. van Ginneken	2020	595,000	580,000	437,920	952,453	158,800	27,001	46,986	2,203,160	37%-63%
	2019	575,000	571,250	335,685	713,815	171,018	26,380	38,278	1,856,426	43%-57%
Total	2020		2,690,000	2,333,020	5,122,916	957,849	81,004	179,428	11,364,217	34%-66%
	2019		2,636,250	1,944,957	3,944,464	960,076	79,140	154,256	9,719,143	39%-61%

¹⁾ Reference date for board membership is December 31, 2020.

²⁾ Annual base compensation as incurred in the year, base compensation increases are reflected proportionally.

³⁾ Costs of performance shares are based on accounting standards (IFRS) and do not reflect the value of stock options at the end of the lock up period and the value of performance shares at the vesting/release date.

⁴⁾ The Pension Transition Allowances were maintained at the current level for Messrs van Houten and Bhattacharya for the term of their services agreements. The total pension cost of the Company related to the pension arrangement (including the aforementioned Transition Allowance) is at a comparable level over a period of time to the pension costs under the former Executive Pension Plan.

⁵⁾ The stated amounts mainly concern (share of) allowances to members of the Board of Management that can be considered as remuneration. In a situation where such a share of an allowance can be considered as (indirect) remuneration (for example, private use of the company car), then the share is both valued and accounted for here. The method employed by the fiscal authorities is the starting point for the value stated.

⁶⁾ Fixed remuneration is determined as the sum of base compensation, pension allowances, pension scheme costs and other compensation. Variable remuneration is determined as the sum of realized annual incentive and performance shares.

5-year development of CEO and BoM versus average employee remuneration costs compared to company performance

Internal pay ratios are a relevant input factor for determining the appropriateness of the implementation of the Remuneration Policy, as recognized in the Dutch Corporate Governance Code. For the 2020 financial year, the ratio between the annual total compensation for the CEO and the average annual total compensation for an employee was 71:1. The ratio increased from 60:1 in 2019. Further details on the development of these amounts and ratios over time can be found in the following table.

Remuneration cost in EUR

	2016	2017	2018	2019	2020
Remuneration					
CEO Total Remuneration Costs (A) ¹⁾	4,675,042	5,101,429	5,391,265	5,260,111	6,153,067
CFO Total Remuneration Cost	1,856,175	2,247,822	2,595,688	2,602,606	3,007,990
CLO Total Remuneration Cost			1,861,200	1,856,426	2,203,160
Chief Business Leader Personal Health Total Remuneration Cost	2,373,642 ²⁾				
Average Employee (FTE) Total Remuneration Costs (B) ³⁾	86,074	91,288	86,136	87,321	86,523
Ratio A versus B ⁴⁾	54:1	56:1	63:1	60:1	71:1
Company performance					
Annual TSR ⁵⁾	18.4%	26.5%	1.2%	25.6%	6.2%
Comparable Sales Growth% ⁶⁾	4.9%	3.9%	4.7%	4.5%	2.5%
EBITA% ⁶⁾	9.8%	10.1%	11.4%	10.7%	10.6%
Free Cash Flow ⁶⁾	429	1,185	984	1,053	1,852

¹⁾ Based on total CEO compensation costs (EUR 6,153,067) as reported in section [Total remuneration costs in 2020, starting on page 103](#)

²⁾ Year in which service ended and as such partial annual remuneration was received.

³⁾ Based on Employee benefit expenses (EUR 6.5 billion) divided by the average number of employees (75,009 FTE) as reported in Income from operations. This results in an average annual total compensation cost of EUR 86,523 per employee.

⁴⁾ A consideration when interpreting the ratios between CEO and average employee remuneration is that the remuneration of the CEO is more heavily dependent on variable compensation than the remuneration of the average employee at Philips. Furthermore, the costs of performance shares are based on accounting standards (IFRS) and the specific allocation of these costs to the year. As such, the total remuneration level and costs applicable to the CEO will vary more with Philips' financial performance than the remuneration level and costs applicable to the average employee. As a consequence, the ratio will increase when financial performance is strong and conversely decrease when financial performance is not as strong.

⁵⁾ Annual TSR was calculated in line with the method as used for the LTI plan (i.e. based on reinvested dividends and 3 month averaging)

⁶⁾ Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information, starting on page 224](#).

