PHILIPS

Annual Report 2022

Report of the Remuneration Committee

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 2022 and to present the 2022 Remuneration Report on behalf of the Board of Management and the Supervisory Board.

The Remuneration Committee has been very mindful of the fact that during the Annual General Meeting of Shareholders (AGM) held in 2022, a majority of the advisory votes were cast against the 2021 Remuneration Report. We have taken this negative advisory vote very seriously and that is why we reached out to the company's shareholders immediately after the 2022 AGM, and further engaged with our shareholders in the second half of 2022. I, as the Chairman of the Remuneration Committee, together with Investor Relations, held discussions with thirteen of our larger shareholders (in aggregate representing approximately 45% of the issued share capital) and with three of the most representative institutional advisory organizations.

Feedback received from our shareholders

Most of our shareholders understand that under certain circumstances the Supervisory Board should be able to adjust the Annual Incentive (AI) and Long-Term Incentive (LTI) payouts, but they did express their specific concern regarding the adjustments made for the members of the Board of Management over 2021 also in view of the impact the year had on our shareholders. Our shareholders, however, did understand the discretionary adjustments made for the wider employee workforce, particularly to address retention risks. Furthermore, they requested us to be more transparent in the way we disclose our individual performance realization, especially given the above-target realization over 2021 for the CEO. Finally, they requested us to be transparent about the way the 2021 adjustments would be reflected in the company performance targets set for the 2022 AI.

How have we addressed this feedback

Naturally the AI and LTI pay-out was impacted by the low company performance. As explained in our 2021 Remuneration Report and during our engagements ahead of the 2022 AGM we have applied the adjustments in the best interest of the company and employees to address retention risks in view of the challenging circumstances our people had and still have to work in. However, in discussions with our shareholders after the 2022 AGM, we concluded that in making adjustments for the members of the Board of Management, a stronger alignment with the interest of our shareholders should be applied. Therefore, the Supervisory Board reconsidered the company's long standing practice, and decided to no longer automatically apply a uniform AI and LTI adjustment methodology for the entire company and effectively de-couple the remuneration approaches for the members of the Board of Management and for the broader workforce.

We still have the opinion that it is good to have a strong alignment in remuneration between members of the Board of Management and our broader workforce, but we realize that in certain circumstances addressing the retention risks of our own people can result in a disalignment between the remuneration of the members of the Board of Management and the interest of the shareholders. Therefore we have adjusted our approach.

A decision we have taken – already prior to the 2022 AGM – to increase clarity on potential adjustments and reward for performance, is to set targets going forward, starting with the 2022 AI based on our adjusted EBITA[*)] metric reported externally and as such apply a well-defined and disclosed set of adjustments (please refer to Reconciliation of non-IFRS information, starting on page 246 of the 2022 Philips Annual Report for an exact definition of the performance metric).

In the context of our company's performance in 2022 and to align with the shareholder experience, the Supervisory Board and Board of Management have jointly concluded that it was appropriate to waive any 2022 AI pay-out and any vesting of the 2020 LTI grant of the current members of the Board of Management. Specifically, this means that an amount of EUR 236,957 of the AI and an amount of EUR 188,994 of the LTI was waived.

For transparency purposes, we provided an enhanced disclosure of the individual performance realization. While there would have been a payout based on the individual performance realization, there was no AI payout for the financial performance criteria because the realized performance is below the respective thresholds. For the avoidance of doubt we confirm that the financial targets that were set for 2022 took into account the adjustments made in relation to the 2021 remuneration in a way that the members of the Board of Management would not benefit twice from these adjustments.

Other feedback received during these (and future) shareholder engagements will also be taken into account when preparing for a renewal of our shareholders' mandate on our remuneration policies (to be voted on during our 2024 AGM). As I have mentioned in my letter last year, it is our purpose at Philips to improve people's health and well-being through meaningful innovation. As a Remuneration Committee we want to assure that our remuneration policy supports this purpose.

