

PHILIPS

Annual Report 2022



**Committed to improving people's
health and well-being**

PDF/printed version

This document is the PDF/printed version of the 2022 Annual Report of Royal Philips and has been prepared for ease of use. The 2022 Annual Report was made publicly available pursuant to section 5:25c of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*), and was filed with Netherlands Authority for the Financial Markets in European single electronic reporting format (the ESEF package). The ESEF package is available on the company's website at <https://www.results.philips.com/downloadcenter#ar22> and includes a human readable XHTML version of the 2022 Annual Report. In any case of discrepancies between this PDF version and the ESEF package, the latter prevails.

IFRS basis of presentation

The financial information included in this document is based on IFRS, as explained in [General information to the Consolidated financial statements](#), starting on page 151, unless otherwise indicated.

Forward-looking statements

This document contains certain forward-looking statements. By their nature, these statements involve risk and uncertainty. For more information, please refer to [Forward-looking statements and other information](#), starting on page 259.

References to Philips

References to the company, to Philips or the (Philips) Group or group, relate to Koninklijke Philips N.V. and its subsidiaries, as the context requires. Royal Philips refers to Koninklijke Philips N.V.

Dutch Financial Markets Supervision Act

This document comprises regulated information within the meaning of the Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht*).

Statutory financial statements and management report

The chapters [Group financial statements, starting on page 141](#) and [Company financial statements, starting on page 225](#) contain the statutory financial statements of the company. The introduction to the chapter [Group financial statements, starting on page 141](#) sets out which parts of this Annual Report form the Management report within the meaning of Section 2:391 of the Dutch Civil Code.

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2022 at a glance

Social impact

- 1.81 billion lives improved
- 202 million in underserved communities

Patient safety & quality

- Strengthening patient safety and quality Philips' highest priority
- Updated Quality Policy, further implementation of Accelerating Patient Safety & Quality program, and mandatory Quality training completed by all employees

Customers

- Around 100 new long-term strategic partnerships
- Approximately 40% recurring revenues

Innovation

- Increased focus on innovation impact and productivity, with patient safety and quality at the core of innovation design
- Philips named as a Clarivate Top 100 Global Innovator for 9th year in succession

Operations

- Significant focus and effort on Philips Respironics recall – around 90% of production required for delivery of replacement devices to patients completed by year-end
- Challenging macroeconomic/geopolitical environment giving rise to high inflation, resource shortages and global supply chain headwinds, in combination with operational challenges causing supply delivery delays

Environmental sustainability

- Circular revenues at 18% of sales
- Updated carbon reduction targets approved by Science Based Targets initiatives (SBTi)
- CDP 'A List' rating for 10th year in a row

People & culture

- Reinvigorated culture and leadership focused on organic growth, people- and patient-centric innovation at scale, and improved execution
- 30% representation of women in senior leadership roles

Financials

- EUR 17.8 billion sales impacted by global and industry-wide challenges
- Profitability also affected by consequences of the Respironics field action
- Productivity measures and restructuring introduced

1 Message from the CEO

“2022 was a very disappointing year for Philips and its stakeholders, and we are taking firm action to strengthen patient safety and quality, improve our execution and step up performance with urgency in 2023.”

Roy Jakobs CEO Royal Philips

Dear Stakeholder,

Philips is a company with strong market leadership positions, an extensive customer base, strong innovation portfolio, talented employees, and a global purpose-driven brand. Yet, as our 2022 performance underlines, we are not extracting the full value of our businesses and have disappointed many stakeholders.

My priority as CEO is to address operational challenges, improve performance, and drive progressive value creation through a strategy of focused organic growth and an innovation model shift to increase the impact of patient- and people-centric innovation at scale. Execution will be the key value driver, with three clear priorities around improving patient safety and quality, creating more reliable and resilient supply chains, and simplifying the way we work, so we are more agile and competitive.

Addressing priority challenges – improved execution as key value driver

Our first priority is to rebuild Philips’ reputation around patient safety and quality. The recall of specific Respironics sleep therapy devices and ventilators let down the patients who depended on them, and the doctors caring for those patients. We apologize deeply for that and are working hard to restore trust with all stakeholders. By year-end, following the substantial ramp-up of capacity, Philips Respironics had completed around 90% of the production required for the delivery of replacement devices to patients.

In consultation with regulators around the world, we have also been conducting a comprehensive test and research program to better understand the potential health risks associated with the use of affected devices. I am very conscious that 18 months is long, but this work had to be done thoroughly. I am encouraged by the test results for the first-generation DreamStation devices, that account for over two thirds of the registered affected devices: the prevalence of visible foam degradation is low, and the emission of the detected volatile organic compounds and particulates are within the applicable safety limits and not expected to result in appreciable harm to health in patients.

We are fully committed to completing the Respironics recall and testing program in 2023.

We will also implement all measures agreed with the US Food & Drug Administration (FDA) and US Department of Justice, including a consent decree, and rebuild ties with the FDA and other national regulators. We have put the leadership and end-to-end organization in place and have invested significantly in doing so. Across the company, we have assigned the highest priority to making the necessary step-up in patient safety and quality management and have elevated leadership of patient safety and quality to Executive Committee level.

An integral aspect of quality is the ability to deliver and install equipment on time and to the required specifications. To this end, we are taking decisive action to make our supply chain more reliable and predictable, by securing near-term supply, redesigning and pruning our portfolio, and moving from a ‘one size fits all’ supply chain structure to a more agile, tailored value chain model per business, with dedicated and upgraded domain expertise. This will secure more deliveries, drive faster order-book conversion and build down inventory.

We are also simplifying the way we work to drive accountability and agility, with the aim of unlocking significant productivity and margin gains. This simplification – with end-to-end businesses with single accountability and more focused targets, supported by a much leaner enterprise layer, strong regions and a reinvigorated culture of patient- and people-centricity, innovation impact and clear accountability – is a primary enabler to drive flawless execution.

The set of measures we have taken includes the very difficult, yet necessary decisions announced in October 2022 and January 2023 to reduce our workforce by 4,000 employees and then a further 6,000 respectively, as we drive a major step-up in productivity. We will strive to implement these reductions with due respect for every employee affected and in line with all local rules and regulations.

We believe that, together, these measures will help us establish the culture, capabilities and infrastructure needed to consistently execute and deliver as a reliable patient- and people-centric health technology company.

Focused organic growth in Diagnosis & Treatment, Connected Care and Personal Health

As well as restoring our reputation as a responsible patient- and people-centric innovation leader in health technology, we urgently need to get back on course to create value with sustainable impact. To do this, we will drive organic growth through scale and leadership:

- Focusing investments to accelerate growth in Image Guided Therapy, Ultrasound and Monitoring, where we have strong #1 or #2 positions, and expand our leadership position in Personal Health
- Scaling our new Enterprise Informatics business
- Driving margin improvement in Diagnostic Imaging
- Restoring the Sleep & Respiratory Care business.

We will leverage our distinctive market positions, especially our strong presence in North America and many international markets, while further localizing to support our leadership position in China.

Patient- and people-centric innovation at scale

We will continue to invest significantly in innovation, but are making a number of important changes to increase the impact of our patient- and people-driven innovation. Focusing our resources on fewer, better-resourced and more impactful projects, we will concentrate a higher proportion of our R&D resources in the businesses to ensure that innovation is done closer to our customers. We will scale and accelerate innovations, driven by the business and supported by rightsized corporate research, with patient safety, quality and sustainability at the core of innovation design. The technological and business model innovation that Philips brings to healthcare across care settings – often as part of long-term partnerships – is critical, making care delivery more convenient and sustainable.

2022 performance

Looking back on last year, sales increased nominally to EUR 17.8 billion, while several factors weighed down on profitability. Performance was impacted by our efforts to mitigate supply chain and inflationary pressures and the revenue and cost consequences of the Philips Respironics sleep recall, whilst at the same time dealing with global challenges such as the COVID situation in China, volatile demand and supply, and the war in Ukraine. As we worked through the operational challenges, we progressed on our execution priorities in the fourth quarter and saw initial signs of improvement.

I find it greatly encouraging that, despite our recent difficulties, Philips' purpose, strategy and solutions resonate strongly with customers, as evidenced by the around 100 long-term strategic partnerships we entered into with hospitals and health systems around the world in 2022, and by the continued strength of our order book.

Delivering on our ESG commitments

Environmental, Social & Governance (ESG) are three key dimensions defining our approach to doing business responsibly and sustainably. In 2022, we reached 1.81 billion people with our products and services, including 202 million in underserved communities – taking us a step closer to our goal of improving 2 billion lives per year by 2025, including 300 million in underserved communities.

We continued to work hard to deliver on our other key ESG commitments. For example, our updated carbon reduction targets were approved by the Science Based Targets initiative (SBTi), and we were included in CDP's climate action 'A-List' for the 10th year in a row. We see increasing momentum within the healthcare industry and on the part of our customers to reduce their environmental impact, and we are well placed – with innovations such as our BlueSeal magnet for helium-free-for-life MR and our Circular portfolio – to support that trend and help create a sustainable infrastructure for the future of healthcare.

Looking ahead

We remain cautious in light of the subdued economic outlook for the year, staffing and inflationary pressures facing our customers, geopolitical risks, supply and demand volatility, and uncertainties around ongoing consent decree negotiations, litigation and Department of Justice investigations. Nevertheless, we expect that, by prioritizing patient safety and quality, tightening our focus on innovation and strengthening our category leadership areas, while at the same time improving execution and taking a disciplined approach to capital, we will be able to progressively create value with sustainable impact. Against this background, and reflecting the importance we attach to dividend stability, we propose to maintain the dividend at EUR 0.85 per share, to be distributed in shares.

On behalf of the Executive Committee, I would like to acknowledge, once again, that 2022 has been very disappointing and we carry accountability for the plan to bring Philips back to where it belongs. I want to thank our customers and their patients for their understanding – and our suppliers and ecosystem partners for their support – over this past year. I appreciate our employees' hard work and willingness to embrace change and drive performance improvement. And I wish to thank our shareholders and other stakeholders for their continued support in these challenging times.

I am honored to have been tasked with leading our company and am heartened by the support I have encountered from our employees and customers, investors and other stakeholders. I am realistic about the challenges we face, but have full confidence in our plan of action and am firm in my resolve to lead Philips back to a position of strength in a world that needs meaningful innovation.

Roy Jakobs
Chief Executive Officer

2 Board of Management and Executive Committee

Royal Philips has a two-tier board structure consisting of a Board of Management and a Supervisory Board, each of which is accountable to the General Meeting of Shareholders for the fulfillment of its respective duties. The Board of Management is entrusted with the management of the company. The other members of the Executive Committee have been appointed to support the Board of Management in the fulfillment of its managerial duties. Please also refer to [Board of Management and Executive Committee, starting on page 132](#) within the chapter Corporate governance.

Members of the Board of Management

Roy Jakobs

Born 1974, Dutch and German

Chief Executive Officer (CEO)

Chairman of the Board of Management and the Executive Committee since October 2022

Roy Jakobs joined Philips in 2010 and has held various global leadership positions across the company, starting as Chief Marketing & Strategy Officer for Philips Lighting. In 2012, he became Market Leader for Philips Middle East & Turkey, leading the Healthcare, Consumer, and Lighting businesses out of Dubai. Subsequently, he became Business Leader of Domestic Appliances, based in Shanghai, in 2015. In 2018, Roy joined the Executive Committee as Chief Business Leader of the Personal Health businesses and in early 2020 he started as Chief Business Leader of Connected Care. Prior to his career at Philips, he held various management positions at Royal Dutch Shell and Reed Elsevier.

Abhijit Bhattacharya

Born 1961, Indian

Executive Vice President

Member of the Board of Management since December 2015

Chief Financial Officer

Abhijit Bhattacharya first joined Philips in 1987 and has held multiple senior leadership positions across various businesses and functions in Europe, Asia Pacific and the US. Between 2010 – 2014, he was the Head of Investor Relations of Philips, and subsequently, CFO of Philips Healthcare, Philips' largest sector at the time. Prior to 2010, Abhijit was Head of Operations & Quality at ST-Ericsson, the joint venture of ST Microelectronics and Ericsson, and he was CFO of NXP's largest business group.

Marnix van Ginneken

Born 1973, Dutch

Executive Vice President

Member of the Board of Management since November 2017

Chief ESG & Legal Officer

Marnix van Ginneken joined Philips in 2007 and became Head of Group Legal in 2010. In 2014, Marnix became Chief Legal Officer of Royal Philips and Member of the Executive Committee. He is responsible for ESG/ Sustainability, Legal, Intellectual Property & Standards and Government & Public affairs. Since 2011, he is also Professor of International Corporate Governance at the Erasmus School of Law in Rotterdam. Before joining Philips, Marnix worked for Akzo Nobel and as an attorney in a private practice.

Other members of the Executive Committee

as of December 31, 2022

Willem Appelo

Born 1964, Dutch

Executive Vice President
Chief Operations Officer

Bert van Meurs

Born 1961, Dutch

Executive Vice President
Chief Business Leader Image Guided Therapy and jointly responsible for Diagnosis & Treatment

Vitor Rocha

Born 1969, Brazilian/American

Executive Vice President
Chief Market Leader of Philips North America

Andy Ho

Born 1961, Chinese/Canadian

Executive Vice President
Chief Market Leader of Philips Greater China

Edwin Paalvast

Born 1963, Dutch

Executive Vice President
Chief of International Markets

Daniela Seabrook

Born 1973, Swiss

Executive Vice President
Chief Human Resources Officer

Deeptha Khanna

Born 1976, Singaporean

Executive Vice President
Chief Business Leader Personal Health

Shez Partovi

Born 1967, Canadian

Executive Vice President
Chief Innovation & Strategy Officer

Kees Wesdorp

Born 1976, Dutch

Executive Vice President
Chief Business Leader Precision Diagnosis and jointly responsible for Diagnosis & Treatment

This page reflects the composition of the Executive Committee as per December 31, 2022. As announced on December 8, 2022, Kees Wesdorp left the company on January 1, 2023, with Bert van Meurs (Chief Business Leader for the Image Guided Therapy businesses) temporarily expanding his role to include the leadership of the Precision Diagnosis businesses. As announced on January 30, 2023, Steve C. de Baca and Jeff DiLullo joined the Executive Committee, effective February 6, 2023, as Chief Patient Safety & Quality Officer and Chief Market Leader of Philips North America, respectively. As such, Mr DiLullo succeeds Vitor Rocha, who left the company effective as per the same date. Philips expects to announce new leaders for its Connected Care businesses (which was the responsibility of Roy Jakobs until his appointment as CEO) as well as for its Precision Diagnosis businesses, in 2023. For a current overview of the Executive Committee members, see also <https://www.philips.com/a-w/about/executive-committee.html>

At a glance

Strategy and Businesses



Continued strong customer interest in our innovative healthcare technology

Challenging macroeconomic/geopolitical environment giving rise to high inflation, resource shortages, and global supply chain headwinds

Significant focus and effort on Philips Respironics recall: around 90% of production required for delivery of replacement devices to patients completed by year-end

Personal health innovations supported by online expansion, retail partnerships, and scaling of new business models

3 Strategy and Businesses

3.1 Our strategic focus

A strategy of focused organic growth, founded on clear choices in business and innovation, and improved execution

Over the past 10 years, Philips has undergone a transformation to reshape its portfolio and become a focused health technology company. As a result, we are active in highly attractive segments that offer significant potential for growth and margin expansion.

These markets are attractive due to the underlying growth of demand for access to healthcare from an aging and growing population. This in turn fuels the need for meaningful innovation to address the rising healthcare spending and staff shortages and make healthcare more efficient and productive, while driving better outcomes.

At Philips, we view the provision and collection of data from patient monitors, imaging devices, and Electronic Medical Records as the foundation upon which Artificial Intelligence (AI) propositions can be built to turn clinical data into actionable insights for patients, providers, and consumers. In addition to providing clinical insights, the same system, informatics and service solutions also provide improved operational forecasting – something our customers have been requesting since COVID-19 to help them improve productivity.

When we perform all of the above for a particular health condition, such as cardiac disease, we establish domain expertise across various sites of care for that disease state. Our healthcare customers are asking for integrated innovations that enable them to care for patients both in the hospital and in outpatient settings. In parallel we continue to provide impactful consumer health propositions.

Creating value with sustainable impact

2022 was a difficult year for Philips as its business and financial performance suffered due to challenges in execution, quality and supply, and a complex operating model. Going forward, Philips will address these operational challenges, improve performance, and drive progressive value creation through a strategy of a) focused organic growth, b) scalable patient- and people-centric innovation, and c) focus on reliable execution, prioritizing patient safety and quality, supply chain reliability, and a simplified operating model. All supported by a reinvigorated culture of accountability, empowerment and strengthened health technology talent and capabilities.

Focused organic growth

Having transformed to become a health technology company in recent years, we will now focus on extracting the full value of our strong portfolio with leading positions.

We will focus investments to accelerate growth and margin expansion in areas – Image Guided Therapy, Ultrasound, Monitoring, and Personal Health – where we have strong #1 or #2 positions. In 2022, approximately 70% of our sales were generated by businesses with such leadership positions in the hospital and the home. We will also scale our new Enterprise Informatics business, drive margin improvement in Diagnostic Imaging, and restore Sleep & Respiratory Care.

Scalable patient- and people-centric innovation

Philips' purpose – to improve people's health and well-being through meaningful innovation – is at the center of everything we do. This core principle has never been more relevant than it is in these challenging times. As a leading health technology company, we believe that – viewed through the lens of customer needs – patient- and people-centric innovation can improve people's health and healthcare outcomes, as well as making care more convenient and sustainable, both in the hospital and at home.

Given our global presence, strong enterprise informatics platforms, (ambulatory) monitoring and imaging data, as well as our capabilities to support care across settings, we believe Philips is well positioned to do this, and – leveraging our strong clinical, consumer and Environmental, Social & Governance (ESG) franchise, and our strong brand – do it in a convenient and sustainable way.

In the consumer domain, we develop innovative solutions that support healthier lifestyles, prevent disease, and help people to live well with chronic illness, also in the home and community settings.

In clinics and hospitals, we are teaming up with healthcare providers to innovate and transform the way care is delivered. We listen closely to our customers' needs and together we co-create solutions that help our customers improve outcomes, patient and staff experience and productivity. We are embedding AI and data science in our propositions – for instance, applying the power of predictive data analytics and artificial intelligence at the point of care – to leverage the value of data in the clinical and operational domains, aiding clinical decision making and improving the quality and efficiency of healthcare services. Increasingly, we are working together with our health systems customers in novel business

models, including outcome-oriented payment models, that align their interests and ours in long-term partnerships.

Going forward, we will focus our innovation on where we see customer needs evolving. To improve outcomes, we will support clinical workflows in areas where we have domain leadership, e.g. cardiology and the ICU. To increase productivity in a system having to contend with high patient volumes, staff shortages and rising costs, we will enhance care pathways and operational workflows through integrated technology infrastructure, and we will leverage our (enterprise) informatics and hardware innovation to lower costs and reduce the burden on staff. To improve the delivery of care outside the hospital, we will utilize our consumer/home experience and our strength in data and informatics to connect and support care for patients, with better outcomes, across settings.

