

Annual Report 2021

Report of the Remuneration Committee 2021

1 Report of the Remuneration Committee

1.1 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 2021 and to present the 2021 Remuneration Report on behalf of the Board of Management and the Supervisory Board.

Looking back at the decisions made during the year

The Remuneration Committee has taken a number of decisions and approaches in this past year.

We were pleased that Mr Marnix van Ginneken remained available to be a member of the Board of Management, and our shareholders re-appointed him at the 2021 Annual General Meeting of Shareholders. The Remuneration Committee prepared a new service agreement for him which was shared with our shareholders ahead of the shareholders meeting.

We have noted that a certain number of advisory votes were cast against our Remuneration Report 2020 at the 2021 Annual General Meeting of Shareholders. During our regular engagements with shareholders and institutional advisory organizations some of them raised concerns around our explanation of adjustments made to the adjusted Earnings Per Share (EPS) metric in the Long-Term Incentive Plan for the Board of Management. Whilst we consider our approach in line with our current Remuneration Policy (as adopted in 2020), we have enhanced the disclosure on adjusted EPS performance in this year's Remuneration Report.

In line with our company-wide delay of salary increases, necessary for cost containment as per the company operating plans, the Supervisory Board followed the proposal of the Remuneration Committee to defer the base salary increases for Messrs Abhijit Bhattacharya and Marnix van Ginneken from April 1 to July 1, 2021. The base salary of Mr Frans van Houten remained unchanged.

Company performance despite headwinds

Philips' remuneration policy is designed to encourage its employees to deliver on the company's purpose and strategy, create stakeholder value, and to provide motivation and retention. When assessing the Annual Incentive and Long-Term Incentive performance, the Remuneration Committee acknowledged Philips' strong growth in its Diagnosis & Treatment and Personal Health business segments, contributing to the improvement of the health and well-being of 1.67 billion people globally. Moreover, the organic and inorganic portfolio extensions have made Philips' products, services, and solutions portfolio more competitive than ever, resulting in 80 new long-term strategic partnerships, as well as an all-time-high order book. The company also delivered on focusing its portfolio by successfully divesting the Domestic Appliances business to Hillhouse Investment, realizing a significant financial gain.

At the same time, the Remuneration Committee considered the significant headwinds that Philips experienced in 2021, due to the unprecedented external supply chain constraints and the consequences of the voluntary Philips Respironics field action. The Annual Incentive and Long-Term Incentive pay-out was impacted significantly by these factors, reducing the realized Total Direct Compensation of the Chief Executive Officer for 2021 to less than half of such compensation for 2020 (taking into account the closing share price at the end of the relevant performance period).

No adjustments were made for the Philips Respironics field action, and the negative impact thereof is fully included in the Annual Incentive realization and the LTI Plan EPS achievement. However, the Remuneration Committee took into account that certain external supply chain constraints affected the Company's results beyond its control, considering that Philips' business portfolio is heavily exposed to the availability of specific electronic components. Consequently, we recommended to the Supervisory Board to partially adjust this impact for Annual Incentive and Long-Term Incentive calculation purposes, balancing financial performance over the year against the continued progress made on the company's strategic roadmap, amidst the ongoing impact of COVID-19 on society and our employees. Furthermore, the Remuneration Committee excluded the financial gain derived from the sale of the Domestic Appliances business, while adding back the operational result of this business for the Long-Term Incentive to attain comparability versus target (which was set in 2019 and includes this business). The Remuneration Committee values to uphold the principle that the Annual Incentive and Long-Term Incentive adjustment methodology is applied uniformly and equitably across the Company at large including the members of the Board of Management.

Overall, this resulted in a realized below target Annual Incentive payout of 64% of target for Frans van Houten, 57% of target for Abhijit Bhattacharya, and 64% of target for Marnix van Ginneken. The 2019 Long-Term Incentive plan vested significantly below target, paying out at 38% of target, based on Company performance against the original targets set in 2019. The Remuneration Committee concluded that the reduced payout of the Annual Incentive and the significantly reduced vesting of the Long-Term Incentive appropriately reflected Company performance. At the same time, the Remuneration Committee considered that pay for performance was reflected by proportionally recognizing the significant progress on strategic and operational goals during 2021, while also being mindful of the engagement, motivation and retention of the wider talent group across the Company.