Historical LTI grants and holdings

Number of performance shares (holdings)

Under the LTI Plan the current members of the Board of Management were granted 118,322 performance shares in 2020.

The following table provides an overview at end December 2020 of performance share grants. The reference date for board membership is December 31, 2020.

Number of performance shares (holdings) in number of shares unless otherwise stated

	grant date	number of shares originally granted	value at grant date	vesting date	end of holding period	unvested opening balance at Jan. 1, 2020	number of shares awarded in 2020	(dividend) shares awarded	number of shares vested in 2020 ¹⁾	value at vesting date in 2020	unvested closing balance at Dec. 31, 2020
F.A. van Houten	5/11/2017	73,039	2,410,000	5/11/2020	5/11/2022	78,413	-	-	95,663	3,764,350	-
	4/27/2018	69,005	2,410,000	4/27/2021	4/27/2023	72,262	-	1,467	-	-	73,729
	5/6/2019	70,640	2,650,000	5/6/2022	5/6/2024	72,339	-	1,468	-	-	73,807
	4/30/2020	66,431	2,650,000	4/30/2023	4/30/2025	-	66,431	1,349	-	-	67,780
A. Bhattacharya	5/11/2017	31,822	1,050,000	5/11/2020	5/11/2022	34,163	-	-	41,679	1,640,071	-
	4/27/2018	31,138	1,087,500	4/27/2021	4/27/2023	32,608	-	662	-	-	33,270
	5/6/2019	31,388	1,177,500	5/6/2022	5/6/2024	32,143	-	652	-	-	32,795
	4/30/2020	29,518	1,177,500	4/30/2023	4/30/2025	-	29,518	599	-	-	30,117
M.J. van Ginneken	5/11/2017	18,563 ²⁾	612,500	5/11/2020	5/11/2022	19,929	-	-	24,313	956,717	-
	4/27/2018	24,052	840,000	4/27/2021	4/27/2023	25,187	-	511	-	-	25,699
	5/6/2019	22,991	862,500	5/6/2022	5/6/2024	23,544	-	478	-	-	24,022
	4/30/2020	22,373	892,500	4/30/2023	4/30/2025	-	22,373	454	-	-	22,827

¹⁾ The shares vested in 2020 are subject to a 2-year holding

²⁾ Awarded before date of appointment as a member of the Board of Management

Number of stock options (holdings)

The tables below give an overview of the stock options held by the members of the Board of Management.

Stock options (holdings) in number of shares unless otherwise stated 2020

	grant date	vesting date	exercise price (in EUR)	expiry date	opening balance at January 1, 2020	number of stock options awarded in 2020	number of stock options exercised in 2020	share price on exercise date	number of stock options expired in 2020	closing balance at December 31, 2020
F.A. van Houten	4/18/2011	4/18/2014	20.90	4/18/2021	75,000	-	75,000	44.87	-	-
	4/23/2012	4/23/2015	14.82	4/23/2022	75,000	-	-	-	-	75,000
	1/29/2013	1/29/2014	22.43	1/29/2023	55,000	-	-	-	-	55,000
A. Bhattacharya	4/18/2011	4/18/2014	20.90	4/18/2021	16,500	-	16,500	44.70	-	-
	1/30/2012	1/30/2014	15.24	1/30/2022	20,000	-	-	-	-	20,000
M.J. van Ginneken	4/23/2012	4/23/2015	14.82	4/23/2022	16,500	-	-	-	-	16,500
	4/19/2010	4/19/2013	24.90	4/19/2020	6,720	-	6,720	42.96	-	-
	4/18/2011	4/18/2014	20.90	4/18/2021	8,400	-	-	-	-	8,400
	1/30/2012	1/30/2014	15.24	1/30/2022	10,000	-	-	-	-	10,000
	4/23/2012	4/23/2015	14.82	4/23/2022	8,400	-	-	-	-	8,400

Remuneration of the Supervisory Board in 2020

Summary of the Remuneration Policy

Please find below a brief summary of the Remuneration Policy for the Supervisory Board, as adopted at the Annual General Meeting of Shareholders 2020. The fee levels in this Remuneration Policy are the same as the Supervisory Board fee levels as determined by our shareholders at the 2018 Extraordinary General Meeting of Shareholders.