In doing so, we will leverage leading technologies across our portfolio. To name just a handful, by way of example: our Ingenia Ambition MR system with BlueSeal magnet that offers helium-free-for-life operation; our Azurion suite of interventional cardiology solutions; our IntelliVue MX750 and MX850 patient monitors and MCOT ambulatory cardiac ePatch offering comprehensive monitoring capabilities across sites of care; and our multi-vendor, multi-modality, multi-site Radiology Operations Command Center virtualized imaging solution.

While we continue to invest significantly in innovation, we are making a number of important changes to increase the impact of our patient- and people-driven innovation and generate better returns. Moving forward, we will focus our resources on a smaller number of projects and products with greater potential for impact. We will scale and accelerate innovations, driven by the business and supported by rightsized Group research, with patient safety, quality and sustainability at the core of design. By bringing our central innovation activities into the heart of the businesses, we are bringing our system and software innovation closer to our customers.

Focus on improved execution

The key driver for our performance improvement is improved execution grounded in three decisive actions:

1. patient safety and quality: putting this at the heart of (business) innovation, elevating the function to Executive Committee level, and embedding it in our culture, e.g. by giving all employees dedicated patient safety and quality objectives;
2. supply chain reliability: moving from a centralized 'one size fits all' supply chain structure to a more agile, dedicated end-to-end set-up per business, and pruning and redesigning products;
3. a simplified operating model: end-to-end businesses with single accountability working in a leaner, more agile way, guided by patient- and people-centricity and accountable leadership with empowered teams.

Our ambition

With our global reach, market leadership positions, deep clinical and technological insights, and customer-centric, patient- and people-focused innovation capability, we believe Philips is well placed to create further value in a changing health *and* care world.

We aim to improve the lives of 2 billion people a year by 2025, including 300 million in underserved communities, rising to 2.5 billion and 400 million respectively by 2030. This is one of the comprehensive set of commitments we have deployed across all the Environmental, Social and Governance (ESG) dimensions that help guide the execution of our strategy and support our contribution to UN Sustainable Development Goals 3 (*Ensure healthy lives and promote well-being for all at all ages*), 12 (*Ensure sustainable consumption and production patterns*) and 13 (*Take urgent action to combat climate change and its impacts*).

We strive to deliver superior, long-term value to patients, customers, consumers and shareholders, while acting responsibly towards our planet and society, in partnership with our stakeholders. We believe that, executed with rigor, discipline and quality, the strategic imperatives outlined above, in combination with a relentless focus on execution, will put us back on track for a future of progressive value creation with sustainable impact.

3.2 How we create value with sustainable impact

Based on the International Integrated Reporting Council framework, we use various resources to create value with sustainable impact for our stakeholders.

Resource inputs

Human

- Employees 77,233, 120-plus nationalities, 39% female
- Philips University 1,344,956 courses, 1,880,416 hours, 1,009,459 training completions
- 32,742 employees in growth geographies
- Focus on Inclusion & Diversity

Intellectual

- Invested in R&D EUR 2.1 billion (Green Innovation EUR 168 million)
- Employees in R&D 11,690

Financial

- Equity EUR 13.3 billion
- Net debt^{*)} EUR 7.0 billion

Manufacturing

- Employees in production 39,742
- Industrial sites 23, cost of materials used EUR 4.3 billion
- Total assets EUR 31 billion
- Capital expenditures on property, plant and equipment EUR 444 million

Natural

- Energy used in manufacturing 338.1 gigawatt hours
- Water used 677,632 m³
- 'Closing the loop' on all our professional medical equipment by 2025

Social

- Philips Foundation
- Stakeholder engagement
- Volunteering policy

^{*)} 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](#).

^{**) 1} Fitch, ² Moody's, ³ Standards & Poor's

Value outcomes

Human

- Employee Engagement Index 77% favorable
- Sales per employee EUR 230,817
- Safety 172 Total Recordable Cases

Intellectual

- New patent filings 920
- Royalties EUR 419.0 million
- 171 design awards

Financial

- Comparable sales growth^{*)} (2.8)%
- Adjusted EBITA^{*)} as a % of sales 7.4%
- Free cash flow^{*)} EUR (961) million

Manufacturing

- EUR 12.1 billion revenues from goods sold

Natural

- 71.7% Green/EcoDesigned Revenues
- 18% revenues from circular propositions
- Net CO₂ emissions from own operations down to zero kilotonnes
- 62,000 tonnes (estimated) materials used to put products on the market
- Waste 22,802 tonnes, of which 91% repurposed

Social

- Brand value USD 12.8 billion (Interbrand)
- Partnerships with UNICEF, Red Cross, Amref and Ashoka

Societal impact

Human

- Employee benefit expenses EUR 6,952 million, all staff paid at least a Living Wage
- Appointed 71% of our senior positions from internal sources
- 30% of Leadership positions held by women

Intellectual

- Around 55% of revenues from new products and solutions introduced in the last three years
- Approximately 70% of sales from leadership positions

Financial

- Market capitalization EUR 12 billion at year-end
- Long-term credit rating A⁻¹, Baa1², BBB+^{3**)}
- Dividend EUR 741 million

Manufacturing

- 100% electricity from renewable sources

Natural

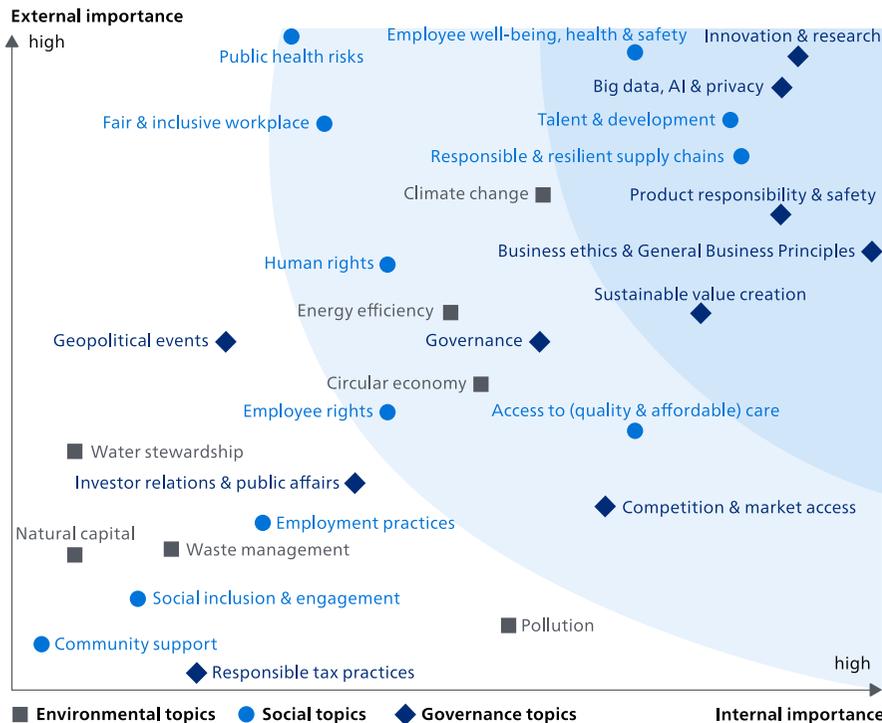
- Environmental impact of Philips operations up to EUR 128 million
- All 23/23 industrial sites 'Zero Waste to Landfill' at year-end 2022
- Updated CO₂ reductions approved by the Science Based Targets initiative

Social

- 1.81 billion Lives Improved, of which 202 million in underserved communities (including 2.2 million via Philips Foundation)
- 459,000 employees impacted at suppliers participating in the 'Beyond Auditing' program
- Total tax contribution EUR 3,469 million (taxes paid/withheld)
- Income tax benefit EUR 113 million; the effective income tax rate is 6.5%

3.3 Materiality analysis

We identify the Environmental, Social and Governance topics which we believe have the greatest impact on our business and the greatest level of concern to stakeholders along our value chain, for instance patient safety and quality. We do this through a multi-stakeholder process. Assessing these topics enables us to prioritize and focus upon the most material topics and effectively address these in our policies, programs and targets. We do this with reference to the GRI standard and identify and assess impacts on an ongoing basis, for example through discussions with our customers, suppliers, investors, employees, peer companies, social partners, regulators, NGOs, and academics. We also conduct a benchmark exercise, carry out trend analysis and run media searches to provide input for our materiality analysis. GRI has not yet published a sector standard for the healthcare industry. Philips' impact on society at large is covered through our Lives Improved metric and the Environmental Profit & Loss account, as well as a number of other KPIs addressed in [Environmental, Social and Governance, starting on page 45](#).



Similar to 2021, we used an evidence-based approach to materiality analysis, powered by a third-party AI-based application. The application allows automated sifting and analysis of millions of data points from publicly available sources, including corporate reports, mandatory regulations and voluntary initiatives, as well as news. In our 2022 materiality analysis, we identified a list of topics that are material to our businesses. With this data-driven approach to materiality analysis we have incorporated a wider range of data and stakeholders than was ever possible before and managed to get an evidence-based perspective on regulatory, strategic and reputational risks and opportunities. Topics were prioritized through a survey sent to a large and diverse set of internal and external stakeholders, combined with input from the application.

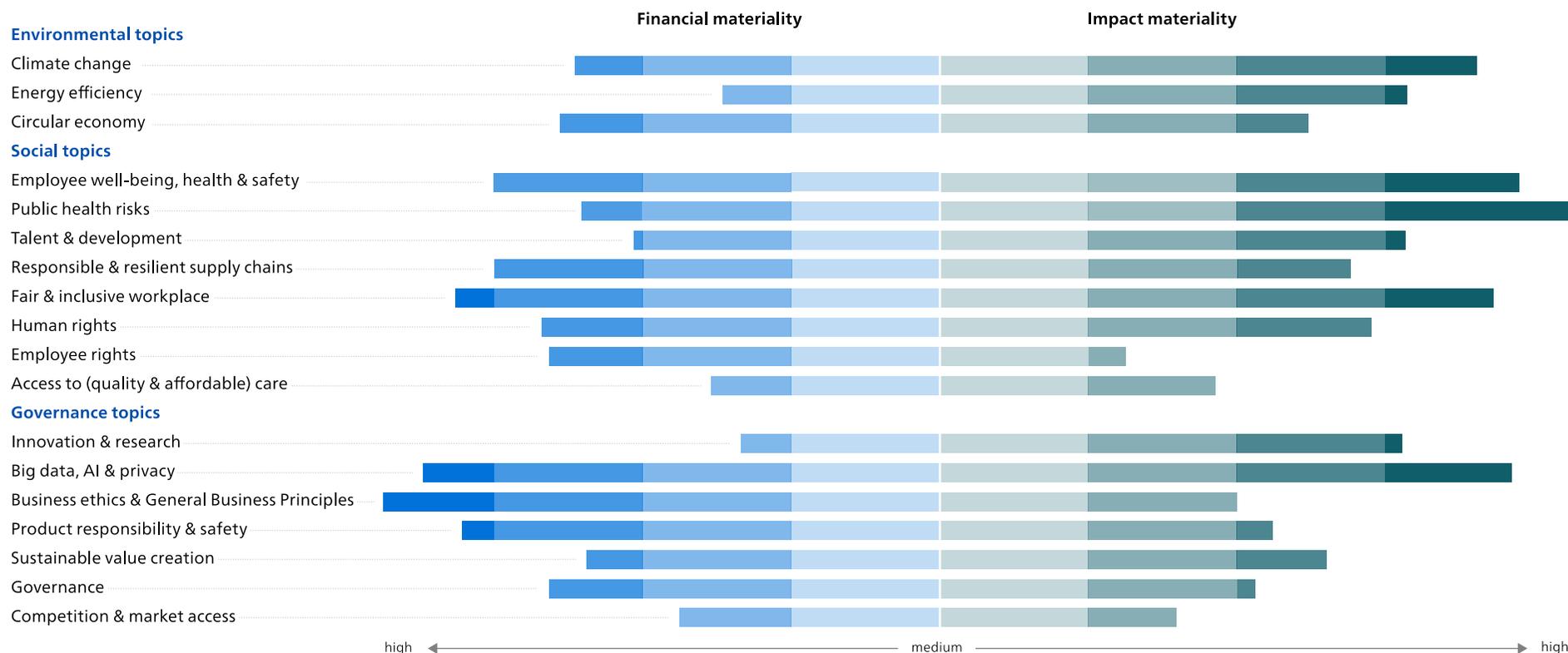
Public health risks emerged as a new material topic in 2020, as a result of the COVID-19 pandemic, and it was assessed as a material topic in 2022 as well.

Changes in 2022

On the external importance axis, the most significant increases compared to 2021 were Sustainable value creation, Geopolitical events, Responsible and Resilient Supply Chains, Talent & development, and Energy efficiency. On the internal importance axis, there were significant increases on Pollution, Governance, Access to (quality and affordable) care, Competition & market access, and Talent & development.

Double materiality

After completing the regular materiality analysis, we completed a preliminary 'double materiality' analysis, in preparation for the upcoming requirements of the EU Corporate Sustainability Reporting Directive (CSRD). The double materiality analysis addresses both financial materiality (the impact of society on Philips) as well as impact materiality (the impact of Philips on society): we only included the high and medium material topics listed above. The data sources used for the financial materiality include corporate reports, mandatory regulations with sanctions, voluntary initiatives by e.g. central banks, and Sustainability Accounting Standards Board (SASB) accounting metrics. For impact materiality, we included sustainability data from corporate reports or sustainability reports, coverage in the news and voluntary initiatives and regulation. The results of the double materiality analysis are depicted below.



From the financial materiality analysis, the topics that ranked highest were: (1) from the environmental topics, Circular economy, and Climate change; (2) from the social topics, Fair & inclusive workplace, Employee well-being, health & safety, and Responsible & resilient supply chains; and (3) from the governance topics, Business ethics & General Business Principles, Big data & privacy, and Product responsibility & safety.

From the impact materiality analysis, the topics that ranked the highest were: (1) from the environmental topics, Climate change, and Energy efficiency; (2) from the social topics, Public health risks and Employee well-being, health & safety, and Fair & inclusive workplace; and (3) from the governance topics, Big data & privacy and Innovation & research. These topics are all covered in more detail in the Annual Report 2022 and monitored regularly.

The outcome of the double materiality assessment did not result in any significant changes in the material topics identified.

The results of our materiality assessment have been reviewed and approved by the Philips ESG Committee and will be used to prepare for the upcoming EU legislation.

For more information on materiality, refer to [Material topics and our focus, starting on page 267](#).

3.4 Our businesses

Our reporting structure in 2022

Koninklijke Philips N.V. (Royal Philips) is the parent company of the Philips Group. In 2022, the reportable segments were Diagnosis & Treatment businesses, Connected Care businesses, and Personal Health businesses, each having been responsible for the management of its business worldwide. Additionally, Royal Philips identifies the segment Other.

Philips			
Diagnosis & Treatment businesses	Connected Care businesses	Personal Health businesses	Other
Diagnostic Imaging Ultrasound Enterprise Diagnostic Informatics Image Guided Therapy	Hospital Patient Monitoring Emergency Care Sleep & Respiratory Care Connected Care Informatics	Oral Healthcare Mother & Child Care Personal Care	Innovation IP Royalties Central costs Other
Focus of external reporting			

Philips Group
Total sales by reportable segment

	2022
Diagnosis & Treatment	51%
Connected Care	25%
Personal Health	20%
Other	4%

Our reporting structure in 2023 and beyond

As announced on January 30, 2023, Philips is changing its operating model to end-to-end businesses with single accountability. In 2023, the businesses will be as follows.

Philips			
Diagnosis & Treatment businesses	Connected Care businesses	Personal Health businesses	Other
Diagnostic Imaging Ultrasound Image Guided Therapy	Enterprise Informatics Monitoring Sleep & Respiratory Care	Personal Health	Innovation IP Royalties Central costs Other
Focus of external reporting			

3.4.1 Diagnosis & Treatment businesses in 2022

Our Diagnosis & Treatment businesses create value through their unique portfolio of innovative solutions – consisting of systems, smart devices, software and services, powered by AI-enabled informatics – that support precision diagnosis and minimally invasive treatment in therapeutic areas such as cardiology, peripheral vascular, neurology, surgery, and oncology. With these solutions, we enable our customers to realize the full potential of the Quadruple Aim – better health outcomes, improved patient and staff experience, and lower cost of care.

Serving diagnostic enterprise imaging markets globally, we see significant opportunity to enable precision diagnosis while at the same time supporting adjacent needs for care orchestration across care pathways and increasing departmental productivity. We do this through smart diagnostic systems, connected workflow solutions, integrated diagnostics and pathway informatics, driving enterprise-wide operational efficiency and helping clinicians to provide an early and definitive diagnosis, enabling them to select tailored care pathways with predictable outcomes for every patient, both inside and outside the hospital.

We also provide integrated solutions combining imaging systems and diagnostic and therapeutic devices, which optimize interventional procedures to deliver more effective treatment, better outcomes and higher productivity. Building upon our leading-edge Image Guided Therapy System – Azurion, we continue to innovate, optimizing clinical and operational lab performance through advances in workflow and integration for routine procedures, and expanding the role of image-guided interventions to treat new groups of patients such as those with complex diseases including stroke, lung cancer and spine disorders. We are also innovating the way we engage with our customers, using new business models across different care settings, including out-of-hospital settings such as office-based labs and ambulatory surgical centers, which offer clear clinical, financial and operational benefits.

In 2022, Philips completed the acquisition of Vesper Medical Inc. a US-based medical technology company that develops minimally-invasive peripheral vascular devices. Vesper Medical will further expand Philips’ portfolio of diagnostic and therapeutic devices with an advanced venous stent portfolio for the treatment of deep venous disease.

In 2022, the Diagnosis & Treatment segment consisted of the following areas of business:

- **Diagnostic Imaging:** Magnetic Resonance Imaging (MRI), with helium-free-for-life operations, bundled with associated software to streamline workflows, optimize diagnostic quality, and improve patient experience; X-ray systems, together with associated software to streamline workflows and optimize diagnostic quality; advanced and efficient Computed Tomography (CT) systems and software, including detector-based Spectral CT and molecular and hybrid imaging solutions for nuclear medicine
- **Ultrasound:** echography solutions focused on diagnosis, treatment planning and guidance for cardiology, general imaging, obstetrics/gynecology, and point-of-care applications, as well as proprietary software capabilities to enable advanced diagnostics and interventions, and remote capabilities to enable tele-ultrasound operations and training
- **Enterprise Diagnostic Informatics:** a suite of integrated multivendor products and services that deliver a comprehensive platform designed to connect clinical data and optimize workflows around every step in the patient’s journey across a range of diagnostic (radiology, point-of-care, laboratory) and clinical (oncology, cardiology, neurology) service lines
- **Image Guided Therapy:** integrated interventional systems that combine information from imaging systems, interventional devices, navigation tools and patient health records to provide interventional staff with the control and information they need to perform procedures efficiently; interventional diagnostic and therapeutic devices to treat coronary artery and peripheral vascular disease

Diagnosis & Treatment
Total sales by business

	2022
Diagnostic Imaging	41%
Ultrasound	18%
Enterprise Diagnostic Informatics	8%
Image Guided Therapy	33%

Revenue is predominantly earned through the sale of products, leasing, customer services fees, recurring per-procedure fees for disposable devices, and software license fees. For certain offerings, per-study fees or outcome-based fees are earned over the contract term.