The composition of the Remuneration Committee and its activities

The Remuneration Committee is chaired by Paul Stoffels. Its other members are David Pyott and Feike Sijbesma. 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 in the following table:

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 five times in 2021. 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 2021.

Paul Stoffels

Chairman of the Remuneration Committee

1.2 Remuneration report 2021

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 2021. The report will also be published as a stand-alone document on the company's website after the 2022 Annual General Meeting of Shareholders, the agenda of which will include an advisory vote on this Remuneration Report.

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"> 1. Defined Contribution plan with fixed contribution (applicable to all executives in the Netherlands – capped at EUR 112,189). 2. Gross allowance of 25% of annual base compensation exceeding EUR 112,189. 3. Temporary gross transition allowance offsetting historical plan changes. 	
Additional arrangements	To aid retention and remain competitive within the marketplace	<p>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.</p>	

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 2021

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 2021

US companies	European companies	Japanese companies
Becton Dickinson	Alcon	Canon
Boston Scientific	Elekta	Terumo
Cerner	Fresenius Medical Care	
Danaher	Getinge	
General Electric	Siemens Healthineers	
Hologic	Smith & Nephew	
Johnson & Johnson	Reckitt Benckiser	
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). Following the divestment of the Domestic Appliances business, the Supervisory Board has decided to remove Groupe SEB and De Longhi from the TSR Performance Peer Group and replace them with Alcon and Reckitt Benckiser. Furthermore, due to Hitachi's change in business portfolio, the Supervisory Board has decided to replace this TSR peer company with Canon. No changes were made to the Quantum Peer Group during 2021.

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 2021

	end of term
Frans van Houten	AGM 2023
Abhijit Bhattacharya	AGM 2023
Marnix van Ginneken	AGM 2025

1.3 Remuneration of the Board of Management in 2021

The Supervisory Board has determined the 2021 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 2021 Annual General Meeting of Shareholders. In addition, the Supervisory Board has determined the 2021 pay-out of the 2019 Long-Term Incentive Plan, of which the performance period ended on December 31, 2021. 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 2021 Annual Incentive, as well as 2019 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, the annual compensation remained unchanged in 2021 compared to 2020 at EUR 1,325,000. As a result of the review, the annual compensation of Abhijit Bhattacharya and Marnix van Ginneken has been increased per July 1, 2021, from EUR 785,000 to EUR 795,000 and EUR 595,000 to EUR 615,000 respectively. This increase was made to move the total compensation level closer to the market median level, as well as to reflect internal relativities. Typically, any salary increase is implemented on April 1, however all merit and promotional salary increases for senior management globally were delayed from April 1, 2021 to July 1, 2021.

2021 Annual Incentive

The Annual Incentive performance has been assessed based on Company financial results as well as individual results. For Frans van Houten, Abhijit Bhattacharya and Marnix van Ginneken, payout of the Annual Incentive is significantly below target level at 64%, 57% and 64% (of target) respectively. Details are as follows:

Company financial results (80% weighting)

In line with the Remuneration Policy, the Company sets financial targets in advance of the year for all members of the Board of Management. For the year 2021, the financial targets set at Group level cover Comparable Sales Growth^{*)}, EBITA^{*)} and free cash flow^{*)}. As the

Company did only partially reach its strategic and operational objectives, this resulted in a partial payout on comparable sales growth^{*)}, no payout on EBITA^{*)} and a partial payout on free cash flow^{*)}.

To recognize the underlying progress, certain adjustments were included for restructuring and acquisition related costs as well as specific unexpected events that were outside of management's control, to the extent they have not been reflected in the original targets. Due to the external supply chain constraints and component shortages, the Company experienced a significant delay in sales recognition, even though its order book stands at an all-time high. This was considered partially – i.e. 50% of the sales impact of EUR 498 million which corresponds to 1.5% of comparable sales growth^{*)} – in the calculation of the comparable sales growth^{*)} and corresponding impacts on EBITA^{*)} and free cash flow^{*)} realization, based on a detailed analysis of the value of confirmed orders that could not be translated to revenue in 2021 as expected by customers and planned by the company. No adjustments were made for the sales loss and any costs associated with the Philips Respiration field action, and hence the negative impact of the field action is fully included in the Annual Incentive realization.