CEO remuneration

Per October 15, 2022, Roy Jakobs was appointed as CEO of the company. The annual base compensation of Mr Jakobs was set at EUR 1,200,000, below the base salary of his predecessor, and in line with Philips' remuneration policy, but just below the median of our Quantum Peer Group. Upon his appointment, Mr Jakobs received performance shares with a grant value of EUR 314,137, which equals his 2022 CEO LTI grant value pro-rated for the time in role in 2022. The 2022 LTI grant that Mr Jakobs received as part of the remuneration, in his previous role, was likewise pro-rated for the time in role and until he took over the role as CEO. Our 2022 Remuneration Report also includes a description of the remuneration (to be) received by the former CEO after his succession under his services agreement terminating on April 30, 2023. All payments are in line with contractual obligations.

The composition of the Remuneration Committee and its activities

The Remuneration Committee is chaired by Paul Stoffels. Its other members are David Pyott, Herna Verhagen 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 set forth 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 Committee met seven times in 2022. All Committee members were present during these meetings.

I look forward to presenting this Remuneration report at our annual General Meeting of Shareholders.

On behalf of the Remuneration Committee,

Paul Stoffels
Chairman of the Remuneration Committee

[*)] 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 246 of the 2022 Philips Annual Report.

1.2 Remuneration report 2022

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 2022. The report will also be published as a stand-alone document on the company's website after the 2023 Annual General Meeting of Shareholders, the agenda of which will include an advisory vote on this Remuneration Report.

Board of Management

Summary of 2020 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.
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.
Pension	Pension plan and pension contribution intended to result into an appropriate level at retirement.	1. Defined Contribution plan with fixed contribution (applicable to all executives in the Netherlands – capped at EUR 114,866). 2. Gross allowance of 25% of annual base compensation exceeding EUR 114,866. 3. 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. As of 2023, the Supervisory Board has decided to replace Atos with Baxter in the Quantum Peer Group.

Philips Group
Quantum Peer Group 2022

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

In addition, we use a TSR Performance Peer Group to benchmark our relative Total Shareholder Return performance for LTI 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 2022

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 LTI Plan allow changes to the peer groups to be made by the Supervisory Board without further 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 LTI Plan respectively (or, if earlier, until the adoption or approval of a revised Remuneration Policy or revised LTI Plan). Since the adoption of the current Remuneration Policy in 2020, the divestment of the Domestic Appliances business in 2021 led to the decision of the Supervisory Board to remove Electrolux, Essity and Henkel from the Quantum Performance Peer Group and replace them with Alcon, GlaxoSmithKline and Stryker. No changes were made to the TSR Peer Group during 2022. However, as Cerner has been delisted after its acquisition by Oracle in 2022, the Supervisory Board has selected Baxter to replace Cerner for the 2023 LTI grant. In addition, following the initial public offering of GE Healthcare, GE Healthcare is included in the TSR Performance Peer Group for the 2023 LTI grant, replacing General Electric.

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 of 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 Annual General Meeting of Shareholders (AGM) held in the fourth year after the year of appointment).

Philips Group
Contract terms for current members 2022

	end of term
Roy Jakobs	AGM 2026
Abhijit Bhattacharya	AGM 2023
Marnix van Ginneken	AGM 2025

1.3 Remuneration of the Board of Management in 2022

The Supervisory Board has determined the 2022 pay-outs and awards to the members of the Board of Management, upon the proposal of the Remuneration Committee, in accordance with the 2020 Remuneration Policy and the 2020 LTI Plan. In addition, the Supervisory Board has determined the 2022 pay-out of the 2020 LTI Plan, of which the performance period ended on December 31, 2022. This was done in accordance with the LTI Plan as approved during the 2020 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 2022 Annual Incentive, as well as for the 2020 LTI, were adequate.

However, in the context of our company's performance in 2022 and to align with the shareholder experience, the Supervisory Board and Board of Management have jointly concluded that it was appropriate to waive any 2022 AI pay-out and any vesting of the 2020 LTI grant of the members of the Board of Management. The partial 2022 AI pay-out and partial vesting of the 2020 LTI grant was not waived by the former CEO, consequently the company will comply with its contractual obligations in this regard.