Sales channels are a mix of a direct sales force, especially in all the larger markets, third-party distributors and an online sales portal. This varies by product, market and price segment. Our sales organizations have an intimate knowledge of technologies and clinical applications, as well as the solutions necessary to solve problems for our customers.

Under normal circumstances, sales at Philips’ Diagnosis & Treatment businesses are generally higher in the second half of the year, largely due to the timing of customer spending patterns.

At year-end 2022, Diagnosis & Treatment had around 33,000 employees worldwide.

2022 business highlights

Philips received FDA clearance to market its new 7700 3.0T MR system, which features an enhanced gradient system for Philips’ highest image quality to support a precision diagnosis. Philips also received FDA clearance for its SmartSpeed MR acceleration software, adding AI data collection algorithms to Philips’ existing Compressed SENSE MR engine for higher image resolution with three times faster scan times and virtually no loss in image quality.

By combining the Spectral CT 7500 scanner with the Azurion with FlexArm image-guided therapy system, Philips has developed a fully integrated hybrid angio CT suite solution for single-room, single-session diagnosis and treatment in areas such as oncology, stroke, and trauma care.

In radiotherapy, the AI-enabled Philips MR for Calculating Attenuation (MRCAT) Head and Neck radiotherapy application expands the range of MR-only workflows for cancer patients, advancing comprehensive and personalized cancer care through precision oncology solutions.

Philips expanded its leading ultrasound portfolio with the FDA market clearance for its new Ultrasound 5000 Compact system to deliver cart-based premium image quality in compact form for point-of-care, cardiology, general imaging, and obstetrics and gynecology applications.

Building on Philips' leading position in interventional cardiology solutions, the company launched the latest version of its EchoNavigator image-guidance tool, which integrates live ultrasound, interventional X-ray imaging and advanced 3D heart models to help interventional teams treat structural heart disease with greater ease and efficiency.

To improve outcomes for patients undergoing endovascular treatment, physicians now have access to advanced new 3D image-guidance capabilities through Philips' Zenition mobile C-arm system, which offers enhanced clinical accuracy and efficiency.

Philips is successfully expanding into interventional oncology with the installation of its innovative lung cancer diagnosis and treatment solution Lung Suite in hospitals in Belgium, France, Israel, and the UK. Based on Philips Azurion, this solution enhances the accuracy of biopsy procedures and provides a therapy option for immediate treatment of early-stage lung cancer patients.

Inferior Vena Cava (IVC) filters are used to treat patients with venous thromboembolism, in which blood clots form in the deep veins of the leg and groin and can travel through the circulatory system, but research has shown that they may have long-term complications. In the United States, the first patients were successfully treated for Inferior Vena Cava (IVC) filter removal using Philips' CavaClear solution – the only FDA-cleared solution for advanced IVC filter removal.

3.4.2 Connected Care businesses in 2022

The Connected Care businesses aim to connect and elevate care for all. Philips connects patients and caregivers across care settings, delivering clinical, operational and therapeutic solutions that help our customers address the Quadruple Aim of better health outcomes, improved patient and staff experience, and lower cost of care. After the years of the COVID pandemic, which has accelerated the digital transformation of healthcare, in 2022 the volatile global economic situation put additional pressure on customer budgets and worsened trends such as staff shortages, as well as increasing the need for solutions that enable more effective, sustainable and convenient care in hospital, clinics and the home.

Philips' Sleep & Respiratory Care business in particular faced multiple operational, regulatory and supply-chain challenges in 2022, but action has been taken to address these through the decision to establish Sleep & Respiratory Care as an organization with end-to-end accountability, spanning product creation through to customer fulfillment (pending the outcome of consultation with workers councils in a number of countries). There has been a

reset to put patient safety front and center in everything we do, and we believe that the implementation of a new simplified organization, which began in 2022, will help to achieve this, as well as to improve productivity and increase agility. For information about the Philips Respironics recall and remediation effort, please refer to [Quality & Regulatory and patient safety, starting on page 70](#).

With clinical depth and discovery, Philips Connected Care technologies help to cultivate a more accurate and complete view of the patient that drives better health and care. The combination of advanced technological solutions and a consultative approach allows Philips to be an effective partner to its customers in their digital transformation, both across the enterprise and at the level of the individual clinician, nurse and patient. The role of Connected Care is to collect, connect, analyze and communicate data to provide insights and clinical decision support that help to improve outcomes and drive productivity.

To help enable care delivery across the health continuum and help our customers embrace healthcare's digital transformation, the Connected Care businesses continue to step up platform investments that span three key domains:

- Acute Patient Management: in-hospital continuous monitoring and workflow solutions fueled by advanced interoperability and patient data insights
- Ambulatory Patient Care Management: ambulatory and home-based monitoring and diagnosis solutions and services supporting the patient journey
- Enterprise Informatics Management: turning data insights into decision support and productivity tools.

Philips' platforms aggregate and leverage information from clinical devices, patient and historical data to support care providers in patient engagement, diagnostics, (ambulatory) patient monitoring and (clinical) therapy solutions.

In January 2022, Philips completed the acquisition of Cardiologs, a France-based medical technology company focused on transforming cardiac diagnostics using artificial intelligence (AI) and cloud technology. Cardiologs is already further strengthening Philips' cardiac monitoring and diagnostics offering with innovative software technology, electrocardiogram (ECG) analysis and reporting services.

In 2022, the Connected Care segment consisted of the following areas of business:

- **Hospital Patient Monitoring:** This business delivers acute patient management solutions to improve clinical and patient outcomes and achieve operational and economic efficiencies. Leveraging a strong presence in the intensive care unit (ICU), Hospital Patient Monitoring solutions enhance customers' experience and improve patient outcomes with seamless patient data monitoring from admission to discharge, and by turning patient data into clinical insights that are actionable at the right time and specific to targeted care settings.
- **Emergency Care:** Emergency Care propositions play a critical role in connected acute care management, both inside and outside the hospital, including cardiac resuscitation (e.g. AEDs) and emergency care solutions (devices, services, and digital/data solutions) for professional and consumer applications.
- **Sleep & Respiratory Care:** Working closely with clinical partners and Durable/Home Medical Equipment providers, Philips Respironics provides sleep and respiratory solutions to customers, clinicians and patients. This extends from ambulatory patient care solutions for obstructive sleep apnea, to solutions encompassing diagnostics, people-centric therapy, cloud-based connected propositions and care management services for patients with COPD (Chronic Obstructive Pulmonary Disease) and respiratory conditions. Hospital Respiratory Care provides invasive and non-invasive ventilators for acute and sub-acute hospital environments; Home Respiratory Care supports chronic care management in the home.
- **Connected Care Informatics:** Comprised of three core business units, this business focuses on clinical analytics solutions that provide actionable insights to optimize patient data.

The fully integrated Electronic Medical Record & Care Management business enables centralized management of clinical, organizational and operational processes, and virtual care delivery propositions, including remote patient management and real-time monitoring in acute care. The Tele-ICU program continues to play a pivotal role, enabling clinicians and nursing staff to remotely monitor a scalable number of ICU beds from a central monitoring facility with predictive analytics, enabled by Philips' HealthSuite Platform.

The Clinical Data Services business – formerly Capsule Technologies, acquired by Philips in early 2021 – offers medical device and data integration across the enterprise for continuous, vendor-neutral data capture from more than 1,000 device models supported by insightful clinical decision support and analysis.

Our Ambulatory Monitoring & Diagnostics business – comprised of BioTelemetry, which Philips acquired in 2021 – provides industry-leading patient care management in ambulatory and home care settings in North America and beyond through a suite of

cardiac diagnostic and monitoring solutions to identify heart rhythm disorders supported by AI algorithms that orchestrate workflows and services across care settings. The acquisition of Cardiologs complements this capability with a vendor-neutral heart disorder screener and ECG analysis applications, based on machine learning algorithms.

Connected Care
Total sales by business

	2022
Hospital Patient Monitoring	47%
Emergency Care	5%
Sleep & Respiratory Care	28%
Connected Care Informatics	20%

In most of the Connected Care businesses, revenue is earned through the sale of products and solutions, customer services fees and software license fees. Where bundled offerings result in solutions for our customers, or offerings are based on the number of people being monitored, we see more usage-based earnings models. In the patient care management businesses (Ambulatory Monitoring & Diagnostics and Sleep & Respiratory Care), revenue is generated through clinical services, product sales and through rental models, whereby revenue is generated over time.

Sales channels include a mix of a direct salesforce, partly paired with an online sales portal and distributors (varying by product, market and price segment). Sales are mostly driven by a direct salesforce with an intimate knowledge of the procedures that use our integrated solutions' smart devices, systems, software and services. Philips works with customers and partners to co-create solutions, drive commercial innovation and adapt to new models such as monitoring-as-a-service and software-as-a-service.

Sales at Philips' Connected Care businesses are generally higher in the second half of the year, largely due to customer spending patterns. However, the Philips Respironics voluntary recall notification in the Sleep & Respiratory Care business in June 2021 had a negative impact on sales throughout 2022.

At year-end 2022, Connected Care had around 17,000 employees worldwide.

2022 business highlights

Philips' offerings improving clinical workflow and alarm management in critical care environments, as well as its contributions to a quieter healing environment in intensive care units, resonated well with customers.

Philips expanded its Advanced Life Support activities across international markets and Greater China.

In Greater China, Philips partnered to drive localization of its EMR Tasy offering in order to be locally relevant for the China market.

Philips continues to successfully expand into ambulatory care. Newly published research validated that Philips Mobile Cardiac Outpatient Telemetry (MCOT) is crucial in detecting arrhythmias and providing data that allows care teams to intervene quickly and decisively to provide the optimal patient treatment.

Underlining the clinical and economic value of remote cardiac patient monitoring, Philips announced new research demonstrating increased atrial fibrillation detection and significant cost savings using Philips' mobile cardiac outpatient telemetry monitoring.

Philips expanded its remote cardiac monitoring portfolio with a patch-based, clinical-grade ECG to improve patient recruitment, compliance and retention for clinical trials.

3.4.3 Personal Health businesses in 2022

Our Personal Health businesses play an important role serving people's needs in the areas of healthy living, prevention and home care – delivering compelling value propositions to enable people to live a healthy life and proactively manage their own health.

We aim to drive profitable growth through a focus on innovation across three key areas:

- Reaching more people through consumer-driven product and solutions innovation
- Accelerating online growth and engaging more people through an end-to-end digital approach
- Expanding our ecosystem through partnerships with leading retailers and scaling new business models

The Personal Health segment consists of the following areas of business:

- **Oral Healthcare:** power toothbrushes for a range of price segments, from entry-level battery-operated toothbrushes for a young audience to premium, intuitive power toothbrushes connected to the Sonicare app with in-app coaching; brush heads, which are also available as a subscription service; products for interdental cleaning and for teeth whitening
- **Mother & Child Care:** products to support parents and babies in the first 1,000 days, including infant feeding (breast pumps, baby bottles and sterilizers), connected baby monitors and digital parental solutions (Pregnancy+ and Baby+ apps)
- **Personal Care:** grooming and beauty products ranging from entry-level to premium. The grooming portfolio includes shavers, OneBlade, groomers, trimmers and hair clippers, as well as premium solutions with SkinIQ technology, in-app coaching for a personalized shave, and blade subscriptions. The beauty portfolio includes devices to support skin care, hair care and hair removal, including Lumea premium IPL hair removal devices and solutions with the latest SenseIQ technology that sense and adapt for personalized care; also available through subscription models.

Personal Health Total sales by business

	2022
Oral Healthcare	37%
Mother & Child Care	11%
Personal Care	52%

Through our Personal Health businesses, we offer a broad range of solutions in various consumer price segments to support people in proactively managing their health and well-being. Depending on the market, we offer an additional portfolio of locally relevant innovations and adjust our range to increase accessibility. A notable aspect of our commercial strategy is driving increased direct-to-consumer relationships and sales through our consumer communities and online store. About half of our Personal Health sales worldwide now take place online.

We are leveraging connectivity to offer new business models, partnering with other players in the health ecosystem, e.g. insurance companies and healthcare professionals, with the goal of extending opportunities for people to live healthily and prevent or manage disease. We are engaging consumers in their health journey in new and impactful ways through social media and digital innovation.

For example, we strongly believe in the connection between good oral care and good overall health – a belief underpinned by the World Health Organization (WHO), which in 2021 adopted a stronger resolution on oral healthcare as part of the drive towards universal

health coverage. Good oral care is important for everyone. And since everyone is different, oral healthcare should also be personalized to each user to garner the best health outcome. Philips Sonicare, which celebrated its 30th anniversary in 2022, offers a wide range of solutions for complete oral care: from intelligent and intuitive power toothbrushes to interdental cleaning solutions and apps that help users to manage their complete oral care on a daily basis and give the option to share brushing data with their dental practitioners, putting personalized guidance at their fingertips.

We also offer mobile solutions to support parents and parents-to-be for a more informed, more connected and healthier journey to parenthood. The Pregnancy+ app and Baby+ app offer parents supportive content at every stage of their first 1,000-day journey. Pregnancy+ also offers state-of-the-art, photo-realistic and interactive 3D fetal models to make the experience even more exciting, with new, personalized content for each day of the pregnancy. As of year-end 2022, the Pregnancy+ app and Baby+ app combined have more than 68 million downloads, more than 1.5 million daily active users, and are available in 22 languages.

The company's wide portfolio of connected consumer health platforms leverages Philips HealthSuite Platform, a cloud-enabled connected health ecosystem of devices, apps and digital tools that support personalized health and continuous care.

The revenue model is mainly based on product sale at the point in time the products are delivered to retailers and online platforms. We continue to increase revenue model diversity by expanding our new business models, including direct-to-consumer, subscriptions, try-and-buy offerings and services.

The Personal Health businesses experience seasonality, with higher sales around key national and international events and holidays.

At year-end 2022, Personal Health employed around 9,000 people worldwide.

2022 business highlights

Building on the successful strengthening of the company's innovative power toothbrushes portfolio, ranging from entry-level to premium propositions, as well as targeted advertising and promotion campaigns, Philips Oral Healthcare recorded continued market share gains in North America.

Philips' locally developed China power interdental cleaning innovation launched in Q1 contributed to our leadership position in overall market share (source: GfK).

Building on its successful OneBlade platform, Philips introduced in Europe the new OneBlade 360, which leverages a new blade that adjusts to the curves of the face to enhance shaving comfort. The global roll-out is expected to start in 2023.

Philips completed the global introduction of its new Philips Shaver S9000 with SkinIQ with its launch in Japan, resulting in accelerated sales growth for this category and a 4.9 (out of 5) consumer rating and review score within the first month.

Philips continues the integration of SkinIQ technology by expanding into the S5000-S7000 ranges, increasing access to Philips proprietary technology that senses pressure and movement to adapt and guides the users for a more efficient shave.

In China, Philips launched its first premium portable shaver, which garnered 4.7-star ratings/reviews (source: Taobao) within the first month.

3.4.4 Other

In our external reporting on Other we report on the items Innovation & Strategy, IP Royalties, Central costs, and other small items. At year-end 2022, around 18,000 people worldwide were working in these areas.

About Other

Innovation & Strategy

Innovation & Strategy supports all businesses and markets within Philips in developing an innovation roadmap and strategies to deliver on our customers' needs and achieve our growth and profitability ambitions.

We innovate to help our customers and consumers overcome clinical challenges, and to improve healthcare. We help our businesses to enable and accelerate innovation by providing deeply specialized expertise. This starts with strategy and entails cooperation between research, development, design, medical affairs, professional services, marketing and businesses in a multi-disciplinary fashion, from early exploration to first-of-a-kind offerings.

We do so in the following ways:

- We actively participate in open innovation through relationships with academic, clinical, industrial partners and start-ups, as well as via public-private partnerships. We do so to increase innovation speed and improve agility, to capture and generate new ideas, and in some cases to leverage third-party capabilities.

- We drive continuous improvement in the Philips product and solution portfolios. Innovation & Strategy improves the efficiency and effectiveness of innovation through Centers of Excellence, such as Platform Modularity & Re-use, Data Science, Artificial Intelligence (AI) and Internet of Things.
- We strive for breakthrough innovations that can help drive fundamental shift in the healthcare industry, thereby supporting businesses to focus on selected must-win battles.
- We drive adoption of digital architecture and platforms, moving to cloud-based Software-as-a-Service for informatics offerings, and excellence in Data Science and AI, as well as software engineering. Industry best practices include creating and maintaining application-level software, modular and configurable system design and model-based system engineering.
- We drive our HealthSuite Architecture to help unlock the power of data and enable healthcare professionals, patients and consumers. Its modular set of re-usable digital capabilities liberate, integrate and enable actionable insights on data from disparate systems within a secure environment.
- We help secure patient safety and quality by participating in stage gate reviews from the start of the idea-to-market (I2M) process. This is intended to ensure that patient safety and quality aspects of Philips products and solutions match the expectations and criteria of the end-users in the field. We engage with professional medical societies during regular and ad hoc advisory boards to help us understand the criteria on patient safety and quality related to medical devices. Together with the Regulatory function, we contribute to clinical evaluation during pre-market risk assessments, post-market surveillance, and support any health hazards evaluations with expert advice.
- We leverage the knowledge and expertise of our community of medical professionals. Activities include strategic guidance built on clinical and scientific knowledge, building and nurturing customer partnerships and growth opportunities, fostering peer-to-peer relationships in relevant medical communities, driving co-innovation with customers, liaising with medical regulatory bodies, and supporting clinical and economic evidence development.
- We deploy our engineering capabilities to realize innovations that deliver on our customers' needs, advancing the Quadruple Aim of better health outcomes, improved patient and staff experience, and lower cost of care.
- We drive innovation effectiveness and enable locally relevant solution creation at four established innovation hubs: Eindhoven (Netherlands), Cambridge (USA), Bangalore (India) and Shanghai (China). These four hubs form a global network, together with the other smaller innovation and research sites in their respective regions, to provide access to each other's capabilities to serve businesses, markets, and customers globally.
- We ensure that the user experiences of our innovations are inspiring, meaningful, people-focused, and locally relevant. A key enabler for this is an engaging and differentiating design language system (DLS) that is embedded in software, hardware, and services across our businesses. In 2022, Philips received a total of 171 awards for design excellence.

During 2022, Innovation & Strategy started to refocus R&D to deliver a greater return on investments by being selective in our choice of innovations in which to invest. We stopped projects and reduced the workforce by 5%. As part of the strategy to create value with sustainable impact, resources will shift to the businesses to innovate closer to, and with, customers.

IP Royalties

Philips Intellectual Property & Standards (IP&S) proactively pursues the creation of new Intellectual Property (IP) in close co-operation with Philips' operating businesses and Innovation & Strategy. IP&S is a leading industrial IP organization providing world-class IP solutions to Philips' businesses to support their growth, competitiveness and profitability.

Royal Philips' IP portfolio currently consists of 56,000 patent rights, 33,000 trademarks, 114,000 design rights and 3,200 domain names. Philips filed 920 new patents in 2022, with a strong focus on the growth areas in health technology services and solutions.

Philips earns substantial annual income from license fees and royalties.

Philips believes its business as a whole is not materially dependent on any particular third-party patent or license, or any particular group of third-party patents and licenses.