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. These relative weightings are not in all cases equal, but such that any goal category remains relevant and aligned with the strategic priorities for the year. Pay-outs are above target given the progress the Company has made on its roadmap, despite the headwinds faced in 2021.

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%	0.0%	2.0%	4.0%	0.3%	57.5%	17%	
EBITA ¹⁾	30%	9.3%	11.3%	13.3%	5.1%	0.0%	0%	
Free Cash Flow ¹⁾	20%	1,057	1,406	1,755	1,289	83.1%	17%	
Total	80%						34%	

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 225 of the Philips Annual Report 2021](#).

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"> Strong management of M&A roadmap and realization of growth plans Very successful management of the spin-off of the Domestic Appliances business Sales % of total revenue coming from solutions to customers above target Strong progress in embedding digital and data science throughout the portfolio 	30%
	Quality & operational excellence	<ul style="list-style-type: none"> Good progress with the realization of transformation objectives to enable the customer solutions strategy Continuing to work on quality culture and measures 	
	People & organization	<ul style="list-style-type: none"> Significant progress made in the deployment of the Philips Business System Employee engagement score at a level above the high-performance norms 	
	Environmental, Social & Governance / Sustainability	<ul style="list-style-type: none"> Strengthened the ESG approach further and delivered commitments above plan Sustainability performance exceeding 2016-2021 objectives including a strong growth on Lives Improved, carbon neutral in own operations and growing circular revenues 	
	Customer results	<ul style="list-style-type: none"> Significant improvement in customer satisfaction, order book and overall market share 	
Abhijit Bhattacharya	Strategy execution	<ul style="list-style-type: none"> Very successful management of the spin-off of the Domestic Appliances business Delivered on growth and profit improvement plans for India 	23%
	Quality & operational excellence	<ul style="list-style-type: none"> Significant productivity results delivering margin improvement partly offset by higher material and shipping costs Pioneered sustaining engineering team in India Good progress with the realization of transformation objectives to enable the customer solutions strategy and enterprise IT Need to further improve forecasting processes 	
	People & organization	<ul style="list-style-type: none"> Employee engagement score above high-performance norms while further improved in the Finance Organization and improving gender balance 	
	Customer results	<ul style="list-style-type: none"> Strong order growth Significant improvement on Customer NPS 	
	Strategy execution	<ul style="list-style-type: none"> Increased license income to a level exceeding defined targets Very successful management of the spin-off of the Domestic Appliances business Structural progress on company transformations, improved approach for Solutions business model, with solutions sales above target 	
Marnix van Ginneken	Quality & operational excellence	<ul style="list-style-type: none"> Further progression of consolidation and simplification of legal manufacturers and quality management systems in line with plan 	31%
	People & organization	<ul style="list-style-type: none"> Delivered on transforming the intellectual property & standards, government & public affairs and ESG organizations Employee engagement score at a level above the high-performance norms 	
	Environmental, Social & Governance / Sustainability	<ul style="list-style-type: none"> Strengthened the ESG approach further and delivered commitments above plan Sustainability performance exceeding 2016-2021 objectives including a strong growth on Lives Improved, carbon neutral in own operations and growing circular revenues 	

Overall this leads to the following total Annual Incentive realization and payout (payout in 2022):

Annual Incentive realization 2021 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 ¹⁾	Realized annual incentive
Frans van Houten	100%	1,325,000	34%	30%	64%	850,915
Abhijit Bhattacharya	80%	636,000	34%	23%	57%	360,103
Marnix van Ginneken	80%	492,000	34%	31%	64%	317,192

¹⁾ Note that figures may not add up due to rounding.

^{*)} 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 225 of the Philips Annual Report 2021](#).

2022 Annual Incentive

The Annual Incentive criteria consist of:

Financial criteria (80% weighting):

For the year 2022, 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

Confirmed orders for which installations were delayed from 2021 to 2022, were taken into account when setting target levels for 2022 (i.e. to avoid double counting).