This 2022 Remuneration Report also includes a description of the remuneration (to be) received by the former CEO of the company in respect of the period after October 15, 2022 (the date on which he was succeeded by Mr Jakobs) pursuant to and in line with the terms of his services agreement that was concluded and published on the company's website and presented to the AGM in view of his appointment in 2019 and which will terminate on April 30, 2023 (reference is made to 'Remuneration former CEO').

Annual Base Compensation

The annual base compensation of Roy Jakobs as new CEO was set at EUR 1,200,000 (below the base salary of his predecessor of EUR 1,325,000), in line with Philips' remuneration policy, following market practice and considering the complexity of the role. The annual base compensation of the other members of the Board of Management has been reviewed as part of the regular remuneration review. As a result, the annual base compensation of Abhijit Bhattacharya and Marnix van Ginneken has been increased per April 1, 2022, from EUR 795,000 to EUR 810,000 and EUR 615,000 to EUR 630,000, respectively. This increase was made to move the total compensation level closer to the market median level, as well as to reflect internal relativities.

2022 Annual Incentive

The Annual Incentive performance has been assessed based on company financial results as well as individual results. 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 2022, the financial targets set at Group level cover Comparable Sales Growth[*)], Adjusted EBITA[*)] and Free Cash Flow[*)]. The realized performance regrettably did not reach the threshold performance target on any of these three criteria.

		Assessment of performance					
Financial performance criteria	Weighting as % of target Annual Incentive	threshold performance	target performance	maximum performance	realized performance	resulting payout as % of target	Weighted pay-out as % of target Annual Incentive
Comparable Sales Growth [1)]	30%	1.8%	4.8%	6.8%	(2.8)%	0.0%	0%
Adjusted EBITA [1)]	30%	9.7%	12.7%	14.7%	7.4%	0.0%	0%
Free Cash Flow [1)]	20%	400	700	1,000	(961)	0.0%	0%
Total	80%						0%

[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 246 of the 2022 Philips Annual Report.

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

In the context of our company's performance in 2022 and to align with the shareholder experience, the members of the Supervisory Board and Board of Management jointly concluded that it was appropriate to waive any 2022 AI pay-out of the current members of the Board of Management, despite a positive realization on their individual performance criteria. Specifically, this means that aggregately an amount of EUR 236,957 (including an amount of EUR 35,881 related to the AI for Roy Jakobs in his role as Chief Business Leader Connected Care for the period January 1, 2022 up and until October 14, 2022) was waived.

For the sake of transparency, the individual performance criteria and assessment targets set at the beginning of the year, have been disclosed in the table below. To determine the payout levels for the individual goals, the Supervisory Board typically 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.

Board of Management Member	Individual Performance criteria	Assessment of performance	Weighted pay-out as% of target Annual Incentive
Roy Jakobs	Strategy execution	• CEO and company transition plan completed before year end. Creating Value with Sustainable Impact plan, including interventions required, released on January 30, 2023	14% (fully waived)
	Quality & operational excellence	• S&RC recall progressed to 90% production of remediation, DS1 testing data released in December • Patient Safety and Quality assessment done, plan formulated and released. New leader hired to join the Executive Committee • Customer delivery in Personal Health improved strongly. Health Systems without delivery still under continued pressure with significant inventory build as a result	
	People & organization	• Progress on improving gender balance in leadership positions, leadership hires, whilst employee engagement slightly behind on high-performance norms	
	Customer results	• Good progress on customer satisfaction, customer NPS and Ratings & Reviews ahead on target	
Abhijit Bhattacharya	Strategy execution	• Progress made on value delivery from past Mergers & Acquisitions • Further strengthened sustaining engineering team in India • Progress made on China localization plan. Growth plan India on track for long term ambition, but slightly behind in the year	13% (fully waived)
	Quality & operational excellence	• Patient Safety and Quality key investments and support ensured to further accelerate our transformation to enhance quality and regulatory capabilities • Productivity results not enough to close the margin gaps experienced, and inventory levels significantly increased on the back of unfinished products	
	People & organization	• Progress on improving gender balance in leadership positions. Employee engagement slightly behind on high-performance norms	
Marnix van Ginneken	Strategy execution	• License income above target • Significant order growth intake from large government deals, above target	17% (fully waived)
	Quality & operational excellence	• Key foundational elements set to accelerate transformation to enhance quality and regulatory capabilities • Progress made on S&RC remediation • Further progress on consolidation and simplification of legal manufacturers and quality management systems in line with plan	
	People & organization	• Progress on improving gender balance in leadership positions. Employee engagement slightly behind on high-performance norms	
	Environmental, Social & Governance / Sustainability	• ESG performance objectives above targets, including strong performance on Lives Improved, circular revenues and total emissions from operational carbon footprint	