Central costs

We recharge the directly attributable part of the functional costs to the businesses. The remaining part is accounted for as 'central costs', and includes costs related to the Executive Committee and Group functions such as Strategy, Legal and Audit fees.

Real estate

Philips is present in 75 countries globally and has its corporate headquarters in Amsterdam, Netherlands. Our real estate sites are spread around the globe, with key manufacturing and R&D sites in Europe, the Americas and Asia.

In 2022, we relocated key offices in Budapest (Hungary), Carlsbad (USA) and Haifa (Israel), and manufacturing operations in Zhuhai (China). We invested in, amongst others, our R&D and manufacturing sites in Bangalore (India), Pune (India), Plymouth (USA), Pittsburg (USA), Shenzhen (China) and Suzhou (China) to create an engaging work environment that fosters the attraction and retention of the best talent. We have continued to drive productivity by optimizing our footprint globally and reducing the number of sites through post-acquisition integration programs, as well as by implementing our Future of Work concepts to support hybrid working. We also announced that Philips' headquarters will be moving to a new location in Amsterdam in 2025.

In line with our Environmental ESG commitments towards 2025, we continue to actively optimize our real estate portfolio. Having met our goal of bringing our site-related CO₂ emissions under 35 kilotons per year in 2020, we further reduced our CO₂ emissions to 25 kilotons in 2022. In addition, we reached 77% renewable energy in 2022, already exceeding our target of 75% by 2025. Anticipating the higher cost of energy for 2023, we redoubled our efforts on energy-saving measures. Combined with portfolio optimization, this resulted in a 5.3% reduction in 2022 total energy consumption compared to 2020 and 2021.

Over 75% of our locations are leased properties, and we manage vacancy closely to ensure the right level of space efficiency and flexibility to support our business dynamic. Our current facilities are adequate to meet the requirements of our present and foreseeable future operations. As expected, occupancy rates in our offices continued to be low in the first half of 2022 in the aftermath of COVID-19. In the second half of 2022 we saw occupancy stabilizing and we are currently evaluating options to right-size our office footprint, to further adopt task-based working principles, and to cater for meaningful presence in inspiring layout and workplace solutions. The net book value of our land and buildings as of December 31, 2022, represented EUR 1,336 million; construction in progress represented EUR 23 million.

3.5 Our geographies

3.5.1 Our Markets

We address North America, Western Europe and other mature geographies, as well as Greater China and other growth geographies, via three market groups – North America, Greater China and International Markets – which are active in more than 100 countries worldwide.

The Markets' core objective is to understand local market/customer needs, to create and activate the local marketing plans, to develop and manage the relationship with existing and new customers, and to deliver orders. They act as the voice of the customer in the creation of the suite of solutions strategy, bring relevant products and solutions to market, and ensure local (solution) delivery and service execution, as well as managing the (integral) go-to-market approaches to our key customers and indirect channels – all with the aim of maximizing long-term customer value and gaining market share.

3.5.2 Macro-economic landscape in 2022

In 2022, global economic activity slowed down compared to 2021, when the global economy rebounded strongly from a COVID-induced recession. Several factors were at play. Firstly, the re-opening of the economy for most of the world in 2021 has disrupted global supply chains. Secondly, previous loose monetary policy, combined with supply chain issues, resulted in strong inflationary pressures commencing towards the end of 2021. Thirdly, to combat high

inflation, central banks around the globe have embarked on aggressive monetary policy tightening cycles. Consequently, global real GDP is estimated to have grown by 3.0% in 2022, compared with the 6.0% estimated in 2021 for 2022. Looking ahead, Oxford Economics expects mild recessions for advanced economies in 2023, with full-year global real GDP growth expected at just 1.3%.

3.5.3 2022 highlights from our Market Groups

North America

In North America, Philips continues to expand its leadership in long-term strategic partnership, helping health systems like TriHealth, Prisma Health and the University Health System of San Antonio to address interoperability challenges and standardize care across their networks. This includes entering into a 7-year agreement with Northwell Health, the largest healthcare provider in the state of New York, to help standardize patient monitoring, drive interoperability, and lay the foundation for a future-proof, enterprise-wide platform. Moreover, Philips has signed multi-year agreements to continue to expand virtual monitoring and care with the US Department of Defense.

Philips continues to innovate in its personal health business and has started selling Philips Avent breast pumps via Durable Medical Equipment (DME) providers to give parents the ability to receive breastfeeding equipment and supplies that may be covered by their health insurance. Celebrating 30 years in business in 2022, Philips Sonicare leads the electric rechargeable toothbrush market in the US and Canada and is the most-recommended rechargeable toothbrush brand in the US. Philips Norelco remains the leading electric male grooming brand in the US and Canada, reaching the next generation of young men with our new OneBlade multi-purpose shaver.

Philips continues to be recognized for its Inclusion and Diversity efforts in North America, including being recognized by Forbes as one of their Best Employers for Diversity and Best Employers for Women.

Greater China

In 2022 we continued to provide innovative health technology solutions in support of China's national health strategy, supplying national top hospitals, primary hospitals and private hospitals with tailor-made solutions for their clinical and research needs.

We partnered with national top hospitals Shanghai Ruijin Hospital and Sichuan Huaxi Hospital on clinical research that leverages our cutting-edge health technologies, and helped the 1st Affiliated Hospital of Guangzhou Medical University establish the largest sleep center in South China by providing consulting services, key equipment and systems. We also provided Zhongshan-Jinshan Diabetic Foot Center with an integrated solution comprised of laser ablation and ultrasound screening technology, and supplied

Hainan Dongfang People's hospital with high-end patient monitors and defibrillators for use in acute and critical care. And we provided Suzhou Kowloon Hospital with a radiology solution that included Ingenia Elition, Ingenia Ambition, Spectral CT and Azurion 7, and delivered a cardiology and smart hospital solution to Jiangxi Cihui Cardiovascular and Cerebrovascular Hospital.

In the consumer space, in line with the consistent 'Professional, Young and Premium' positioning, we continue to accelerate local innovation to address the specific needs of local consumers. In 2022, locally initiated products generated 20% of revenue. In addition, Philips was recognized as a 'gold brand' (most favored brand of consumers) in the Personal Health category for the third consecutive year by China Business Weekly.

With the aim of better serving the Chinese market, we established three Philips Innovation Centers in China to focus on 'local-for-local' innovation in systems, products and software, and continue to drive 'made in China' fulfillment for professional medical equipment.

International Markets

In our International Markets we strive to execute on a shared global vision whilst meeting the unique local needs and circumstances of our customers. Our goal is to elevate customer relationships and move from being a trusted supplier of equipment, services and software to a transformational partner directly contributing to our customers' long-term success. To support this vision we have made great progress on leveling up our go-to-market model, developing scalable solutions and software, expanding fit-for-future capabilities, reinvesting revenue to enable new business models, and establishing new partnerships.

In International Markets, Personal Health showed top-line resilience in 2022. Growth was strongest in the Middle East, Turkey & Africa, India and Japan, and overall our growth markets delivered double-digit growth. A major driver of growth in Middle East, Turkey & Africa came from activating GenZ consumers via social media and influencer marketing campaigns on TikTok and other platforms, focusing on relevant GenZ propositions such as OneBlade and Hair Care. In Japan, we successfully launched our latest Shaver series 9000 with SkinIQ technology via a cut-through advertising campaign in Hokkaido and Kanto prefectures. This campaign targeted younger audiences and succeeded in increasing market shares and distribution points.

Philips entered into many new customer partnerships, including the following:

Philips entered into partnerships with healthcare providers in the UK and Germany to deliver its vendor-neutral Radiology Operations Command Center, which enables remote collaboration between technologists, radiologists and imaging operations teams across multiple sites, to help increase productivity and expand access to MR- and CT-based diagnosis. In Germany, Philips signed a 10-year partnership agreement with the municipal

hospital Städtisches Klinikum Braunschweig, one of the country's largest care providers, to provide monitoring solutions and alarm management. In an interview with a German healthcare magazine, Dr. Andreas Goepfert, CEO Braunschweig Clinic, commented: "Quality of care is an important aspect that is safeguarded by such a partnership. Nowadays, it is difficult to imagine successful economic operation in the healthcare sector in the medium and long term without technology partners." In the Netherlands, Philips signed a long-term agreement with the Rijnstate hospital to deliver a wide range of advanced ultrasound devices for 17 different departments at multiple locations of the hospital. The agreement involves ultrasound devices and services for cardiological, vascular or radiological examinations, OB/GYN, as well as mobile devices for the emergency department.

In Spain, we provided computed tomography, magnetic resonance and image-guided therapy solutions for several Spanish public hospitals as part of INVEAT, an impact initiative driving investment in high-technology equipment in the Spanish national health system. In Finland, Philips signed a 10-year agreement with Oulu University Hospital to deliver the latest Azurion image-guided therapy solutions, as well as maintenance, consultancy and financing services. In the SDA Imaging Center in Chelm, Poland, Philips installed an MR 5300 scanner with Ambient Experience technology, which combines images, sound and light to create an atmosphere that puts patients at ease and reduces the need to redo scans. In Romania, Philips is the trusted partner and supplier of medical equipment and solutions to Transylvania Hospital, a private medical initiative launched in September 2022. The medical technology we provided includes an Azurion 7 biplane angiograph, an Ingenia 3T MR system, and an Affiniti 50 Doppler ultrasound. In Turkey, as part of a project supported by the European Bank for Reconstruction and Development (EBRD), we installed 3,400 hospital patient monitors and 437 ultrasound systems across 250 different hospitals within a 4-month window. The Philips team also trained over 3,000 clinicians and monitored usage.

In Central Asia, we supplied equipment for Kazakhstan's National Research Oncology Center and two multi-modality projects, while in Uzbekistan we won a project to equip Tashkent International Medical Clinic (TIMC) with advanced clinical technology solutions. In a 10-year partnership deal with the Cloud Nine hospital group in India, we connected 257 beds across 26 tele-ICU locations. In addition, some 2,000 Zenition C-arms and 500 Affiniti ultrasound systems were shipped from our manufacturing plant in Chakan.

In Japan, Philips signed a 10-year agreement with a large university hospital for the expansion of its eICU program for centralized, remote surveillance of high-risk ICU patients. Philips and Thanh Vu Medic Hospital Vietnam signed a 10-year strategic partnership agreement for which Philips is providing state-of-the-art imaging technology, informatics connectivity, 10-year comprehensive service and 5-year structured financing. In Fiji, Philips and Aspen Medical signed a 12-year strategic partnership agreement to supply and integrate diagnostic imaging equipment and services for use in two public hospitals.

In Brazil, Philips' joint venture to provide and operate imaging diagnostics in the state of Bahia via a Public-Private Partnership model continues to expand access to quality diagnostics and care for underserved populations, e.g. through the provision of a new reporting center and 12 imaging units placed in 12 hospitals. Also in Brazil, a two-year Electronic Medical Record implementation at Fundação Hospitalar do Estado de Minas Gerais (FEHMIG) will integrate 23 public hospitals in the state of Minas Gerais. In Argentina, Philips successfully participated in a tender for a turnkey solution providing high-end imaging equipment for 17 public hospitals. In Mexico, Philips secured a deal with Grupo Angeles to provide an extensive range of Diagnostic Imaging and Image Guided Therapy solutions.

3.6 Supply chain and procurement

3.6.1 Integrated Supply Chain

Philips runs an Integrated Supply Chain (ISC), which encompasses supplier selection and management through procurement, manufacturing across all the industrial sites, logistics and warehousing operations, customer installation, as well as demand/supply orchestration.

When selecting and evaluating partners, we consider not only business metrics such as quality, on-time delivery performance and cost, but also environmental, social and governance factors. We use supplier classification models to identify critical suppliers, including those supplying materials, components and services that could influence the safety and performance of our products and solutions.

The Philips Supplier Quality Manual outlines Philips' quality, regulatory, product, process and customer requirements. The standards outlined in this manual underpin agreements between suppliers and Philips, and guide compliance with Philips' quality standards.

Addressing immediate challenges

2022 continued to test the resilience of supply chains globally. The Russia-Ukraine war continues to put severe pressure on the commodity landscape and supply chains, and has contributed to the sharp rise in energy and food prices and extreme inflation rates. This came on top of a pre-war environment of low inventories and long lead times, with the accompanying build-up of backlog orders. In addition, the Chinese government's zero-COVID policy in 2022 again led to outages and supply chain issues. Furthermore, Philips has been hampered by an aging product portfolio with older technology (component designs) and a fragmented supplier landscape. As a result, our lead times to customers suffered, for which we are sorry and are working to take corrective actions.

Under these market circumstances, the ISC function's priority was to endeavor to safeguard continuity of supply, with dedicated Procurement teams by modalities and types of commodities, so that Philips could continue to provide critical healthcare equipment and solutions to our customers all over the world. For example, we have placed non-cancellable semiconductor orders for a 12-month horizon to ensure our place in the queue. At the same time, we have intensified spot buys and alternate parts qualifications in partnership with Research & Development. In parallel, we continue our advocacy towards the industry and governments on prioritizing supply for life-saving equipment.

In 2022, extremely high energy costs, especially in Europe, and increasing labor costs driven by inflation led to a significant rise in production/operational cost in our supply base. In the second half of the year, these same drivers led to a slowdown of demand, and spot prices for commodities and energy started to come off from their historical peaks in the second quarter. However, costs for production and materials remained at historical elevated levels. Specifically for electronic components, although the supply crunch has receded from its peaks, distributor data suggest that shortages will continue into 2023.

For information about the Philips Respironics recall and remediation effort, please refer to [Quality & Regulatory and patient safety, starting on page 70](#).

Driving end-to-end supply chain reliability and agility

Whereas Philips' supply chain organization historically delivered efficiencies through a functional orientation, the above-mentioned factors required much greater agility for our businesses, each having their own specific requirements. We are moving to a business and customer-centric orientation to address end-to-end visibility and improve reliability and outcomes by implementing solutions that are tailored to specific business needs.

Much like the rest of the industry, we remain exposed to inflation and the continued geopolitical tensions around the world. All of these challenges have reinforced our strategy for a more 'regional vs global' approach to our end-to-end network design.

Philips has continued to progress the consolidation of its manufacturing footprint into versatile 'multi-modality' manufacturing sites that produce multiple product categories and are located within or near the regions they serve. We do this for enhanced scale, efficiency and customer proximity, and to reduce our environmental footprint. While our site count has continued to decrease, the number of locations equipped to make the same product is increasing. Philips is using its multi-modality sites, in combination with contract manufacturing partners, to regionally 'multi-source' many of its products. This will increase the resilience of our supply chain to manage future, unplanned disruptions and ensure access to public healthcare investment where 'local' requirements exist in our largest markets.

We continue to make progress in transforming our warehousing and distribution operations into a more customer-centric and agile network. In 2022, we reduced our warehousing footprint by 31% compared to 2021, essentially through consolidation and servicing of multiple businesses from a single location.

On the logistics front, we have established long-term contracts with suppliers, with the aim of increasing reliability as well as secured costs and availability on contracted lanes. We continue to explore and implement solutions to diversify transportation options to increase reliability while reducing carbon emission and cost.

Philips Group
Supplier spend analysis per region in %

	2022
Western Europe	30%
North America	36%
Other mature geographies	6%
Total mature geographies	71%
Growth geographies	29%
Philips Group	100%

3.6.2 Supplier sustainability

Philips’ purpose to improve people’s lives applies throughout our value chain. An important area of focus for the Integrated Supply Chain is sustainability, and we are actively working on this together with our partners, whether these be component suppliers or energy or logistics providers. Close cooperation with our suppliers not only helps us deliver health technology innovations, it also supports new approaches that help us minimize our environmental impact and maximize the social and economic value we create.

Since 2003, our sustainability strategy has included dedicated supplier sustainability programs. We have a direct (tier 1) business relationship with approximately 5,300 product and component suppliers and 17,100 service providers. In many cases, social issues deeper in our supply chain require us to intervene beyond tier 1 of the chain.

We want to make a difference through sustainable supply management and responsible sourcing. This is more than just managing compliance – it is about collaborating with our supply partners to make a positive and lasting impact. Therefore, the sustainability performance of our suppliers is fully embedded in our procurement strategy and way of working.

In 2022, we focused on further maximizing our positive impact deeper in the supply chain, strengthening our maturity-based approach to drive continuous improvement. Through the Supplier Sustainability Performance program, we improved the lives of approximately

459,000 workers in our supply chain (2021: 430,000). We also launched new ways to engage our suppliers, performing deep-dives at second-tier suppliers and actively supporting our strategic partners to become more effective in their own supply chain engagement approaches.

In addition, our improvement program has been adopted by the Responsible Business Alliance under the name Responsible Factory Initiative. This program enables other companies to work on continuously improving their suppliers’ sustainability performance through the same methodology as Philips.

Managing our large and diverse supply chain in a socially and environmentally responsible way requires a structured and innovative approach, while being transparent and engaging with a wide variety of stakeholders. In 2022, our programs focused specifically on improving suppliers’ sustainability performance, responsible sourcing of minerals, and reducing the environmental footprint of our supply base by driving the adoption of Science Based Targets.

Detailed information on our supplier sustainability programs is available in section [Supplier indicators, starting on page 286](#) of this Annual Report.

At a glance

Financial performance



Group sales amounted to EUR 17.8 billion, with a 3% comparable sales^{*)} decline due to operational and supply chain challenges, lower sales in China, the consequences of the Respironics field action, and the Russia-Ukraine war

The order book at year-end 2022 was 10% higher than at the end of 2021, ensuring a higher coverage for sales in 2023

Net income amounted to a loss of EUR 1.6 billion; profitability affected by lower sales, cost inflation and impairments, partly offset by pricing and productivity measures

Operating cash flow amounted to an outflow of EUR 0.2 billion

^{*)} Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information.

4 Financial performance

“Our financial performance in 2022 was significantly challenged, largely due to supply issues, COVID-related consequences, and the impact of the Respironics recall. As we look forward to 2023, we are taking firm actions to focus on patient safety and quality, improve supply reliability and simplify the organization to increase agility and structurally lower the cost base.”

Abhijit Bhattacharya CFO Royal Philips

4.1 Performance review

The year 2022

- Sales amounted to EUR 17.8 billion, an increase of 4% on a nominal basis. On a comparable basis^{*)}, sales declined 3%, due to operational and supply challenges, the COVID situation in China, the consequences of the Respironics field action, and the Russia-Ukraine war. Comparable sales^{*)} showed a 1% decline in the Diagnosis & Treatment businesses, an 11% decline in the Connected Care businesses, and flat growth in the Personal Health businesses.
- Net income amounted to a loss of EUR 1,605 million, a decrease of EUR 4.9 billion compared to 2021, mainly due to a charge of EUR 1.5 billion related to goodwill and R&D impairments in 2022 and the EUR 2.5 billion gain on the sale of Domestic Appliances in 2021.
- In 2021, our subsidiary, Philips Respironics, initiated a voluntary recall notification in the United States and field safety notice outside the United States for certain sleep and respiratory care products. In 2022, as we took steps to accelerate the remediation program, we recorded an additional provision of EUR 250 million. By year-end 2022, around 90% of the production required for the delivery of replacement devices to patients had been completed.
- Due to revisions to the financial forecast of Philips Respironics, Philips recorded a EUR 1.3 billion non-cash charge in the third quarter for the impairment of goodwill of this business.
- Adjusted EBITA^{*)} amounted to EUR 1,318 million, or 7.4% of sales, compared to 12.0% of sales in 2021. The Diagnosis & Treatment, Connected Care and Personal Health businesses showed a decline in Adjusted EBITA^{*)} margin, mainly due to the sales decline and cost inflation, partly offset by pricing and productivity measures.
- Philips has initiated several productivity actions, including simplifying the organization to streamline ways of working, increase agility and reduce operating expenses. Additionally, Philips is implementing several actions to enhance performance and productivity in the supply chain, R&D and quality.
- Operating cash flow amounted to an outflow of EUR 173 million; free cash flow^{*)} amounted to an outflow of EUR 961 million.
- To further strengthen its liquidity position and optimize its debt maturity profile, Philips secured a EUR 1 billion credit facility and conducted a liability management exercise, which reduced the debt repayment profile for the period 2023 to 2025 from EUR 3.2 to 2.0 billion and increased the average maturity on bonds by 1.3 years to 7.9 years.