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 2022, 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
Abhijit Bhattacharya	<ul style="list-style-type: none"> • 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

2019 Long-Term Incentive

The 3-year performance period of the 2019 performance share grant ended on December 31, 2021. The realization is based on TSR achievement and adjusted EPS growth, and significantly below target with a vesting level of 38% (of target). Details are as follows:

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 14.08%, using a start date of October 2018 and end date of December 2021. This resulted in Philips being positioned at rank 16 in the TSR performance peer group shown in the following table, resulting in a TSR achievement of 0%.

TSR results LTI Plan 2019 grant: 14.08%

	total return	rank number
Getinge	351.68%	1
Danaher	207.27%	2
ResMed	149.39%	3
Hitachi	114.31%	4
Hologic	79.20%	5
Siemens Healthineers	77.30%	6
Stryker	62.22%	7
Terumo	58.28%	8
General Electric	40.84%	9
De Longhi	40.39%	10
Cerner	34.93%	11
Medtronic	32.19%	12
Johnson & Johnson	27.14%	13
Groupe SEB	19.26%	14
Boston Scientific	15.86%	15
Philips	14.08%	16
Becton Dickinson	7.35%	17
Elekta	(0.64)%	18
Smith & Nephew	(2.33)%	19
Fresenius Medical	(14.8)%	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)	<1.31	1.31	1.51	1.71	1.43
Payout	0%	40%	100%	200%	76%

Philips Group

LTI Plan EPS realization

	EUR	Basic EPS ¹⁾	LTI Plan EPS ²⁾
Net income attributable to shareholders	3,319	3.67	3.63
Discontinued operations, net of income taxes (primarily related to Domestic Appliances divestment)	(2,711)	(3)	(2.97)
Reconsolidation operational income Domestic Appliances	305	0.34	0.33
(Partial) Adjustment for external supply chain constraints	247	0.27	0.27
Other adjustment items ³⁾	151	0.16	0.16
Adjusted net income from continuing operations	1,311	1.45	1.43

¹⁾ Based on weighted average number of common shares outstanding (after deduction of treasury shares) during 2021

²⁾ Based on number of common shares outstanding (after deduction of treasury shares) on the day prior to the beginning of the performance period

³⁾ Other adjustment items as referred to in the following text

The 2021 EPS based on reported net income attributable to shareholders amounted to EUR 3.67. To eliminate the impact of any share buyback, stock dividend, etc., the number of common shares outstanding (after deduction of treasury shares) on the day prior to the beginning of the performance period is used, resulting in an EPS of EUR 3.63. This is adjusted with the extraordinary gain related to the divestiture of Domestic Appliances while adding back the operational result of the Domestic Appliances business for comparative purposes as per original targets. In accordance with our Remuneration Policy the LTI Plan EPS includes a number of adjustments that were deemed appropriate by the Supervisory Board. These relate mainly to the profit and loss impact of acquisitions and divestitures (positive adjustment), impact of foreign exchange variations versus plan (positive adjustment), profit and loss impact of legal cases (negative adjustment including a reversal of an adjustment made in 2020, as the legal matter it related to was resolved in favor of Philips) and a partial adjustment of the profit and loss impact of external supply chain constraints and component shortages (positive adjustment). The Remuneration Committee opted for a 75% adjustment (versus a 50% adjustment for AI purposes) of the net income impact, to reflect the disproportionate impact as the LTI plan EPS is measured based on the last year of the three-year performance period. No adjustments have been made for the impact of the Philips Respiroics field action. Overall, this resulted in an LTI Plan EPS of EUR 1.43 based on adjusted net income from continuing operations, leading to a realization of 76% of target.

In view of the above, the following performance achievement and vesting levels have been determined by the Supervisory Board in respect of the 2019 grant of performance shares:

Philips Group

Performance achievement and vesting levels

	achievement	weighting	vesting level
TSR	0%	50%	0%
EPS	76%	50%	38%
Total			38%

2022 Long-Term Incentive

The vesting of the 2022 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 112,189 (effective January 1, 2021) 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 112,189;
- 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.

Total remuneration costs in 2021

The following table gives an overview of the costs incurred by the company in 2021 and 2020 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 column are the accounting cost of multi-year Long-Term Incentive grants to members of the Board of Management. Actual payout to the members of the Board of Management varies per year depending on company performance, please refer to section 2019 Long-Term Incentive for more details on the actual vesting of the performance shares.