The overarching objective of the 2020 Remuneration Policy for the Supervisory Board is to enable its members to fulfill their duties, acting independently: supervising the policies and management and the general affairs of Philips, and supporting the Board of Management and the Executive Committee with advice. Also, the members of the Supervisory Board are guided by the company's long-term interests, with due observance of the company's purpose and strategy, taking into account the interests of shareholders and all other stakeholders.

To support the objectives mentioned above, the 2020 Remuneration Policy is aimed at attracting and retaining international Supervisory Board members of the highest caliber and with experience and expertise relevant to our health technology businesses.

In compliance with the Dutch Corporate Governance Code, the remuneration for the members of the Supervisory Board is not dependent on the results of the company and does not include any shares (or rights to shares). Members of the Supervisory Board may only hold shares in the company for the purpose of long-term investment and must refrain from short-term transactions in Philips securities. The company does not grant personal loans to members of the Supervisory Board.

The Supervisory Board reviews fee levels in principle every three years in order to monitor and take account of market developments and manage expectations of our key stakeholders. The levels are aimed at broadly median market levels (and around the 25th percentile market level for the Chairman) paid in the Quantum Peer Group (as used in the 2020 Remuneration Policy for the Board of Management).

The table below provides an overview of the current remuneration structure:

Philips Group

Remuneration Supervisory Board in EUR 2020

	Chair	Vice Chair	Member
Supervisory Board	155,000	115,000	100,000
Audit Committee	27,000	n.a.	18,000
Remuneration Committee	21,000	n.a.	14,000
Corporate Governance and Nomination & Selection Committee	21,000	n.a.	14,000
Quality & Regulatory Committee	21,000	n.a.	14,000
Attendance fee per inter-European trip	2,500	2,500	2,500
Attendance fee per intercontinental trip	5,000	5,000	5,000
Entitlement to Philips product arrangement	2,000	2,000	2,000
Annual fixed net expense allowance	11,345	2,269	2,269
Other travel expenses	As reasonably incurred		

The members of the Supervisory Board benefit from coverage under the company's Directors and Officers (D&O) liability insurance.

Remuneration of the Supervisory Board in 2020

The individual members of the Supervisory Board received, by virtue of the positions they held, the following remuneration in 2020:

Remuneration of the Supervisory Board ¹⁾ in EUR 2020

	membership	committees	other compensation ²⁾	total
2020 ³⁾				
J. van der Veer	155,000	35,000	11,345	201,345
C.A. Poon	115,000	49,000	7,269	171,269
N. Dhawan	100,000	18,000	7,269	125,269
O. Gadiesh	100,000	14,000	2,269	116,269
D.E.I. Pyott	100,000	42,000	12,269	154,269
P.A.M. Stoffels	100,000	9,333	9,769	119,102
A.M. Harrison	100,000	14,000	2,269	116,269
M.E. Doherty	100,000	24,000	9,769	133,769
P. Löscher	66,667	21,333	1,513	89,513
F. Sijbesma ⁴⁾	76,667	9,333	1,513	87,513
Total	1,013,333	236,000	65,254	1,314,587

¹⁾ The Supervisory Board fee levels have been reviewed and updated as per 2015. After that they have been reviewed once in the past 5 years, being in 2018, increasing the Chair fee from EUR 135,000 to EUR 155,000, the Vice Chair fee from EUR 90,000 to EUR 115,000 and the Member fee from EUR 80,000 to EUR 100,000. The Audit Committee Chair fee was increased from EUR 22,500 to EUR 27,000 while the Audit Committee Member fee was increased from EUR 13,000 to EUR 18,000. For the Remuneration Committee and the Quality & Regulatory Committee, the Chair fee was increased from EUR 15,000 to EUR 21,000 and the Member fee was increased from EUR 10,000 to EUR 14,000. For the Corporate Governance and Nomination & Selection Committee, the Chair fee was increased from EUR 15,000 to EUR 21,000 and the Member fee was increased from EUR 7,500 to EUR 14,000.

²⁾ The amounts mentioned under other compensation relate to the fee for intercontinental travel, inter-European travel, the entitlement of EUR 2,000 under the Philips product arrangement and the annual fixed net expense allowance.

³⁾ As of 2013, part of the remuneration of members of the Supervisory Board living in the Netherlands is subject to VAT. The amounts mentioned in this table are excluding VAT.

⁴⁾ Excludes remuneration received for being an observer during the Supervisory Board meetings prior to appointment as member of the Supervisory Board as per April 30, 2020.