Philips Group

Key data in millions of EUR unless otherwise stated

	2020	2021	2022
Sales	17,313	17,156	17,827
Nominal sales growth	1.0%	(0.9)%	3.9%
Comparable sales growth ¹⁾	2.9%	(1.2)%	(2.8)%
Impairment of goodwill	(144)	(15)	(1,357)
Income from operations	1,264	553	(1,529)
as a % of sales	7.3%	3.2%	(8.6)%
Financial expenses, net	(44)	(39)	(200)
Investments in associates, net of income taxes	(9)	(4)	(2)
Income tax expense	(212)	103	113
Income from continuing operations	999	612	(1,618)
Discontinued operations, net of income taxes	196	2,711	13
Net income	1,195	3,323	(1,605)
Adjusted EBITA ¹⁾	2,277	2,054	1,318
as a % of sales	13.2%	12.0%	7.4%
Income from continuing operations attributable to shareholders ²⁾ per common share (in EUR) - diluted	1.08	0.67	(1.84)
Adjusted income from continuing operations attributable to shareholders ²⁾ per common share (in EUR) - diluted ¹⁾	1.74	1.65	0.96

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](#).

²⁾ Shareholders in this table refers to shareholders of Koninklijke Philips N.V.

^{*)} 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](#).

4.2 Factors impacting performance

In 2022, global economic activity slowed down compared to 2021, when the global economy rebounded strongly from a COVID-induced recession. Global real GDP is estimated to have grown by 3.0% in 2022, compared with the 6.0% estimated in 2021 for 2022.

The company's business and results in 2022 were impacted by global and industry-wide challenges, including global supply chain constraints, COVID lockdown measures in China, inflationary pressures and the Russia-Ukraine war. Where relevant, the impact of these factors and the resulting uncertainties on the company's results, balance sheet and cash flows have been considered and are reflected in amounts reported. Comparable sales^{*)} declined by 3%, mainly due to operational and supply chain challenges, the COVID situation in China and the Russia-Ukraine war. We aim to offset the operational and supply challenges

with specific programs to increase supply chain resilience, improve patient safety and quality, and simplify the organization to increase agility and structurally lower the cost base.

Global supply chain constraints

Limited availability and delays in the supply of certain components and products internationally – partly a consequence of COVID and the Russia-Ukraine war – impacted the company's results in 2022. In addition, the supply chain constraints resulted in an increase in overall working capital balances, in particular inventories. Inventories increased compared to 2021, as work-in-process inventories could not be converted into finished goods available for sale due to the scarcity of certain components. Improved component supplies contributed to a comparable sales^{*)} increase in the fourth quarter of 2022.

In response, we continue to drive significant actions to increase supply chain resilience and mitigate the impact of disruptions. We are: engaging with senior government officials, strategic suppliers and foundries to prioritize healthcare supplies; directly working on component issues across all tiers of suppliers; diversifying sourcing of high-risk components, with almost 400 alternate components certified to date. Lastly, we are also redesigning our printed circuit boards to qualify alternate sources of supply.

COVID situation in China

COVID continued to affect the company's results, balance sheet and cash flows presented in these consolidated financial statements, in particular due to the lockdowns in China. Production in several of our factories, as well as those of our suppliers in China, was suspended periodically, which exacerbated the global supply chain and cost challenges. The China lockdowns impacted the results of operations due to lower sales and factory under-utilization.

COVID did not result in any material adjustments to the carrying amounts of assets and liabilities during 2022. In addition, there were no material changes to treasury and other financial risks directly related to the pandemic.

Cost inflation

Global inflation and cost headwinds, including higher energy prices, resulted in an increase in cost levels and negatively impacted gross margin in 2022.

In response, we have been raising pricing by low- to mid-single-digits since the beginning of 2022. In the Personal Health businesses, the higher sales prices contributed to a gross increase in sales of around 3% compared to 2021. In the Diagnosis & Treatment and Connected Care businesses, due to the longer equipment order book cycles, the price increases take longer to be fully realized in the profit and loss account.

Russia-Ukraine war

Since February 2022, Philips has substantially reduced its activities in Russia. This includes stopping shipments of our consumer health products to the country (except for certain child care products), the suspension of marketing activities, and winding down of R&D activities. We are focusing our remaining activities in Russia on the delivery of medical systems, devices, and spare parts to healthcare providers to the extent possible under export controls and sanctions. Philips' operations in Russia and Ukraine on a combined basis represented less than 2% of group sales in both 2021 and 2022. The asset value of the activities in Russia and Ukraine, mainly working capital, was less than 1% of the consolidated total assets as of December 31, 2021 and 2022. There have been no significant asset write-downs to date, but we continue to closely monitor developments in this regard. The Russia-Ukraine war continues to put severe pressure on the global commodity landscape and supply chains, and has contributed to the sharp rise in energy and food prices and high cost inflation, as further discussed above.

Climate-related matters

In preparing the consolidated financial statements, management has considered the impact of climate change, specifically the financial impact of Philips meeting its internal and external climate-related aims, the potential impact of climate-related risks, and the costs incurred to pro-actively manage such risks. These considerations did not have a material impact on the financial reporting judgments, estimates or assumptions. The financial impacts considered include specific climate mitigation measures, such as the use of lower carbon energy sources, the cost of developing more sustainable product offerings, and expenses incurred to mitigate against the impact of extreme weather conditions. To meet its long-term Science Based Targets and reduce its full value chain emissions in line with a 1.5 °C global warming scenario, Philips has entered into a number of power purchase agreements. Some of these contracts have a fixed price structure, which in 2022 helped to mitigate the impact of increased electricity prices.

Actions in response

In 2022, Philips took several actions to enhance performance and productivity in the supply chain (e.g. dual sourcing, supplier consolidation, warehouse footprint rationalization), R&D (e.g. shifting the focus to fewer, high-impact projects in the innovation pipeline) and quality (e.g. enhancing processes, increasing capabilities and product management). As a result, Philips recorded non-cash portfolio realignment impairments and charges of EUR 282 million in 2022, consisting of R&D project impairments of EUR 134 million, Connected Care portfolio realignment charges of EUR 109 million and asset impairments in Sleep & Respiratory Care of EUR 39 million.

As announced in October 2022, Philips has initiated general productivity actions, including simplifying the organization to streamline the way of working and reduce operating expenses. This includes an immediate reduction of around 4,000 positions globally across the organization, subject to consultation with the relevant workers councils and social partners, with severance and termination-related costs of EUR 80 million incurred in 2022 and an additional EUR 50 million expected in 2023.

On January 30, 2023, Philips announced plans to create value with sustainable impact, which is based on focused organic growth to deliver patient- and people-driven innovation at scale, with improved execution as a key value driver, prioritizing patient safety and quality, supply chain reliability and a simplified operating model. In addition to the reduction of its workforce by 4,000 roles announced in October 2022, Philips plans to reduce its workforce by an additional 6,000 roles globally by 2025, of which 3,000 will be implemented in 2023, in line with relevant local regulations and processes. These reductions are focused on Corporate and Functions optimization and non-core activities, for which charges in 2023 are expected to be approximately EUR 470 million.

^{*)} 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](#).

4.3 Results of operations

Sales

The composition of sales growth in percentage terms in 2022, compared to 2021 and 2020, is presented in the following table.

Philips Group

Sales in millions of EUR unless otherwise stated

	2020	2021	2022
Diagnosis & Treatment businesses	8,175	8,635	9,168
Nominal sales growth	(3.7)%	5.6%	6.2%
Comparable sales growth ¹⁾	(2.3)%	8.1%	(0.7)%
Connected Care businesses	5,543	4,573	4,403
Nominal sales growth	18.6%	(17.5)%	(3.7)%
Comparable sales growth ¹⁾	21.6%	(22.6)%	(10.8)%
Personal Health businesses	3,199	3,429	3,626
Nominal sales growth	(9.0)%	7.2%	5.7%
Comparable sales growth ¹⁾	(6.2)%	8.8%	0.1%
Other	396	519	629
Philips Group	17,313	17,156	17,827
Nominal sales growth	1.0%	(0.9)%	3.9%
Comparable sales growth ¹⁾	2.9%	(1.2)%	(2.8)%

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](#).

Group sales amounted to EUR 17,827 million in 2022, 3.9% higher than in 2021 on a nominal basis. Considering a 6.7% positive effect from currency and consolidation, comparable sales^{*)} decreased by 2.8%. This was driven by a positive currency effect, mainly due to appreciation of currencies against the euro, and affected all segments.

The order book at year-end 2022 was 10% higher than at the end of 2021, ensuring a higher coverage for sales in 2023. The increase mainly relates to the Diagnosis & Treatment businesses driven by Diagnostic Imaging. Comparable order intake decreased 3%, compared to 4% growth in 2021. In the fourth quarter of 2022, lower demand for COVID-19-related products compared to 2021 and company actions to improve the order book margin profile contributed to this decrease.

Diagnosis & Treatment businesses

In 2022, sales amounted to EUR 9,168 million, 6.2% higher than in 2021 on a nominal basis. Considering a 6.9% positive currency effect and consolidation impact, comparable sales^{*)} decreased by 0.7%. This was due to mid-single-digit growth in Image-Guided Therapy and low-single-digit growth in Enterprise Diagnostic Informatics, which was more than offset by a decline in Ultrasound and in Diagnostic Imaging due to specific electronic component shortages.

Connected Care businesses

In 2022, sales amounted to EUR 4,403 million, 3.7% lower than in 2021 on a nominal basis. Considering a 7.1% positive currency effect and consolidation impact, comparable sales^{*)} decreased by 10.8%. This was mainly due to the consequences of the Respirionics field action and the impact of supply chain headwinds.

Personal Health businesses

In 2022, sales amounted to EUR 3,626 million, 5.7% higher than in 2021 on a nominal basis. Considering a 5.6% positive currency effect and consolidation impact, comparable sales^{*)} increased by 0.1%, consisting of a global increase of 2.5%, offset by a 2.4% decline in sales attributable to Russia due to the war with Ukraine. Oral Healthcare and Mother & Child Care recorded mid-single-digit growth, which was offset by a mid-single-digit decline in Personal Care.

Other

In 2022, sales amounted to EUR 629 million, compared to EUR 519 million in 2021. The increase was mainly due to additional royalty income and supplies to the divested Domestic Appliances business.

Performance by geographic area

Philips Group

Sales by geographic area in millions of EUR unless otherwise stated

	2020	2021	2022
Western Europe	3,702	3,645	3,603
North America	6,884	6,781	7,588
Other mature geographies	1,750	1,694	1,643
Total mature geographies	12,336	12,120	12,833
Nominal sales growth	2%	(2)%	6%
Comparable sales growth ¹⁾	3%	(3)%	(1)%
Growth geographies	4,977	5,036	4,993
Nominal sales growth	(3)%	1%	(1)%
Comparable sales growth ¹⁾	3%	3%	(7)%
Philips Group	17,313	17,156	17,827

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](#).

Sales in mature geographies in 2022 were 6% higher than in 2021 on a nominal basis and 1% lower on a comparable basis^{*)}. Sales in Western Europe were 1% lower year-on-year on a nominal basis and 3% lower on a comparable basis^{*)}, with a double-digit decline in the Connected Care businesses, a low-single-digit decline in the Diagnosis & Treatment businesses, and flat growth in the Personal Health businesses. Sales in North America were 12% higher year-on-year on a nominal basis and were flat on a comparable basis^{*)}, as double-digit growth in the Personal Health businesses and low-single-digit growth in the Diagnosis & Treatment businesses were offset by a mid-single-digit decline in the Connected Care businesses, mainly due to the Sleep & Respiratory Care business. Sales in other mature geographies decreased by 3% on a nominal basis and 1% on a comparable basis^{*)}, with high-single-digit comparable sales growth^{*)} in the Personal Health businesses more than offset by a high-single-digit decline in the Connected Care businesses and a low-single-digit decline in the Diagnosis & Treatment businesses.

Sales in growth geographies in 2022 decreased by 1% on a nominal basis and 7% on a comparable basis^{*)}, with a double-digit decline in the Connected Care and Personal Health businesses and a low-single-digit decline in the Diagnosis & Treatment businesses. The high-single-digit decline in comparable sales growth^{*)} was due to a double-digit decline in China and Russia & Central Asia, partly offset by double-digit growth in Middle East, Turkey & Africa.

Diagnosis & Treatment businesses

Diagnosis & Treatment businesses

Sales by geographic area in millions of EUR unless otherwise stated

	2020	2021	2022
Western Europe	1,589	1,743	1,707
North America	2,931	3,088	3,514
Other mature geographies	835	849	825
Total mature geographies	5,355	5,681	6,046
Growth geographies	2,820	2,954	3,122
Sales	8,175	8,635	9,168
Nominal sales growth	(4)%	6%	6%
Comparable sales growth ¹⁾	(2)%	8%	(1)%

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](#).

Sales in growth geographies increased by 6% on a nominal basis in 2022, and on a comparable basis^{*)} showed a low-single-digit decline, which was mainly due to China. Sales in mature geographies increased by 6% on a nominal basis and were flat year-on-year on a comparable basis^{*)}.

Connected Care businesses

Connected Care businesses

Sales by geographic area in millions of EUR unless otherwise stated

	2020	2021	2022
Western Europe	1,106	764	646
North America	2,876	2,602	2,741
Other mature geographies	722	605	544
Total mature geographies	4,704	3,971	3,931
Growth geographies	839	602	472
Sales	5,543	4,573	4,403
Nominal sales growth	19%	(17)%	(4)%
Comparable sales growth ¹⁾	22%	(23)%	(11)%

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](#).

Sales in growth geographies decreased by 22% on a nominal basis in 2022, and on a comparable basis^{*)} showed a double-digit decline, with a double-digit decline across most regions, mainly due to the consequences of the Respronics field action and the COVID situation in China. Sales in mature geographies decreased by 1% on a nominal basis and showed a high-single-digit decline on a comparable basis^{*)}, with a double-digit decline in Western Europe and a mid-single-digit decline in North America.

Personal Health businesses

Personal Health businesses

Sales by geographic area in millions of EUR unless otherwise stated

	2020	2021	2022
Western Europe	859	894	902
North America	937	939	1,209
Other mature geographies	190	198	211
Total mature geographies	1,986	2,032	2,322
Growth geographies	1,213	1,398	1,304
Sales	3,199	3,429	3,626
Nominal sales growth	(9)%	7%	6%
Comparable sales growth ¹⁾	(6)%	9%	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](#).

Sales in growth geographies decreased by 7% on a nominal basis in 2022, and on a comparable basis^{*)} showed a double-digit decline, which was mainly attributable to China. Sales in mature geographies increased by 14% on a nominal basis, and on a comparable basis^{*)} showed high-single-digit growth, driven by double-digit growth in North America.

Cost of sales

Philips Group

Cost of sales components in millions of EUR unless otherwise stated

	2020	as a % of sales	2021	as a % of sales	2022	as a % of sales
Costs of materials used	4,221	24.4%	4,142	24.1%	4,320	24.2%
Salaries and wages	2,316	13.4%	2,245	13.1%	2,462	13.8%
Depreciation and amortization	591	3.4%	479	2.8%	535	3.0%
Other manufacturing costs	2,364	13.7%	3,123	18.2%	3,316	18.6%
Cost of sales	9,493	54.8%	9,988	58.2%	10,633	59.6%

Cost of sales includes only expenses directly or indirectly attributable to the production process, such as cost of materials used, salaries and wages, depreciation and amortization of assets used in manufacturing, and other manufacturing costs (such as repair and maintenance costs related to production, expenses incurred for shipping and handling of internal movements of goods, and other expenses related to manufacturing).

Philips' cost of sales increased by EUR 645 million to EUR 10,633 million in 2022, compared to EUR 9,988 million in 2021, mainly due to increased expenses of EUR 217 million in salaries and wages, driven by an unfavorable foreign currency impact and wage inflation, partly offset by productivity measures. Other key factors influencing cost of sales were as follows:

- Cost of materials used increased by EUR 178 million in 2022, mainly due to an unfavorable foreign currency impact and cost inflation, partly offset by the reduced field action provision and productivity measures.
- Depreciation and amortization increased by EUR 56 million in 2022, mainly due to an unfavorable foreign currency impact.
- Other manufacturing costs increased by EUR 193 million in 2022, mainly driven by an unfavorable foreign currency impact and cost inflation, partly offset by the lower field action provision and productivity measures.

Gross margin

In 2022, Philips' gross margin was EUR 7,194 million, or 40.4% of sales, compared to EUR 7,168 million, or 41.8% of sales, in 2021. Gross margin was flat year-on-year due to cost inflation and a decrease in sales, which was offset by a favorable foreign currency impact, a decrease in restructuring, acquisition-related and other charges, and productivity and pricing measures.

Selling expenses

Selling expenses amounted to EUR 4,609 million, or 25.9% of sales, in 2022, compared to EUR 4,258 million, or 24.8% of sales, in 2021. The year-on-year increase in selling expenses of EUR 351 million was mainly due to an unfavorable foreign currency impact and an increase in restructuring, acquisition-related and other charges.

General and administrative expenses

General and administrative expenses amounted to EUR 671 million, or 3.8% of sales, in 2022, compared to EUR 599 million, or 3.5% of sales, in 2021. The year-on-year increase of EUR 72 million was mainly driven by higher restructuring, acquisition-related and other charges.

Research and development expenses

Research and development costs were EUR 2,103 million, or 11.8% of sales, in 2022, compared to EUR 1,806 million, or 10.5% of sales, in 2021. The year-on-year increase of EUR 297 million was mainly driven by higher restructuring, acquisition-related and other charges in relation to R&D project impairments and an unfavorable foreign currency impact.

Philips Group

Research and development expenses in millions of EUR unless otherwise stated

	2020	2021	2022
Diagnosis & Treatment	891	910	1,124
Connected Care	547	543	637
Personal Health	190	190	200
<i>Other</i>	194	163	142
Philips Group	1,822	1,806	2,103
<i>As a % of sales</i>	<i>10.5%</i>	<i>10.5%</i>	<i>11.8%</i>

Impairment of goodwill

During 2022, EUR 1,331 million of goodwill impairment charges were recorded in the Sleep & Respiratory Care business, due to revisions to the expected future cash flows. In addition, a EUR 27 million goodwill impairment was recognized in the Precision Diagnosis Solutions business. For further information refer to [Goodwill, starting on page 176](#).