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	2021	1,325,000	1,325,000	850,915	2,626,295	565,403	27,462	57,224	5,452,299	36%-64%
A. Bhattacharya	2020	1,325,000	1,325,000	1,298,500	2,874,467	565,922	27,001	62,176	6,153,067	32%-68%
M.J. van Ginneken	2021	795,000	790,000	360,103	1,172,533	233,857	27,462	68,908	2,652,864	42%-58%
	2020	785,000	785,000	596,600	1,295,996	233,126	27,001	70,267	3,007,990	37%-63%
	2021	615,000	605,000	317,192	886,035	150,755	27,462	42,610	2,029,054	41%-59%
	2020	595,000	580,000	437,920	952,453	158,800	27,001	46,986	2,203,160	37%-63%
Total	2021		2,720,000	1,528,211	4,684,863	950,014	82,387	168,742	10,134,217	39%-61%
	2020		2,690,000	2,333,020	5,122,916	957,849	81,004	179,428	11,364,217	34%-66%

¹⁾ Reference date for board membership is December 31, 2021.

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 2021 financial year, the ratio between the annual total compensation for the CEO and the average annual total compensation for an employee was 63:1. The ratio decreased from 67:1 in 2020. Further details on the development of these amounts and ratios over time can be found in the following table. The average employee remuneration costs and company financial performance have been adjusted retroactively such that the Domestic Appliances business is excluded from the figures. Please note that the amounts presented in the following table reflect total remuneration costs to the company which differ from the actual payout to the members of the Board of Management.

Philips Group Remuneration cost in EUR

	2017	2018	2019	2020	2021
Remuneration					
CEO Total Remuneration Costs (A) ¹⁾	5,101,429	5,391,265	5,260,111	6,153,067	5,452,299
CFO Total Remuneration Costs	2,247,822	2,595,688	2,602,606	3,007,990	2,652,864
CLO Total Remuneration Costs		1,861,200	1,856,426	2,203,160	2,029,054
Average Employee (FTE) Total Remuneration Costs (B) ²⁾	95,522	89,843	92,645	91,455	86,853
Ratio A versus B ³⁾	53:1	60:1	57:1	67:1	63:1
Company performance					
Annual TSR ⁴⁾	26.5%	1.2%	25.6%	6.2%	(14.5)%
Comparable Sales Growth% ⁵⁾	3.8%	4.9%	4.5%	2.9%	(1.2)%
EBITA% ⁵⁾	9.9%	11.2%	10.5%	10.3%	5.2%
Adjusted EBITA% ^{5) 6)}	12.2%	13.3%	13.2%	13.2%	12.0%
Free Cash Flow ⁵⁾	883	994	923	1,635	900

¹⁾ Based on total CEO compensation costs (EUR 5,452,299) as reported in section [Total remuneration costs in 2021, starting on page 110 of the Philips Annual Report 2021](#).

²⁾ Based on Employee benefit expenses (EUR 6.2 billion) divided by the average number of employees (71,912 FTE) as reported in Income from operations. This results in an average annual total compensation cost of EUR 86,853 per employee.

³⁾ 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.

⁴⁾ 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)

⁵⁾ 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 225 of the Philips Annual Report 2021](#).

⁶⁾ Adjusted EBITA is presented for comparison purposes

Historical LTI grants and holdings

Number of performance shares (holdings)

Under the LTI Plan the current members of the Board of Management were granted 100,457 performance shares in 2021.

The following table provides an overview at end December 2021 of performance share grants. The reference date for board membership is December 31, 2021.