Overall this leads to the following total Annual Incentive realization and no payout:

Annual Incentive realization 2022 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	Payout of annual incentive
Roy Jakobs [2]	100%	256,438	0%	69%	14%	35,260	0
Abhijit Bhattacharya	80%	648,000	0%	63%	13%	81,648	0
Marnix van Ginneken	80%	504,000	0%	84%	17%	84,168	0

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

[2] As per October 15, 2022, Roy Jakobs was appointed as CEO of the company.

2023 Annual Incentive

The Annual Incentive criteria consist of:

Financial criteria (80% weighting):

For the year 2023, 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 2023, the following performance categories are selected to ensure alignment with the key (strategic) priorities in the year:

Board of Management Member	Selected performance categories
Roy Jakobs	• Customer Results • Quality & operational excellence • Strategy execution • People & organization • ESG/Sustainability
Abhijit Bhattacharya	• Customer Results • Quality & operational excellence • Strategy execution • People & organization • ESG/Sustainability
Marnix van Ginneken	• Customer Results • Quality & operational excellence • Strategy execution • People & organization • ESG/Sustainability

2020 Long-Term Incentive

The 3-year performance period of the 2020 LTI grant, consisting of performance shares, ended on December 31, 2022. The realization of this grant is based on TSR achievement, adjusted EPS growth and sustainability objectives.

In the context of our company's performance in 2022 and to align with the shareholder experience, the Supervisory Board and Board of Management jointly concluded that it was appropriate to waive any vesting of the 2020 LTI grant of the current members of the Board of Management, despite a positive performance achievement of the sustainability objectives. Specifically, this means that an amount of EUR 188,994 was waived.

Philips Group
Performance achievement and vesting levels

	achievement	weighting	vesting level	adjusted vesting level (waived)
TSR	0%	50%	0%	0%
EPS	0%	40%	0%	0%
Sustainability objectives	180%	10%	18%	0%
Total			18%	0%

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 -63.66%, using a start date of October 2019 and end date of December 2022. This resulted in Philips being positioned at rank 20 in the TSR performance peer group shown in the following table, resulting in a TSR achievement of 0%.

Following Oracle's acquisition of Cerner (completed June 2022), the Supervisory Board adopted the approach of recognizing Cerner's performance through the delisting date. As a proxy for future performance, reinvestment in an index of the remaining 19 peer companies was assumed (effectively retaining a peer group of 20 companies).