Net income, Income from operations (EBIT) and Adjusted EBITA^{*)}

Net income amounted to a loss of EUR 1,605 million, a decrease of EUR 4.9 billion compared to 2021, mainly due to a charge of EUR 1.5 billion related to goodwill and R&D impairments in 2022 and a gain of EUR 2.5 billion on the sale of the Domestic Appliances business in 2021. Net income is not allocated to segments, as certain income and expense line items are monitored on a centralized basis, resulting in them being shown on a Philips Group level only.

The following overview shows Income from operations and Adjusted EBITA^{*)} by segment.

Philips Group

Income from operations and Adjusted EBITA¹⁾ in millions of EUR unless otherwise stated

	Income from operations	as a % of sales	Adjusted EBITA ¹⁾	as a % of sales
2022				
Diagnosis & Treatment	404	4.4%	774	8.4%
Connected Care	(2,246)	(51.0)%	95	2.2%
Personal Health	515	14.2%	538	14.8%
<i>Other</i>	(202)		(89)	
Philips Group	(1,529)	(8.6)%	1,318	7.4%
2021				
Diagnosis & Treatment	941	10.9%	1,071	12.4%
Connected Care	(722)	(15.8)%	497	10.9%
Personal Health	576	16.8%	590	17.2%
<i>Other</i>	(242)		(105)	
Philips Group	553	3.2%	2,054	12.0%
2020				
Diagnosis & Treatment	497	6.1%	818	10.0%
Connected Care	704	12.7%	1,191	21.5%
Personal Health	362	11.3%	433	13.5%
<i>Other</i>	(300)		(165)	
Philips Group	1,264	7.3%	2,277	13.2%

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](#).

Income from operations in 2022 amounted to a loss of EUR 1,529 million, or (8.6)% of sales, compared to EUR 553 million, or 3.2% of sales, in 2021, mainly impacted by a charge of EUR 1.5 billion related to goodwill and R&D impairments. Adjusted EBITA^{*)} in 2022 was EUR 1,318 million and the margin amounted to 7.4%, compared to EUR 2,054 million and a margin of 12.0% in 2021, primarily due to the sales decline and cost inflation, partly offset by pricing and productivity measures.

Amortization and goodwill impairment charges in 2022 were EUR 1,720 million. This includes a charge of EUR 1,331 million related to an impairment of goodwill in the Sleep & Respiratory Care business, a EUR 27 million goodwill impairment in the Precision Diagnosis Solutions business, and amortization charges of EUR 22 million related to an impairment of a technology asset. In 2021, amortization and goodwill impairment charges were EUR 337 million and included a charge of EUR 13 million related to an impairment of goodwill and amortization charges of EUR 55 million related to an impairment of a technology asset.

Restructuring, acquisition-related and other charges in 2022 were EUR 1,127 million. This includes: restructuring charges of EUR 185 million; EUR 282 million portfolio realignment impairments and charges; EUR 250 million for the Respiroics field-action provision; EUR 210 million Respiroics field-action running remediation costs; a EUR 60 million provision for public investigations tender irregularities; and EUR 59 million for provisions for quality actions in Connected Care. 2021 charges were EUR 1,164 million and included: a field action provision of EUR 719 million in connection with the Philips Respiroics voluntary recall notification; provisions for quality actions of EUR 94 million and other matters of EUR 53 million in Connected Care; restructuring charges of EUR 80 million; acquisition-related charges of EUR 102 million partly offset by a EUR 87 million gain related to the re-measurement of contingent consideration liabilities; a loss of EUR 76 million related to a divestment; and separation costs of EUR 64 million related to the Domestic Appliances business. 2021 also included a release of a legal provision of EUR 38 million, a gain of EUR 33 million related to a minority participation, and a benefit from the re-measurement of environmental liabilities of EUR 22 million.

Income from continuing operations attributable to shareholders per common share (in EUR) - diluted, was EUR (1.84) in 2022, compared to EUR 0.67 in 2021. Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted*) was EUR 0.96 in 2022, compared to EUR 1.65 in 2021.

Diagnosis & Treatment businesses

Income from operations in 2022 decreased to EUR 404 million, compared to EUR 941 million in 2021. This was mainly due to cost inflation, partly offset by productivity measures. These factors also resulted in a decrease in Adjusted EBITA*) to 8.4% of sales in 2022.

Amortization and goodwill impairment charges in 2022 were EUR 170 million and include EUR 22 million of charges related to an impairment of a technology asset in Image-Guided Therapy and a goodwill impairment of EUR 27 million in Precision Diagnosis Solutions. 2021 charges were EUR 155 million and included EUR 55 million of charges related to an impairment of a technology asset in Image-Guided Therapy.

Restructuring, acquisition-related and other charges in 2022 were EUR 201 million and include EUR 120 million portfolio realignment impairments and charges and a provision of EUR 60 million for public investigations tender irregularities. 2021 charges amounted to a gain of EUR 25 million and included: restructuring charges of EUR 44 million; acquisition-related charges of EUR 48 million offset by a EUR 85 million gain related to the re-measurement of contingent consideration liabilities; and the release of a legal provision of EUR 38 million.

Connected Care businesses

Income from operations in 2022 decreased to EUR (2,246) million, compared to EUR (722) million in 2021. This was mainly due to the EUR 1.3 billion goodwill impairment, the sales decline, the consequences of the Respiroics field action and cost inflation. Adjusted EBITA*) was 2.2% of sales in 2022 and was also impacted by the sales decline and cost inflation, partly offset by productivity measures.

Amortization and goodwill impairment charges in 2022 were EUR 1,530 million and include EUR 1,331 million impairment of goodwill related to the Sleep & Respiratory Care business. 2021 charges were EUR 161 million and included a EUR 13 million impairment of goodwill related to the divested Personal Emergency Response Services (PERS) and Senior Living business.

Restructuring, acquisition-related and other charges in 2022 were EUR 811 million and include: EUR 250 million for the Respiroics field action provision; EUR 210 million Respiroics running remediation costs; EUR 160 million portfolio realignment impairments and charges; and EUR 59 million provisions for quality actions in Connected Care. 2021 charges were EUR 1,058 million and included: a field action provision of EUR 719 million in connection with the Philips Respiroics voluntary recall notification; EUR 93 million of restructuring and acquisition-related charges; provisions for quality actions of EUR 94 million and other matters of EUR 53 million; and a gain of EUR 33 million related to a minority participation.

Personal Health businesses

Income from operations in 2022 decreased to EUR 515 million, compared to EUR 576 million in 2021. This was mainly driven by cost inflation and an adverse foreign currency impact, partly offset by pricing and productivity measures. These factors also resulted in a decrease in Adjusted EBITA*) to 14.8% of sales.

Amortization charges in 2022 were EUR 15 million and include amortization charges related to intangible assets in Mother & Child Care. 2021 charges were EUR 15 million and included amortization charges related to intangible assets in Mother & Child Care.

Restructuring, acquisition-related and other charges in 2022 and 2021 were not material.

Other

In Other we report on the items Innovation, IP Royalties, Central costs and Other.

Income from operations in 2022 amounted to a loss of EUR 202 million, compared to a loss of EUR 242 million in 2021. Adjusted EBITA*) in 2022 amounted to a loss of EUR 89 million, compared to a loss of EUR 105 million in 2021. Adjusted EBITA*) increased, mainly due to

higher royalty income, partly offset by an adverse currency impact and investment in Quality & Regulatory.

Restructuring, acquisition-related and other charges in 2022 were EUR 107 million and include restructuring charges of EUR 61 million and a EUR 21 million impairment of intangible assets. 2021 charges were EUR 131 million and included a loss of EUR 76 million related to a divestment and EUR 64 million of separation costs related to the Domestic Appliances business, partly offset by a benefit from the re-measurement of environmental liabilities of EUR 22 million.

Financial income and expenses

A breakdown of financial income and expenses is presented in the following table.

Philips Group
Financial income and expenses in millions of EUR

	2020	2021	2022
Interest expense, net	(160)	(141)	(210)
Sale of securities	2	-	-
Net change in fair value of financial assets through profit or loss	129	95	9
Other	(15)	6	2
Financial income and expenses	(44)	(39)	(200)

Financial income and expenses resulted in a net expense of EUR 200 million, compared to a net expense of EUR 39 million in 2021. 2022 includes lower gains on the value of Philips' minority participations and higher interest expense, primarily due to financial charges related to early redemption of EUR and USD bonds and issuance of new EUR bonds in April 2022, compared to 2021. For further information, refer to [Financial income and expenses, starting on page 167](#).

Income taxes

Income tax expense decreased by EUR 10 million year-on-year, mainly due to lower income, partly offset by a non-deductible goodwill impairment in the Sleep & Respiratory Care business in 2022 and a one-off benefit relating to the recognition of tax assets due to a business transfer in 2021.

Investments in associates

Results related to investments in associates improved from a loss of EUR 4 million in 2021 to a loss of EUR 2 million in 2022. In 2022, Philips recorded an impairment of EUR 66 million in relation to its interest in Candid Care Co. As part of the acquisition of Affera, Inc. by Medtronic plc in August 2022, the company sold its investment in Affera to Medtronic and recorded a gain of EUR 84 million on the sale.

Discontinued operations

Philips Group
Discontinued operations, net of income taxes in millions of EUR

	2020	2021	2022
Domestic Appliances	206	2,698	3
Other	(10)	13	10
Net income of Discontinued operations	196	2,711	13

In 2022, Discontinued operations consisted primarily of the Domestic Appliances business and certain other divestments that were reported as discontinued operations. In 2021, the sale of the Domestic Appliance business resulted in an after-tax gain of EUR 2.5 billion.

For further information, refer to [Discontinued operations and assets classified as held for sale, starting on page 156](#).

Non-controlling interests

Net income attributable to non-controlling interests decreased from EUR 4 million in 2021 to EUR 3 million in 2022.

^{*)} 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](#).

4.4 Restructuring and acquisition-related charges

Philips Group
Restructuring charges in millions of EUR

	2020	2021	2022
Restructuring charges per segment:			
Diagnosis & Treatment	57	44	69
Connected Care	76	42	43
Personal Health	31	(1)	11
<i>Other</i>	37	(5)	61
Philips Group	200	80	185
Cost breakdown of restructuring charges:			
Provision for personnel lay-off costs	78	17	136
Restructuring-related asset impairment	58	30	31
Other restructuring-related costs	64	33	18
Philips Group	200	80	185

In 2022, Philips initiated general productivity actions aimed at simplifying the organization to streamline ways of working and reduce operating expenses. This included an immediate reduction of around 4,000 positions globally across the organization, for which a restructuring charge of EUR 80 million was recorded. In addition, restructuring projects were executed during the year, of which the most significant impacted the Diagnosis & Treatment and Connected Care segments and mainly took place in the US and Netherlands. The restructuring mainly comprised product portfolio rationalization and the reorganization of global support functions.

In 2021, the most significant restructuring projects impacted the Diagnosis & Treatment and Connected Care segments and mainly took place in the US and Netherlands. The restructuring mainly comprised product portfolio rationalization and the reorganization of global support functions.

For further information on restructuring, refer to [Provisions, starting on page 193](#).

Philips Group

Acquisition-related charges in millions of EUR

	2020	2021	2022
Diagnosis & Treatment	(28)	(37)	(48)
Connected Care	22	51	65
Philips Group	(6)	14	17

In 2022, acquisition-related charges amounted to EUR 17 million. The Connected Care segment recorded charges of EUR 65 million related to the acquisitions of BioTelemetry and Capsule Technologies, due to post-acquisition integration costs. The Diagnosis & Treatment businesses recorded a net gain of EUR 48 million, mainly related to a gain of EUR 92 million from the re-measurement of contingent consideration liabilities, partly offset by charges related to the acquisition of Spectranetics.

In 2021, acquisition-related charges amounted to EUR 14 million. The Connected Care segment recorded charges of EUR 51 million related to the acquisitions of BioTelemetry and Capsule Technologies. The Diagnosis & Treatment businesses recorded a net gain of EUR 37 million, mainly related to a gain of EUR 85 million from the re-measurement of contingent consideration liabilities, partly offset by charges related to the acquisitions of Spectranetics and the Healthcare Information Systems business of Carestream Health.

4.5 Acquisitions and divestments

Acquisitions

In 2022, Philips completed three acquisitions. The acquisition of Vesper Medical Inc., completed on January 11, 2022, was the most notable. Acquisitions in 2022 and prior years led to acquisition and post-merger integration charges of EUR 65 million in the Connected Care businesses.

In 2021, Philips completed two acquisitions: BioTelemetry, which was completed on February 9, 2021, and Capsule Technologies, which was completed on March 4, 2021. Acquisitions in 2021 and prior years led to acquisition and post-merger integration charges of EUR 51 million in the Connected Care businesses.

Divestments

In 2022, Philips completed one divestment, which was not material.

In 2021, Philips completed three divestments. On September 1, 2021, Philips sold its Domestic Appliances business to a global investment firm, Hillhouse Investment, resulting in a EUR 2.5 billion gain after tax and transaction-related costs; reported in Discontinued Operations.

In addition, Philips completed the divestment of the Personal Emergency Response Services (PERS) and Senior Living business on June 30, 2021, and September 17, 2021, respectively, as well as completing the divestment of a small business in segment Other. As part of the PERS divestment, Philips acquired shares in the buyer, Connect America Investment Holdings, LLC, with a value of EUR 40 million. The investment is classified as a financial asset measured at Fair Value through Other Comprehensive Income (FVTOCI) and is reported as part of Other non-current financial assets. The divestment resulted in a loss of EUR 76 million, which is included in Other business expenses in our Consolidated statements of income.

For details, please refer to [Acquisitions and divestments, starting on page 158](#).

4.6 Cash flows

The movements in cash and cash equivalents balance for the years ended December 31, 2020, 2021 and 2022 are presented and explained in the following table.

Philips Group
Condensed consolidated cash flows in millions of EUR

	2020	2021	2022
Beginning cash and cash equivalents balance	1,425	3,226	2,303
Net cash flows from operating activities	2,511	1,629	(173)
Net cash flows from investing activities			
Net capital expenditures	(876)	(729)	(788)
Other cash flows from investing activities	(391)	(2,943)	(698)
Net cash flows from financing activities			
Treasury shares transactions	(297)	(1,613)	(174)
Changes in debt	783	(251)	1,092
Dividend paid to shareholders of the company	(1)	(482)	(412)
Other cash flow items	(57)	62	34
Net cash flows from discontinued operations	129	3,403	(12)
Ending cash and cash equivalents balance	3,226	2,303	1,172

Net cash flows from operating activities

Net cash flows from operating activities amounted to an outflow of EUR 173 million in 2022, compared to an inflow of EUR 1,629 million in 2021. This decrease is mainly due to lower cash earnings, increased working capital and cash costs related to the Philips Respironics field action. Free cash flow^{*)} amounted to a cash outflow of EUR 961 million in 2022, compared to an inflow of EUR 900 million in 2021.

In 2021, net cash flows from operating activities amounted to EUR 1,629 million, compared to EUR 2,511 million in 2020. This decrease is mainly due to increased working capital and consumption of provisions, partly offset by lower income tax paid. Free cash flow^{*)} amounted to EUR 900 million in 2021, compared to EUR 1,635 million in 2020.

Net cash flows from investing activities

Net cash flows from investing activities consist of net capital expenditures and other cash flows from investing activities.

In 2022, other cash flows from investing activities amounted to a cash outflow of EUR 698 million, mainly due to acquisitions of Vesper Medical and Cardiologs amounting to EUR 414 million and new minority investments.

In 2021, other cash flows from investing activities amounted to a cash outflow of EUR 2,943 million, mainly due to the acquisitions of BioTelemetry and Capsule Technologies amounting to EUR 2.8 billion.

Net cash flows from financing activities

Net cash flows from financing activities consist of treasury shares transactions, changes in debt, dividend paid and other cash flow items.

In 2022, treasury shares transactions mainly included the share buyback activities, which resulted in EUR 174 million net cash outflow. Changes in debt mainly includes new bonds issued of EUR 2 billion and new term loan issued of EUR 500 million, partly offset by bond repayments of EUR 1.2 billion. Philips' shareholders received a total dividend of EUR 741 million, including costs, of which the cash portion amounted to EUR 412 million.

In 2021, treasury shares transactions mainly included the share buyback activities, which resulted in EUR 1,613 million net cash outflow. Changes in debt mainly relates to short-term debt and lease repayments. Philips' shareholders received a total dividend of EUR 773 million, including costs, of which the cash portion amounted to EUR 482 million.

Net cash flows from discontinued operations

In 2022, net cash used for discontinued operations was EUR 12 million mainly related to previously disposed businesses.

In 2021, net cash provided by discontinued operations was EUR 3,403 million and consisted primarily of the net cash inflow of EUR 3,319 million from the sale of the Domestic Appliances business on September 1, 2021.

^{*)} 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](#).

4.7 Financing

Condensed consolidated balance sheets for the years 2020, 2021 and 2022 are presented in the following table:

Philips Group

Condensed consolidated balance sheets in millions of EUR

	2020	2021	2022
Intangible assets	11,012	14,287	13,764
Property, plant and equipment	2,682	2,699	2,638
Investments and financial assets	781	1,121	1,334
Deferred tax assets	1,820	2,216	2,449
Inventories	2,993	3,450	4,049
Receivables	4,537	4,191	4,616
Other assets	663	693	665
Payables	(3,854)	(3,784)	(3,635)
Provisions	(1,980)	(2,313)	(2,115)
Contract liabilities	(1,643)	(1,936)	(2,210)
Other liabilities	(1,402)	(1,473)	(1,244)
Net asset employed	15,609	19,151	20,311
Cash and cash equivalents	3,226	2,303	1,172
Debt	(6,934)	(6,980)	(8,201)
Net debt ¹⁾	(3,708)	(4,676)	(7,028)
Non-controlling interests	(31)	(36)	(34)
Shareholders' equity	(11,870)	(14,438)	(13,249)
Financing	(15,609)	(19,151)	(20,311)

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](#).

4.8 Debt position

Total debt outstanding at the end of 2022 was EUR 8,201 million, compared with EUR 6,980 million at the end of 2021.

Philips Group

Balance sheet changes in debt in millions of EUR

	2020	2021	2022
New lease liabilities	128	164	104
New borrowings long-term debt	1,065	76	2,516
Repayments long-term debt incl. leases	(298)	(302)	(1,472)
New borrowings (repayments) short-term debt	16	(25)	47
Forward contracts entered (matured)	793	(48)	(76)
Currency effects, consolidation changes and other	(217)	180	101
Changes in debt	1,487	46	1,221

In 2022, total debt increased by EUR 1,221 million compared to 2021. The increase mainly comes from the issuance of EUR 2 billion Notes in April 2022, offset by the early redemption of approximately EUR 1.2 billion Notes originally due in 2023, 2024, 2025 and 2026 and by the utilization of EUR 500 million under the credit facility entered into in October 2022. Changes in payment obligations from forward contracts are related to the maturity in 2022 of EUR 83 million of share buyback forwards (as announced in July 2021) and EUR 57 million of forwards relating to long-term incentive and employee stock purchase plans (as announced in January 2020), partially offset by EUR 63 million of forwards entered into relating to long-term incentive and employee stock purchase plans (as announced in June 2022).