Philips Group

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, 2021	number of shares awarded in 2021	(dividend) shares awarded	number of shares vested in 2021 ¹⁾	value at vesting date in 2021	unvested closing balance at Dec. 31, 2021
F.A. van Houten	4/27/2018	69,005	2,410,000	4/27/2021	4/27/2023	73,729	-	-	92,162	4,383,202	-
	5/6/2019	70,640	2,650,000	5/6/2022	5/6/2024	73,807	-	1,370	-	-	75,177
	4/30/2020	66,431	2,650,000	4/30/2023	4/30/2025	67,780	-	1,258	-	-	69,037
	4/30/2021	55,868	2,650,000	4/30/2024	4/30/2026	-	55,868	1,037	-	-	56,905
A. Bhattacharya	4/27/2018	31,138	1,087,500	4/27/2021	4/27/2023	33,270	-	-	41,587	1,977,888	-
	5/6/2019	31,388	1,177,500	5/6/2022	5/6/2024	32,795	-	609	-	-	33,404
	4/30/2020	29,518	1,177,500	4/30/2023	4/30/2025	30,117	-	559	-	-	30,676
	4/30/2021	25,141	1,192,500	4/30/2024	4/30/2026	-	25,141	467	-	-	25,608
M.J. van Ginneken	4/27/2018	24,052 ²⁾	840,000	4/27/2021	4/27/2023	25,699	-	-	32,123	1,527,785	-
	5/6/2019	22,991	862,500	5/6/2022	5/6/2024	24,022	-	446	-	-	24,467
	4/30/2020	22,373	892,500	4/30/2023	4/30/2025	22,827	-	424	-	-	23,251
	4/30/2021	19,448	922,500	4/30/2024	4/30/2026	-	19,448	361	-	-	19,809

¹⁾ The shares vested in 2021 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.

Philips Group

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

	grant date	vesting date	exercise price (in EUR)	expiry date	opening balance at January 1, 2021	number of stock options awarded in 2021	number of stock options exercised in 2021	share price on exercise date	number of stock options expired in 2021	closing balance at December 31, 2021
F.A. van Houten	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	1/30/2012	1/30/2014	15.24	1/30/2022	20,000	-	-	-	-	20,000
	4/23/2012	4/23/2015	14.82	4/23/2022	16,500	-	-	-	-	16,500
M.J. van Ginneken	4/18/2011	4/18/2014	20.90	4/18/2021	8,400	-	8,400	46.66	-	0
	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

Share ownership guidelines

To further align the interests to those of stakeholders and to motivate the achievement of sustained performance, the members of the Board of Management are bound to a minimum shareholding requirement. The table below shows the minimum shareholding requirement, annual base compensation, (vested) shares held and share ownership ratio of each Board of Management member as per December 31, 2021.

Philips Group Share ownership Board of Management

	Minimum shareholding requirement ¹⁾	Annual Base Compensation	(Vested) shares held	Ownership ratio ²⁾
F.A. van Houten	4.0x	1,325,000	525,761	13.0x
A. Bhattacharya	3.0x	795,000	148,365	6.1x
M.J. van Ginneken	3.0x	615,000	110,528	5.9x

¹⁾ As ratio of Annual Base Compensation

²⁾ The Ownership ratio is calculated by multiplying the total shares held by the share price of EUR 32.77 (based on the closing share price of December 31, 2021) and dividing this by the base compensation.

Remuneration of the Supervisory Board in 2021

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, 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 2020 Remuneration Policy provides that 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). Nevertheless, members of the Supervisory Board are encouraged to hold shares in the company for the purpose of long-term investment to reflect their confidence in the future course of the company. 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 following table provides an overview of the current remuneration structure:

Philips Group Remuneration Supervisory Board in EUR

	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 2021

The individual members of the Supervisory Board received, by virtue of the positions they held, the following remuneration in 2021:

Philips Group

Remuneration of the Supervisory Board ¹⁾ in EUR

	membership	committees	other compensation ²⁾	total
F. Sijbesma	141,301	27,808	8,237	177,346
P.A.M. Stoffels	109,863	27,808	4,769	142,440
J. van der Veer	53,507	12,082	3,916	69,505
C.A. Poon	39,699	16,915	783	57,397
N. Dhawan	100,000	18,000	2,269	120,269
O. Gadiesh	34,521	4,833	783	40,137
D.E.I. Pyott	100,000	36,370	2,269	138,639
A.M. Harrison	100,000	14,000	2,269	116,269
M.E. Doherty	100,000	27,000	4,769	131,769
P. Löscher	100,000	32,000	4,769	136,769
I. Nooyi	100,000	14,000	2,269	116,269
S.K. Chua	65,753	11,836	1,492	79,081
Total	1,044,644	242,652	38,595	1,325,891

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.