TSR results LTI Plan 2020 grant: (63.66%)

	total return	rank number
Danaher	85.47%	1
Hitachi	74.64%	2
ResMed	56.08%	3
Getinge	44.14%	4
Hologic	43.04%	5
Johnson & Johnson	37.70%	6
Siemens Healthineers	24.07%	7
De Longhi	15.22%	8
Terumo	14.05%	9
Stryker	13.15%	10
Cerner	7.70%	11
Boston Scientific	3.48%	12
Becton Dickinson	(1.36)%	13
General Electric	(3.63)%	14
Medtronic	(20.68)%	15
Smith & Nephew	(35.25)%	16
Groupe SEB	(39.46)%	17
Elekta	(48.80)%	18
Fresenius Medical	(51.91)%	19
Philips	(63.66)%	20

Adjusted EPS growth (40% 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
LTI plan EPS (euro)	<1.28	1.28	1.50	1.71	(1.43)
Payout	0%	40%	100%	200%	0%

In respect of the 2020 LTI grant, the LTI plan EPS is calculated based on a reported net income attributable to shareholders divided by the number of common shares outstanding (after deduction of treasury shares) on the day prior to the beginning of the performance period (to eliminate the impact of any share buyback, stock dividend, etc.), resulting in an EPS of EUR (1.82). Furthermore, as per the 2020 LTI Plan, the LTI Plan EPS includes adjustments to account for events that were not planned when targets were set or were outside management's control such as the profit and loss impact of acquisitions and divestitures (positive adjustment), the profit and loss impact of portfolio restructuring (positive impact), the profit and loss impact of legal charges (positive impact) and impact of foreign exchange variations versus plan (positive adjustment). 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 0% of target.

Sustainability objectives (10% weighting)

In order to further align the remuneration package for the Board of Management with our purpose and our ESG commitment, a sustainability criterion was introduced in the 2020 LTI Plan. Philips believes that ESG performance will improve the company's performance as a whole and, therefore, that it should be explicitly linked to (long-term) remuneration. The criteria are based on three Sustainable Development Goals (SDGs) as defined by the United Nations that are included in Philips' strategy on sustainability (no. 3, 12 and 13). These three SDGs are translated in five underlying objectives, which are measured against a specific target range.

At the beginning of the performance period, challenging target ranges are set for each of the five objectives. Based on a point-to-point method, performance achievement is measured at the end of the performance period (i.e. 3 years) versus the beginning of the performance period. The pay-out is determined based on the following scheme:

No. of measures achieved within or above target zone	Pay-out %
1	0%
2	0%
3	50%-100%
4	100%-150%
5	150%-200%

The realized performance is described in the following table. As five out of five objectives are achieved within or above target zone, the payout % lies between 150% and 200% of target. Based on the overall performance of the five objectives, the Supervisory Board has assessed that a vesting level of 180% would reflect an appropriate positioning within the target range. However, as explained above, any vesting of the 2020 LTI grant of the Board of Management was waived, including vesting relating to the achieved sustainability objectives. While the strong performance on the sustainability objectives is therefore not resulting in any vesting for the current members of the Board of Management, it is celebrated by the company as it contributes to our purpose and our ESG commitment.

For more information on the realized performance on all five objectives please refer to our Environmental, Social and Governance, starting on page 45 and Assurance report of the independent auditor, starting on page 296 of the Philips 2022 Annual Report.

Sustainability category	Underlying objective	Target range	realized performance	
Ensure healthy lives and promote well-being for all at all ages (SDG3) *Lives Improved*	Targeted # of Lives Improved in year 3 [1)]	1,467 – 1,667 million	1,810 million	Above target zone
Ensure sustainable consumption and production patterns (SDG12) *Circularity*	Targeted circular revenue in year 3 [2)]	12.2% – 16.2%	18.1%	Above target zone
	Targeted waste to landfill in year 3 [3)]	4.7% – 0.1%	<0.1%	Within target zone
	Targeted closing the loop in year 3 [4)]	14.5 – 23.0%	35.2%	Above target zone
Take urgent action to combat climate change and its impacts (SDG13) *Carbon footprint*	Targeted CO_2 equivalent (in Kilo Tonnes) in year 3	661 – 589 KTonnes CO_2	438 Ktonnes CO_2	"Above" target zone

1) Lives Improved by Philips products, solutions and services and care to those in underserved markets.

2) Revenue from circular products (re-using materials).

3) Avoiding production of waste materials.

4) Taking back healthcare equipment.

2023 Long-Term Incentive

The vesting of the 2023 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.