In April 2022, Philips announced a series of Liability Management transactions to optimize its debt maturity profile. The transactions included the issuance of three series of Notes under its EMTN program for a total of EUR 2 billion with maturities in 2027, 2029 and 2033. Part of the proceeds were used to tender certain of Philips' outstanding US Dollar denominated bonds due 2025 and 2026 and Euro-denominated bonds due 2023, 2024 and 2025, as well as make-whole and fully redeem the Euro-denominated bonds due 2023 and 2024 that were not purchased as part of the Euro tender offer. Philips issued Commercial Paper of EUR 200 million in September 2022 and EUR 101 million in October 2022. These tranches were repaid throughout the fourth quarter of 2022. In addition, in October 2022 Philips entered into a EUR 1 billion credit facility that can be used for general corporate purposes. The credit facility matures in October 2023 and has a 12-month extension option at Philips discretion. Per year-end 2022, EUR 500 million was utilized and outstanding under the credit facility.

In 2021, total debt increased by EUR 46 million compared to 2020. The increase mainly comes from currency effects and consolidation changes, partly offset by net lease repayments and forward settlements. Repayments of long-term debt amounted to EUR 302 million. In

February 2021, Philips entered into two bilateral loans amounting to a total of EUR 500 million that were repaid in September 2021. In addition, Philips issued commercial paper of EUR 300 million in May 2021 and EUR 150 million in July 2021 that was repaid in September 2021. Changes in payment obligations from forward contracts are mainly related to the forward contracts entered into of EUR 731 million relating to the EUR 1.5 billion share buyback program announced on July 26, 2021, and EUR 90 million relating to the long-term incentive and employee stock purchase plans announced on May 19, 2021. In addition, a total amount of EUR 745 million of forward contracts matured in 2021, which completed the settlement of the EUR 1.5 billion share buyback program announced on January 29, 2019, and a total amount of EUR 123 million of forward contracts matured in 2021 relating to the long-term incentive and employee stock purchase plans announced on October 22, 2018 and January 29, 2020. These payment obligations are recorded as financial liabilities under long-term debt. Other changes, mainly resulting from currency effects, led to an increase of EUR 175 million.

At the end of 2022, long-term debt as a proportion of the total debt stood at 88.6% with an average remaining term (including current portion) of 6.1 years, compared to 92.7% and 6.0 years respectively at the end of 2021.

At the end of 2021, long-term debt as a proportion of the total debt stood at 92.7% with an average remaining term (including current portion) of 6.0 years, compared to 82.3% and 6.3 years respectively at the end of 2020.

For further information, please refer to [Debt, starting on page 191](#).

4.9 Liquidity position

As of December 31, 2022, including the cash position (cash and cash equivalents), as well as its EUR 1 billion committed revolving credit facility and the EUR 500 million undrawn portion of the credit facility entered into in October 2022, the Philips Group had access to available liquidity of EUR 2,704 million, compared with gross debt (including short and long-term) of EUR 8,201 million.

As of December 31, 2021, including the cash position (cash and cash equivalents), as well as its EUR 1 billion committed revolving credit facility, the Philips Group had access to available liquidity of EUR 3,370 million, compared with debt (including short and long-term) of EUR 6,980 million.

Philips Group Liquidity position in millions of EUR

	2020	2021	2022
Cash and cash equivalents	3,226	2,303	1,172
Listed equity investments at fair value ¹⁾	17	67	32
Committed revolving credit facility	1,000	1,000	1,000
Credit facility			500
Liquidity	4,243	3,370	2,704
Short-term debt	(1,229)	(506)	(931)
Long-term debt	(5,705)	(6,473)	(7,270)
Debt	(6,934)	(6,980)	(8,201)
Net available liquidity resources	(2,691)	(3,609)	(5,497)

¹⁾ Philips holds listed equity investments at fair value (level 1) in common shares of companies in various industries. Refer to [Other financial assets, starting on page 184](#) and [Fair value of financial assets and liabilities, starting on page 214](#).

Philips has a EUR 1 billion committed revolving credit facility which was signed in April 2017 and refinanced in March 2022, which will expire in March 2027. The facility can be used for general group purposes, such as a backstop of its Commercial Paper Program. In addition, Philips entered into a EUR 1 billion credit facility in October 2022 which can be used for general corporate purposes, of which EUR 500 million is undrawn by year-end 2022.

Philips' Commercial Paper Program amounts to USD 2.5 billion, under which commercial paper can be issued up to 364 days in tenor, both in the US and in Europe, in any major freely convertible currency. As of December 31, 2022, Philips had no commercial paper outstanding. During the year 2020, Philips established a Euro Medium Term Note (EMTN) program which facilitates the issuance of notes for a total amount of up to EUR 10.0 billion. In 2022 Philips issued three new tranches under the program for a total of EUR 2 billion, while also early redeeming its outstanding 2023 and 2024 Notes and completing a tender offer on the outstanding 2025 and 2026 Notes.

In terms of liquidity, the company has access to various sources. The company's liquidity risk management procedures have not changed significantly during 2022. The access to existing lines of credit remains intact. These lines of credit, along with other financial risks to which Philips is exposed, are disclosed in [Details of treasury and other financial risks, starting on page 218](#). Further, with respect to the Respiroics field action, please refer to [Contingencies, starting on page 204](#). The management continues to monitor the risks associated with such potential claims and its impact on liquidity position, if any.

Philips' existing long-term debt is rated A- (with stable outlook) by Fitch, Baa1 (with negative outlook) by Moody's, and BBB+ (with negative outlook) by Standard & Poor's. As part of our capital allocation policy, our net debt^{*)} position is managed with the intention of retaining our strong investment grade credit rating. Ratings are subject to change at any time and there is no assurance that Philips will be able to achieve this goal. Philips' aim when managing the net debt^{*)} position is dividend stability and a pay-out ratio of 40% to 50% of adjusted income from continuing operations attributable to shareholders^{*)}. Philips' outstanding long-term debt and credit facilities do not contain financial covenants. Adverse changes in the company's ratings will not trigger automatic withdrawal of committed credit facilities or any acceleration in the outstanding long-term debt (provided that the USD-denominated bonds issued by Philips in March 2008 and 2012 contain a 'Change of Control Triggering Event' and the EUR-denominated bonds contain a 'Change of Control Put Event'). A description of Philips' credit facilities can be found in [Debt, starting on page 191](#).

Philips Group
Credit rating summary

	long-term	short-term	outlook
Fitch	A-		Stable
Moody's	Baa1	P-2	Negative
Standard & Poor's	BBB+	A-2	Negative

Philips pools cash from subsidiaries to the extent legally and economically feasible. Cash not pooled remains available for local operational needs or general purposes. The company faces cross-border foreign exchange controls and/or other legal restrictions in a few countries, which could limit its ability to make these balances available on short notice for general use by the group.

Philips believes its current liquidity and direct access to capital markets is sufficient to meet its present financing needs.

^{*)} 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](#).

4.10 Shareholders' equity

In 2022, shareholders' equity decreased by EUR 1,189 million to EUR 13,249 million at year-end. The decrease was mainly due to net loss of EUR 1,608 million, dividend distributed (EUR 412 million), and settlements of earlier concluded forward contracts (EUR 140 million). This was partly offset by currency translation gains of EUR 749 million, primarily due to the appreciation of the US dollar against the euro in 2022.

In 2021, shareholders' equity increased by EUR 2,568 million to EUR 14,438 million at year-end. The increase was mainly due to net income of EUR 3,323 million and currency translation gains of EUR 1,117 million, primarily due to the appreciation of the US dollar against the euro in 2021. This was partly offset by the dividend distributed (EUR 482 million), settlements of earlier concluded forward contracts (EUR 869 million) and the share repurchases made in the open market (EUR 758 million).

Share capital structure

The number of issued common shares of Royal Philips as of December 31, 2022 was 889,315,082. At year-end 2022, the company held 7.8 million shares in treasury. Of these shares, 5.7 million shares were held to cover obligations under long-term incentive plans and 2.2 million shares were held for capital reduction purposes. In 2016, Philips purchased call options on its own shares to hedge options granted to employees up to 2013, and as of December 31, 2022, Philips' outstanding options related to 26 thousand shares. In 2022 (and earlier years), the company entered into several forward contracts to acquire its own shares, and as of December 31, 2022, the outstanding forward contracts related to 24,531,609 shares. See below for more information on the shares that were acquired in the course of 2022. Philips issued 14,174,568 shares in June 2022 in order to distribute the 2021 dividend. The company cancelled 8.8 million shares in June 2022.

The number of issued common shares of Royal Philips as of December 31, 2021 was 883,898,969. At year-end 2021, the company held 13.7 million shares in treasury. Of these shares, 5.7 million shares were held to cover obligations under long-term incentive plans, and 8.0 million shares were held for share capital reduction purposes. In 2016, Philips purchased call options on its own shares to hedge options granted to employees up to 2013, and as of December 31, 2021, Philips' outstanding options related to 0.4 million shares. In 2021 (and earlier years), the company entered into several forward contracts to acquire its own shares, and as of December 31, 2021, the outstanding forward contracts related to 25,071,218 shares. See below for more information on the shares that were acquired in the course of 2021. Philips issued 6,345,968 shares in June 2021 (in order to distribute the 2020 dividend). The company cancelled 33.5 million shares in December 2021.

Share repurchase methods for long-term incentive plans and capital reduction purposes

Historically, Philips uses different methods to repurchase shares in its own capital: (i) share buyback repurchases in the open market via an intermediary; (ii) repurchase of shares via forward contracts for future delivery of shares; and (iii) the unwinding of call options on own shares. During 2022, Philips used methods (i) to repurchase shares for capital reduction purposes and methods (ii) and (iii) to repurchase shares for share-based compensation plans.

The open market transactions via an intermediary allow for buybacks during both open and closed periods.

For more information on share repurchase transactions entered into 2022, 2021, and 2020, please refer to [Group Financial Statements Note 18 Equity, Forward share repurchase plans / contracts, starting on page 187](#)

Philips Group

Impact of share acquisitions and cancellations on share count in thousands of shares as of December 31

	2018	2019	2020	2021	2022
Shares issued	926,196	896,734	911,053	883,899	889,315
Shares in treasury	12,011	5,760	5,925	13,717	7,835
Shares outstanding	914,184	890,974	905,128	870,182	881,481
Shares acquired	31,994	40,390	8,670	45,486	5,081
Shares cancelled	24,247	38,541	3,810	33,500	8,758

Philips Group

Total number of shares repurchased in thousands of shares unless otherwise stated

	share repurchases related to shares acquired for capital reduction	average price paid per share in EUR	shares acquired for LTI's	average price paid per share in EUR	total number of shares purchased ¹⁾	average price paid per share in EUR	total number of shares purchased as part of publicly announced plans or programs ^{2) 3) 4)}	approximate value of shares that may yet be purchased under the plans or programs in thousands of EUR
January 2022	769	31.52	149	29.36	918	31.17	769	933,871
February 2022			240	29.48	240	29.48		933,871
March 2022								933,871
April 2022								933,871
May 2022								933,871
June 2022								997,072
July 2022								997,072
August 2022			3	20.18	3	20.18		997,072
September 2022								997,072
October 2022			1,750	32.30	1,750	32.30	1,750	941,676
November 2022	2,170	38.41			2,170	38.41	2,170	858,343
December 2022								858,343
Total	2,938		2,142		5,081	34.56	4,688	
of which ⁵⁾								
<i>purchased in the open market</i>	769				769		769	
<i>acquired through exercise of call options/ settlement of forward contracts</i>	2,170		2,142		4,312		3,920	
To be acquired by settlement of forward contracts after December 31, 2022								858,343

¹⁾ All shares were purchased through publicly announced plans or programs, other than approximately 392,000 shares repurchased through the unwinding of call options on own shares.

²⁾ First, on January 29, 2020, Philips announced that it would repurchase up to 6 million shares to cover certain of its obligations arising from its long-term incentive and employee stock purchase plans. Under this program, Philips entered into three forward contracts to acquire 5 million shares for an amount of EUR 174 million with settlement dates varying between October 2021 and November 2022. On October 26, 2022, the original settlement date of two share tranches entered into under this program (in total 1.75 million shares) has been extended from November 23, 2022, to November 2023, and 2024, respectively. Second, on May 19, 2021, Philips announced that it will repurchase up to 2 million shares to cover certain of its obligations arising from its long-term incentive and employee stock purchase plans. Under this program, Philips entered into one forward contract for an amount of EUR 90 million to acquire 2 million shares with settlement dates in October and November 2023. Third, on July 26, 2021, Philips announced a share buyback program for share cancellation purposes for an amount of up to EUR 1.5 billion. Consequently, in the third quarter of 2021 Philips entered into three forward contracts for an amount of EUR 731 million to acquire 19.6 million shares with settlement dates in 2022, 2023 and 2024. Philips executed the remainder of the program through open market purchases by an intermediary in the fourth quarter of 2021 (acquiring 21 million shares) and January 2022 (acquiring 0.8 million shares). Fourth, on June 13, 2022, Royal Philips announced that it will repurchase up to 3.2 million shares to cover certain of its obligations arising from its long-term incentive and employee stock purchases plans. Under this program, Philips entered into one forward contract for an amount of EUR 63 million to acquire 3.2 million shares with settlement dates in November 2024 and December 2024. For further details on these publicly announced plans or programs refer to [Equity, starting on page 187](#).

³⁾ Philips cancelled 8.8 million shares on June 30, 2022.

⁴⁾ In 2022, Philips did not determine to terminate any publicly announced plans or programs prior to expiration, or determine that it intends not to make any further purchases under any publicly announced plans or programs. It is noted that Philips entered into several forward share repurchase contracts to cover certain of its obligations arising from its share-based remuneration, as announced on January 29, 2020. Please refer to [Equity, starting on page 187](#) for more information.

⁵⁾ As described above, Philips acquired shares via three different methods: (i) share buyback repurchases in the open market via an intermediary, (ii) repurchase of shares via forward contracts for future delivery of shares, (iii) the unwinding of call options on own shares.

4.11 Cash obligations

Contractual cash obligations

The following table presents a summary of the Group's fixed contractual cash obligations and commitments as of December 31, 2022. These amounts are an estimate of future payments, which could change as a result of various factors such as a change in interest rates, foreign exchange, contractual provisions, as well as changes in our business strategy and needs. Therefore, the actual payments made in future periods may differ from those presented in the following table:

Philips Group

Contractual cash obligations ^{1) 2)} in millions of EUR

	total	payments due by period			
		less than 1 year	1-3 years	3-5 years	after 5 years
Long-term debt	8,168	842	1,760	1,809	3,757
Short-term debt	89	89			
Interest on debt	1,683	159	304	264	956
Derivative liabilities	210	208	2		
Purchase obligations ³⁾	782	336	412	21	12
Trade and other payables	1,968	1,968			
Contractual cash obligations	12,901	3,603	2,478	2,094	4,725

¹⁾ Amounts in this table are undiscounted

²⁾ This table excludes post-employment benefit plan contribution commitments and income tax liabilities in respect of tax risks because it is not possible to make a reasonably reliable estimate of the actual period of cash settlement.

³⁾ Purchase obligations are agreements to purchase goods or services that are enforceable and legally binding for the Group. They specify all significant terms, including fixed or minimum quantities to be purchased, fixed, minimum or variable price provisions and the approximate timing of the transaction. They do not include open purchase orders or other commitments which do not specify all significant terms.

Included in debt are remaining forward contracts of EUR 648 million related to the EUR 1.5 billion share buyback program announced in July 2021 and EUR 211 million relating to the repurchase of shares to cover long-term incentive and employee stock purchase plans. In 2022, Philips entered into a total amount of EUR 63 million of forward contracts relating to the repurchase of up to 3.2 million shares to cover long-term incentive and employee stock purchase plans. In addition, in 2022 there were maturities of a total of EUR 83 million of forward contracts related to the EUR 1.5 billion share buyback program announced in July 2021, as well as maturities of a total of EUR 57 million of forward contracts to repurchase shares to cover long-term incentive and employee stock purchase plans. Philips intends to cancel all of the shares acquired under the share buyback program, as the program was initiated for capital reduction purposes.

Philips offers voluntary supply chain finance programs with third parties, which provide participating suppliers with the opportunity to factor their trade receivables at the sole discretion of both the suppliers and the third parties. Philips continues to recognize these liabilities as trade payables and settles them accordingly on the invoice maturity date based on the terms and conditions of these arrangements. As of December 31, 2022, approximately EUR 151 million (2021: EUR 139 million) of the Philips accounts payable were transferred under these arrangements.

Other cash commitments

The company and its subsidiaries sponsor post-employment benefit plans in many countries in accordance with legal requirements, customs and the local situation in the countries involved. For a discussion of the plans and expected cash outflows, please refer to [Post-employment benefits, starting on page 198](#).

The company had EUR 140 million restructuring-related provisions by the end of 2022, of which EUR 134 million is expected to result in cash outflows in 2022. Refer to [Provisions, starting on page 193](#) for details of restructuring provisions.

Philips has contracts with investment funds where it committed itself to make, under certain conditions, capital contributions to these funds of an aggregated remaining amount of EUR 127 million (2021: EUR 116 million). Capital contributions already made to these investment funds are recorded as non-current financial assets.

Please refer to [Dividend, starting on page 43](#) for information on the proposed dividend distribution.

Please refer to [Equity, starting on page 187](#) for information on other Long-term incentive and employee stock purchase plans.

Guarantees

Philips' policy is to provide guarantees and other letters of support only in writing. Philips does not provide other forms of support. The total fair value of guarantees recognized on the balance sheet amounts to EUR nil million for both 2021 and 2022. Remaining off-balance-sheet business-related guarantees on behalf of third parties and associates amount to EUR 2 million as of December 31, 2022 (December 31, 2021: EUR 2 million).

4.12 Dividend

Dividend policy

Philips' dividend policy is aimed at dividend stability and a pay-out ratio of 40% to 50% of adjusted income from continuing operations attributable to shareholders^{*)}.

Proposed distribution

A proposal will be submitted to the Annual General Meeting of Shareholders, to be held on May 9, 2023, to declare a distribution of EUR 0.85 per common share, in common shares, against retained earnings.

If the above dividend proposal is adopted, the shares will be traded ex-dividend as of May 11, 2023 at the New York Stock Exchange and Euronext Amsterdam. In compliance with the listing requirements of the New York Stock Exchange and Euronext Amsterdam, the dividend record date will be May 12, 2023.

The number of share dividend rights entitled to one new common share will be determined based on the volume-weighted average price of all traded common shares of Koninklijke Philips N.V. at Euronext Amsterdam on May 11, 12 and 15, 2023. The company will calculate the number of share dividend rights entitled to one new common share (the ratio), such that the gross dividend in shares will be approximately equal to EUR 0.85. The ratio and the number of shares to be issued will be announced on May 17, 2023. Distribution of the dividend (up to EUR 751 million) and delivery of new common shares, with settlement of any fractions in cash, will take place from May 18, 2023.

	ex-dividend date	record date	distribution from
Euronext Amsterdam	May 11, 2023	May 12, 2023	May 18, 2023
New York Stock Exchange	May 11, 2023	May 12, 2023	May 18, 2023

Further details will be given in the agenda for the 2023 Annual General Meeting of Shareholders. The proposed distribution and all dates mentioned remain provisional until then.