*) 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 246 of the 2022 Philips Annual Report.

Pension

The following pension arrangement is in place for the members of the Board of Management working under a services agreement governed by Dutch law:

- 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 114,866 (effective January 1, 2022) 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 114,866;
- 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 2022

The following table gives an overview of the costs incurred by the company in 2022 and 2021 in relation to the remuneration of the Board of Management. Costs related to performance shares are based on accounting standards (IFRS), which prescribe that costs for each LTI grant are recognized over the full (multi-year) vesting period, proportionate to the relevant fiscal year. Therefore, the costs for any year reflect costs of multiple LTI grants, as opposed to the actual value for the holder of an LTI grant at the vesting date. Hence, the waiving of the 2020 LTI grant by the current members of the Board of Management is not apparent in this table. Please refer to section 2020 Long-Term Incentive, starting on page 7 for more details on the actual vesting of the performance shares.

Philips Group
Remuneration Board of Management [1] in EUR

			Accounting costs in the year							
	reported year	annual base compensation [2]	**base compen-sation**	**realized annual incentive**	**performance shares** [3]	**pension allowances** [4]	**pension scheme costs**	**other compen-sation** [5]	**total cost**	**Fixed-variable remuneration** [6]
R. Jakobs [7]	2022	1,200,000	256,438	waived	112,737 [8]	57,973	6,012	11,507	444,667	75%-25%
F.A. van Houten [7]	2022	1,325,000	1,041,849	208,370	2,930,068	444,051	22,121	42,533	4,688,992	33%-67%
	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	2022	810,000	806,250	waived	763,140 [8]	237,250	28,133	61,308	1,896,081	60%-40%
	2021	795,000	790,000	360,103	1,172,533	233,857	27,462	68,908	2,652,864	42%-58%
M.J. van Ginneken	2022	630,000	626,250	waived	585,490 [8]	141,622	28,133	35,343	1,416,837	59%-41%
	2021	615,000	605,000	317,192	886,035	150,755	27,462	42,610	2,029,054	41%-59%
Total	**2022**		**2,730,788**	**208,370**	**4,391,434**	**880,896**	**84,398**	**150,691**	**8,446,577**	**46%-54%**
	2021		**2,720,000**	**1,528,210**	**4,684,863**	**950,015**	**82,386**	**168,742**	**10,134,217**	**39%-61%**

1) Reference date for board membership is December 31, 2022.

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 performance shares at the vesting/release date. For Mr. van Houten, the accounting costs for 2022 include additional costs for the accelerated accrual of the 2021 and 2022 LTI grant.

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.

7) As per October 15, 2022, Roy Jakobs was appointed as CEO of the company. The table includes actual costs incurred in respect of the remuneration received by Mr Van Houten and Mr Jakobs, respectively, as CEO.

8) Despite the waiving of the 2020 LTI grant, these amounts are not nil as they reflect accounting costs according to IFRS.

Remuneration former CEO

Per October 15, 2022, Frans van Houten, the former CEO, was succeeded by Roy Jakobs as CEO of the company.

In view of a proper handover, and pursuant to the contractual obligations of his services agreement (published on the company's website and presented to the AGM at the time of his re-appointment in 2019), the former CEO's services agreement will terminate on April 30, 2023 in line with the applicable conditions as laid down in such services agreement. Until this time, the former CEO remains available for advisory services.

Up to the termination date of April 30, 2023, the former CEO will be receiving the base compensation, pension arrangement and other allowances following from the termination of his 2019 services agreement. For the period October 15, 2022 up and until December 31, 2022, the base compensation, pension expenditures and other compensation represent a value of EUR 283,151, EUR 126,695 and EUR 11,774 respectively. The former CEO did not waive the partial 2022 AI pay-out and partial vesting of the 2020 LTI grant, consequently the Company will comply with its contractual obligations in this regard. Therefore, the former CEO received an AI payment of EUR 265,000 for the year 2022 and his 2020 LTI grant vested at 18% of target in line with the 2020 LTI plan realization.

For the year 2023, the base compensation, pension expenditures and other compensation represent a value of EUR 435,616, EUR 194,986 and EUR 18,087 (expected) respectively. In respect of the remainder of his services agreement during 2023, the former CEO will be eligible for a prorated AI payment based on the actual 2023 financial performance and his individual performance at target according to the contractual obligations. At target this prorated AI represents a value of EUR 435,616. The former CEO will not receive an LTI grant for the year 2023. In accordance with the relevant provisions of his services agreement, the former CEO will receive a severance payment equal to one-year annual base compensation (amounting to EUR 1,325,000).

The former CEO's LTI grants with a vesting date after April 30, 2023 (granted in 2021 and 2022) will continue to vest at their regular vesting dates (April 30, 2024, and April 29, 2025 respectively) subject to the predetermined performance conditions. The termination of the services agreement with the former CEO did not trigger a tax expense for the company based on Article 32bb of the Dutch Wage Tax Act.

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 2022 financial year, the ratio between the annual total compensation for the CEO and the average annual total compensation for an employee was 55:1. The ratio decreased from 63:1 in 2021. 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

	2018	2019	2020	2021	2022
Remuneration					
CEO Total Remuneration Costs (A) [1]	5,391,265	5,260,111	6,153,067	5,452,299	5,133,659
CFO Total Remuneration Costs	2,595,688	2,602,606	3,007,990	2,652,864	1,896,081
CLO Total Remuneration Costs	1,861,200	1,856,426	2,203,160	2,029,054	1,416,837
Average Employee (FTE) Total Remuneration Costs (B) [2]	89,843	92,645	91,455	86,853	93,373
Ratio A versus B [3]	60:1	57:1	67:1	63:1	55:1
Company performance					
Annual TSR [4]	1.2%	25.6%	6.2%	(14.5)%	(60.0)%
Comparable Sales Growth% [5]	4.9%	4.5%	2.9%	(1.2)%	(2.8)%
Adjusted EBITA% [5]	13.3%	13.2%	13.2%	12.0%	7.4%
Free Cash Flow [5]	990	923	1,635	900	(961)

1) For 2022, CEO refers to Frans van Houten for the period up to October 15, 2022, and to Roy Jakobs for the period from October 15, 2022, onwards. For 2018 through 2021, CEO refers to Frans van Houten.

2) Based on Employee benefit expenses (EUR 7.0 billion) divided by the average number of employees (74,451 FTE) as reported in Income from operations. This results in an average annual total compensation cost of EUR 93,373 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 246 of the 2022 Philips Annual Report.

Historical LTI grants and holdings

Number of performance shares (holdings)

Under the LTI Plan the current members of the Board of Management were granted 153,891 performance shares in 2022. The following table provides an overview at end December 2022 of performance share grants.

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, 2022. Until the minimum shareholding requirement is reached, the members of the Board of Management are required to retain all after-tax performance shares that have vested, but they are not required to make additional share purchases.

Philips Group
Share ownership Board of Management

	Minimum shareholding requirement [1]	Annual Base Compensation	(Vested) shares held	Ownership ratio [2]
R. Jakobs	4.0x	1,200,000	109,423	1.3x
A. Bhattacharya	3.0x	810,000	169,517	2.9x
M.J. van Ginneken	3.0x	630,000	123,914	2.8x

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 14.00 (based on the closing share price of December 31, 2022) and dividing this by the base compensation.

Remuneration of the Supervisory Board in 2022

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 2022

The individual members of the Supervisory Board received, by virtue of the positions they held, the following remuneration in 2022:

Philips Group
Remuneration of the Supervisory Board in EUR

	membership	committees	other compensation [1)]	total
F. Sijbesma	155,000	35,000	16,345	206,345
P.A.M. Stoffels	115,000	35,000	27,269	177,269
N. Dhawan	35,616	6,411	5,808	47,836
D.E.I. Pyott	100,000	35,000	17,269	152,269
A.M. Harrison	100,000	14,000	12,269	126,269
M.E. Doherty	100,000	27,000	24,769	151,769
P. Löscher	100,000	32,000	24,769	156,769
I. Nooyi	100,000	14,000	17,269	131,269
S.K. Chua	100,000	18,000	22,269	140,269
H. Verhagen	100,000	14,000	7,269	121,269
S. Poonen	100,000	18,000	17,269	135,269
Total	1,105,616	248,411	192,574	1,546,602

[1)] 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.

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, 2022	number of shares awarded in 2022	(dividend) shares awarded	number of shares vested in 2022 [1)]	value at vesting date in 2022	unvested closing balance at Dec. 31, 2022
R. Jakobs	5/6/2019	21,592 [2)]	810,000	06/05/2022	06/05/2022	22,979	-	-	8,717	216,060	-
	4/30/2020	17,704 [2)]	706,250	30/04/2023	30/04/2025	18,399	-	674	-	-	19,073
	4/30/2021	15,812 [2)]	750,000	30/04/2024	30/04/2026	16,105	-	590	-	-	16,696
	4/29/2022	37,630 [2)]	930,000	29/04/2025	29/04/2027	-	37,630	1,379	-	-	39,009
	10/28/2022	24,279	314,137	28/10/2025	28/10/2027	-	24,279	-	-	-	24,279
F.A. van Houten [3)]	5/6/2019	70,640	2,650,000	06/05/2022	06/05/2024	75,177	-	-	28,567	708,078	-
	4/30/2020	66,431	2,650,000	30/04/2023	30/04/2025	69,037	-	2,530	-	-	71,567
	4/30/2021	55,868	2,650,000	30/04/2024	30/04/2026	56,905	-	2,086	-	-	58,991
	4/29/2022	107,227	2,650,000	29/04/2025	29/04/2027	-	107,227	3,930	-	-	111,157
A. Bhattacharya	5/6/2019	31,388	1,177,500	06/05/2022	06/05/2024	33,404	-	-	12,693	314,626	-
	4/30/2020	29,518	1,177,500	30/04/2023	30/04/2025	30,676	-	1,124	-	-	31,800
	4/30/2021	25,141	1,192,500	30/04/2024	30/04/2026	25,608	-	939	-	-	26,547
	4/29/2022	49,162	1,215,000	29/04/2025	29/04/2027	-	49,162	1,802	-	-	50,964
M.J. van Ginneken	5/6/2019	22,991 [2)]	862,500	06/05/2022	06/05/2024	24,467	-	-	9,298	230,456	-
	4/30/2020	22,373	892,500	30/04/2023	30/04/2025	23,251	-	852	-	-	24,103
	4/30/2021	19,448	922,500	30/04/2024	30/04/2026	19,809	-	726	-	-	20,535
	4/29/2022	38,237	945,000	29/04/2025	29/04/2027	-	38,237	1,401	-	-	39,638

1) The shares vested in 2022 are subject to a 2-year holding

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

3) Mr. Van Houten was not a member of the Board of Management on December 31, 2022. However for transparency purposes he is shown in this table

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, 2022	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, 2022
F.A. van Houten [1)]	23/04/2012	23/04/2015	14.82	23/04/2022	75,000	-	-	-	-	-
	29/01/2013	29/01/2014	22.43	29/01/2023	55,000	-	-	-	-	55,000
A. Bhattacharya	30/01/2012	30/01/2014	15.24	30/01/2022	20,000	-	-	-	-	-
	23/04/2012	23/04/2015	14.82	23/04/2022	16,500	-	-	-	-	-
M.J. van Ginneken	30/01/2012	30/01/2014	15.24	30/01/2022	10,000	-	10,000	28.35	-	-
	23/04/2012	23/04/2015	14.82	23/04/2022	8,400	-	-	-	-	-

1) Mr. Van Houten was not a member of the Board of Management on December 31, 2022. However for transparency purposes he is shown in this table