Dividend in shares distributed out of retained earnings is subject to 15% dividend withholding tax, but only in respect of the par value of the shares (EUR 0.20 per share). Shareholders are advised to consult their tax advisor on the applicable situation with respect to taxes on the dividend received.

In June 2022, Philips settled a dividend of EUR 0.85 per common share, representing a total value of EUR 741 million (including costs). Shareholders could elect for a cash dividend or a share dividend. Approximately 45% of the shareholders elected for a share dividend, resulting in the issuance of 14,174,568 new common shares, leading to a 1.6% dilution. For more information refer to [Shareholders' equity, starting on page 40](#). The settlement of the cash dividend involved an amount of EUR 411 million (including costs).

Dividends and distributions per common share

The following table sets forth in euros the gross dividends on the common shares in the fiscal years indicated (from prior-year profit distribution) and such amounts as converted into US dollars and paid to holders of shares of the New York Registry:

Philips Group Gross dividends on the common shares

	2018 ¹⁾	2019 ¹⁾	2020 ²⁾	2021 ¹⁾	2022 ²⁾
in EUR	0.80	0.85	0.85	0.85	0.85
in USD	0.94	0.96	0.95	1.03	0.90

¹⁾ In cash or shares at the election of shareholder.

²⁾ In shares only.

^{*)} 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](#).

4.13 Analysis of 2021 compared to 2020

The analysis of the 2021 financial results compared to 2020, and the discussion of the critical accounting policies, have not been included in this Annual Report. These sections are included in Philips' Form 20-F for the financial year 2022, which will be filed electronically with the US Securities and Exchange Commission.

4.14 Outlook

We remain cautious in light of the subdued economic outlook for the year, staffing and inflationary pressures facing our customers, geopolitical risks, supply and demand volatility, and uncertainties around ongoing consent decree negotiations, litigation and Department of Justice investigations. Nevertheless, we expect that, by prioritizing patient safety and quality, tightening our focus on innovation and strengthening our category leadership areas, while at the same time improving execution and taking a disciplined approach to capital, we will be able to progressively create value with sustainable impact.

Looking ahead, Philips expects to deliver low-single-digit comparable sales growth^{*)} and high-single-digit Adjusted EBITA^{*)} margin in 2023. Considering the slowing of consumer demand and a gradual improvement of the order book conversion during 2023, Philips anticipates a slow start to the year, with improvements throughout the year supported by the ongoing productivity, pricing and other actions. This guidance excludes the impact of the ongoing discussion on a consent decree beyond current assumptions (Sleep & Respiratory Care/Respironics CSGR 2023-2025 of 10%), as well as ongoing litigation and the investigation by the US Department of Justice related to the Respironics field action.

^{*)} 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](#).

At a glance

Environmental, Social and Governance



1.81 billion lives improved by our products and solutions, including 202 million in underserved communities

Updated carbon reduction goals approved by Science Based Targets initiative (SBTi)

CDP 'A List' rating for climate action for 10th year in a row

Strengthening patient safety and quality Philips' highest priority

Announcement of workforce reduction by some 10,000 roles globally

5 Environmental, Social and Governance

Environmental, Social & Governance (ESG) are three key dimensions within which a company's approach to doing business responsibly and sustainably, and its overall societal impact, are defined. They give expression to an increasingly widely held view – that companies that hold themselves accountable to their stakeholders and increase transparency will be more viable, and valuable, in the long term.

Philips is a purpose-driven company aiming to improve the health and well-being of 2.5 billion people annually by 2030. We believe that private-sector companies like ours have a vital role to play in collaborating with other partners across our supply chain, and with private and public organizations in society, to address the major challenges the world is facing.

Taking a multi-stakeholder approach, we draw inspiration from the societal impact we can have through our products and solutions, and through how we operate in the world. Our company is very conscious of our responsibility and our contribution to society and the environment. We are also witnessing growing interest in ESG on the part of our customers, who are increasingly turning to technology companies for support in addressing their sustainability objectives and are including ESG-related considerations in their procurement policies and criteria.

We aim to be a front-runner in the area of ESG and have been recognized as leading the way in, for example, sustainability, corporate governance practices and tax transparency.

Our reporting is aligned with the comprehensive and integrated Environmental, Social & Governance (ESG) commitments we have adopted for the period 2020-2025.

We have excluded the data from Domestic Appliances from the ESG information wherever possible. In a limited number of cases, for example for road logistics emissions, we have used proxies. If Domestic Appliances information was not available for past years, and could therefore not be excluded, we have indicated this in the respective section. The Employee Engagement Index (EEI) and General Business Principles (GBP) results have not been restated.

5.1 ESG reporting framework

Building on our extensive experience of environmental and social impact measurement and of providing transparency on governance, Philips has taken an active role – in collaboration with, in particular, the International Financial Reporting Standards (IFRS) Foundation, the World Economic Forum (WEF) and the European Union – to help drive the evolution towards a standard ESG reporting framework.

In 2007, Philips signed up to the United Nations Global Compact, to advance ten universal principles in the areas of human rights, labor, the environment and anti-corruption. In 2017, at the WEF Annual Meeting in Davos, we signed the Compact for Responsive and Responsible Leadership – an initiative (initiated by WEF and Philips) to promote and align the long-term sustainability of corporations and the long-term goals of society, with an inclusive approach for all stakeholders. The WEF secured a commitment from over 140 CEOs to align their corporate values and strategies with the United Nations' Sustainable Development Goals (SDGs).

In 2020, the WEF's International Business Council (IBC) published its core set of Stakeholder Capitalism Metrics and disclosures. These can be used by companies to align their mainstream reporting on performance against environmental, social and governance (ESG) indicators and track their contributions towards the SDGs on a consistent basis. Thus far, 135 companies reported in line with this framework. Based where possible on existing standards, the full set is comprised as follows:

- Core metrics: A set of 21 more-established or critically important metrics and disclosures that focus primarily on activities within an organization's own boundaries.
- Expanded metrics: A set of 34 metrics and disclosures that tend to be less well-established in existing practice and have a wider value chain scope or convey impact in a more sophisticated or tangible way, e.g. in monetary terms.

The recommended metrics are organized under four pillars that are aligned with the SDGs and principal ESG domains: Principles of Governance, Planet, People and Prosperity. There is no intention to replace industry- or company-specific metrics (like our Lives Improved metric). Companies are encouraged to report against as many of the core and expanded metrics as they find material and appropriate, on the basis of 'disclose or explain'.

In section 5.6 of this Annual Report, we show how Philips performed in 2022 on the above-mentioned 21 Core metrics, mapped to the three dimensions of our ESG commitments, as well as a number of additional Philips-specific metrics that we consider fundamental to the strategy and operation of our business.

Philips is also contributing to the IFRS Foundation’s endeavors to drive standardization of non-financial reporting as well as the development of sustainability standards by the European Union by EFRAG.

EU taxonomy framework

The aim of the European Taxonomy Regulation (EU 2020/852), including the delegated acts adopted thereunder, is to provide companies, investors and policymakers with appropriate criteria for determining which economic activities can be considered environmentally sustainable, and it requires companies to report on how and to what extent their activities are associated with such ‘taxonomy-eligible activities’. The Taxonomy Regulation is relatively new and there are after the first year of reporting (2021) still significant uncertainties around its phased implementation. It is expected, however, that the EU Taxonomy will develop into a comprehensive and detailed framework over the coming years.

The Taxonomy Regulation provides certain conditions for taxonomy alignment. Among others, the relevant activity must substantially contribute to one or more of the following six environmental objectives (while not significantly harming any of the others):

1. Climate change mitigation
2. Climate change adaptation
3. The sustainable use and protection of water and marine resources
4. The transition to a circular economy
5. Pollution prevention and control
6. The protection and restoration of biodiversity and ecosystems

The delegated acts adopted under the Taxonomy Regulation will provide technical screening criteria which must also be met to constitute taxonomy alignment. On the date of this Annual Report 2022, only one relevant delegated act has been adopted, concerning activities significantly contributing to climate change mitigation and adaptation.

The taxonomy framework provisions effective on the date of this Annual Report 2022 require Philips to disclose the proportion of its taxonomy-eligible activities (described in any delegated act adopted to date) and non-eligible economic activities in its total turnover, capital and operational expenditure, as well as certain qualitative information. We used the delegated act ((EU) 2021/2139) to identify activities that are eligible. However, none of our revenue-generating activities were included as this delegated act only applies to sectors with very high CO₂ emissions. As a result, Philips’ core activities are not within the scope of

this delegated act and consequently none of Philips’ revenues were eligible under this delegated act during 2022 (0%). All revenues were non-eligible (100%). We used delegated act (EU) 2021/2178 for the definition and calculation of the taxonomy-eligible percentages. Revenue is calculated based on ‘Sales’ as per [Consolidated statements of income, starting on page 145](#). Philips expects to be eligible and report its taxonomy-eligible revenues under additional environmental objectives as further delegated acts with applicable technical screening criteria are adopted.

Philips Group Proportion of turnover from products or services associated with Taxonomy-aligned economic activities 2022 in millions of EUR unless otherwise stated

Economic activities	Absolute Turnover	Proportion of turnover
A. ELIGIBLE ACTIVITIES		
Turnover of eligible Taxonomy-aligned activities (A.1)	0	0%
Turnover of eligible not Taxonomy-aligned activities (A.2)	0	0%
Total (A.1 + A.2)	0	0%
B. Taxonomy-non-eligible activities		
Turnover of Taxonomy-non-eligible activities (B)	17,827	100%
Total (A + B)	17,827	100%

Some other (enabling) Philips activities are included in the delegated act ((EU) 2021/2139) and are eligible for capital expenditures for the objective of climate change mitigation and climate change adaptation. We therefore screened (EU) 2021/2139, assessed our capital expenditure and identified relevant activities mainly related to our real estate portfolio. For these activities, capital expenditures are determined based on the 2022 additions to property, plant and equipment, intangible assets, and additions to right-of-use assets, excluding any re-assessments (refer to [Property, plant and equipment, starting on page 173](#) and [Intangible assets excluding goodwill, starting on page 181](#)).

Reportable taxonomy-eligible capital expenditures in 2022 amounted to EUR 8 million, or 1% of total capital expenditure (non-eligible capital expenditures 99%), and mainly related to energy efficiency improvement measures in our buildings (installation, maintenance and repair of energy efficiency equipment), such as energy efficient heating, ventilation, and air conditioning (HVAC) in various locations around the world. Next, we invested in onsite renewable electricity generation (installation, maintenance and repair of renewable energy technologies) by installing PV panels in one of our factories in Asia.

We assessed compliance with the criteria set out in Article 3 of Regulation (EU) 2020/852 and the associated technical screening criteria on a project basis.

Philips Group

Proportion of CapEx from products or services associated with Taxonomy-aligned economic activities 2022 in EUR unless otherwise stated

Economic activities	Absolute CapEx	Proportion of CapEx	Substantial contribution criteria						DNSH criteria ('Do No Significant Harm')									Taxonomy-aligned proportion of CapEx 2022	Taxonomy-aligned proportion of CapEx 2021	Category (enabling activity or transitional activity)
			Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards					
		%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	%	E/T		
A. ELIGIBLE ACTIVITIES																				
A.1 Eligible Taxonomy-aligned activities																				
4.16 Installation and operation of electric heat pumps	234,000	0	100	0	0	0	0	0		Y	Y	Y	Y	Y	Y	0	NA	E		
7.2 Renovation of existing buildings	121,000	0	100	0	0	0	0	0		Y	Y	Y	Y	Y	Y	0	NA	T		
7.3 Installation, maintenance and repair of energy efficient equipment	7,720,000	1	100	0	0	0	0	0		Y	Y	Y	Y	Y	Y	1	NA	E		
7.4 Installation, maintenance and repair of charging stations for electric vehicles	61,000	0	100	0	0	0	0	0		Y	Y	Y	Y	Y	Y	0	NA	E		
7.6 Installation, maintenance and repair of renewable energy technologies	240,000	0	100	0	0	0	0	0		Y	Y	Y	Y	Y	Y	0	NA	E		
CapEx of eligible Taxonomy-aligned activities (A.1)	8,376,000																			
A.2. Eligible not Taxonomy-aligned activities																				
No eligible not Taxonomy-aligned activities identified																				
CapEx of eligible not Taxonomy-aligned activities (A.2)	0																			
Total (A.1 + A.2)	8,376,000	1	100	0	0	0	0	0		Y	Y	Y	Y	Y	Y	1	NA	E		
B. Taxonomy-non-eligible activities																				
CapEx of Taxonomy-non-eligible activities (B)	591,624,000	99																		
Total (A+B)	600,000,000	100																		

Similar to capital expenditures, we screened (EU) 2021/2139 for relevant operational expenditure activities and have applied the exemption rule, as the eligible operational expenditure was not material in relation to the taxonomy non-eligible operational expenditure of around EUR 2.3 billion. Total operational expenditures are determined based on the 2022 non-capitalized costs that relate to research and development, building renovation, short-term lease, maintenance and repair, and any other direct expenditures relating to day-to-day servicing of property, plant and equipment.

In 2022, we did not record reportable taxonomy-eligible operational expenditures (0%), as, for example, the sourcing of renewable energy was not included in the Taxonomy. Non-eligible operational expenditures were 100%.

Philips Group

Proportion of OpEx from products or services associated with Taxonomy aligned economic activities 2022 in millions of EUR unless otherwise stated

Economic activities	Absolute OpEx	Proportion of OpEx
A. ELIGIBLE ACTIVITIES		
OpEx of eligible Taxonomy-aligned activities (A.1)	0	0%
OpEx of eligible not Taxonomy-aligned activities (A.2)	0	0%
Total (A.1 + A.2)	0	0%
B. Taxonomy-non-eligible activities		
OpEx of Taxonomy-non-eligible activities (B)	2,276	100%
Total (A + B)	2,276	100%

We followed the same accounting principles as in our financial statements.

We will continue to monitor legislative developments and adapt our disclosures where needed.

5.2 Philips' ESG commitments

In September 2020, Philips reinforced its commitments as a purpose-driven company with the announcement of an enhanced and fully integrated approach to doing business responsibly and sustainably. Philips' framework comprises a comprehensive set of key commitments across all the Environmental, Social and Governance (ESG) dimensions that guide execution of the company's strategy. It includes ambitious targets and detailed plans of action.

As a leading health technology company today, our purpose is to improve people's health and well-being through meaningful innovation, positively impacting 2 billion lives per year by 2025. We aim to grow Philips responsibly and sustainably, and we therefore continuously set ourselves challenging environmental and social targets, and highest standards of governance. Acting responsibly towards the planet and society is part of our DNA. We believe that this is the best way for us to create superior, long-term value for Philips' multiple stakeholders.

Philips' ESG commitments are set out below. Further details relating to these commitments can be found throughout the rest of this chapter, in [Supplier sustainability, starting on page 25](#), and in [ESG statements, starting on page 266](#).

Our key ESG commitments

Environmental

We act responsibly towards our planet in line with UN SDGs 12 and 13.

- We will use 75% renewable energy in our operations by 2025.
- While maintaining carbon neutrality in our operations, we will reduce CO₂ emissions in our entire value chain in line with a 1.5 °C global warming scenario (based on Science Based Targets). We will actively partner with our suppliers and our customers to achieve this.
- We will generate 25% of our revenue from circular products and solutions, and offer a trade-in on all professional medical equipment so that we can take care of responsible repurposing by 2025.
- We will embed circular practices at our sites and put zero waste to landfill by 2025.
- All new product introductions will fulfill our EcoDesign requirements by 2025, with 'EcoHeroes' accounting for 25% of revenues.
- We work with our suppliers to reduce the environmental footprint of our supply chain in line with a 1.5 °C global warming scenario (based on Science Based Targets).
- We engage with our stakeholders and other companies to drive sustainability efforts addressing the United Nations Sustainable Development Goals.

Social

Our purpose is to improve people's health and wellbeing through meaningful innovation, in line with UN SDG 3. We act responsibly towards society and partner with our stakeholders

- We aim to improve the health and well-being of 2 billion people per year by 2025, including 300 million people in underserved communities.
- It is our strategy to lead with innovative solutions along the health continuum – helping our customers deliver on the Quadruple Aim (better health outcomes, a better experience for patients and staff, lower cost of care) and helping people take better care of their health.
- We aim to be the best place to work for our employees, providing opportunities for learning and development, embracing diversity and inclusion, and assuring a safe and healthy work environment. We pay at least a living wage and aim for employee engagement above the high-performance norm.
- Through our supplier development program we will improve the lives of 1,000,000 workers in our supply chain by 2025.
- We actively engage with and support the communities in which we operate, e.g. through volunteering, internships, STEM (Science, Technology, Engineering, Mathematics) initiatives.
- We contribute to the Philips Foundation, an independent foundation (*stichting*) organized under Dutch law, which aims to provide access to quality healthcare for disadvantaged communities.
- We consider our tax payments as a contribution to the communities in which we operate, as part of our social value creation.

Governance

We aim to deliver superior long-term value for our customers and shareholders, and we live up to the highest standards of ethics and governance in our culture and practices

- Our management structure and governance combines responsible leadership and independent supervision.
- The Philips Business System is our integrated operating model. It defines how we work together to delight our customers and achieve our company goals, leveraging our global scale and capabilities.
- We are committed to delivering the highest-quality products, services and solutions compliant with all applicable laws and standards.
- Our remuneration policy is designed to encourage employees to deliver on our purpose and strategy and create stakeholder value, and to motivate and retain them. Our executive long-term incentive plan includes environmental and social commitments.
- We ensure ethical behavior through our General Business Principles, with a strong compliance and reporting framework.
- Our risk management is designed to provide reasonable assurance that strategic and operational objectives are met, legal requirements complied with, and the integrity of the company's reporting and related disclosures safeguarded.
- We are transparent about our plans, activities, results and contributions to society (e.g. Country activity and Tax report), and engage with shareholders, customers, business partners, governments and regulators through a variety of platforms.

5.3 Environmental performance

In September 2020, we launched our ESG commitments, with ambitious targets to be achieved by the end of 2025. Besides our social impact, focusing on SDG 3, described in the Social performance section, we have an environmental impact through our global operations (including our supply chain), but even more so through our products and solutions. This is where we contribute to SDG 12 (*Ensure sustainable consumption and production patterns*) and SDG 13 (*Take urgent action to combat climate change and its impacts*).

In this Environmental performance section, an overview is given of the most important environmental parameters of our ESG commitments. Details can be found in the [ESG statements, starting on page 266](#).

Environmental impact

Philips has been performing Life-Cycle Assessments (LCAs) since 1990. LCAs provide insight into the lifetime environmental impact of our products. They are used to steer our EcoDesign efforts by reducing the environmental impact during the lifetime of our products and to grow our Green/EcoDesigned/EcoHero and Circular Solutions portfolio. As a next step, for the sixth year, we have measured our environmental impact on society at large via a so-called Environmental Profit & Loss (EP&L) account, which includes the hidden environmental costs associated with our activities and products. It provides insights into the main environmental hotspots and innovation areas to reduce the environmental impact of our products and solutions.

The EP&L account is based on LCA methodology, in which the environmental impacts are expressed in monetary terms using conversion factors developed by [CE Delft](#). These conversion factors are subject to further refinement and are expected to change over time. We used expert opinions and estimates for some parts of the calculations. The figures reported are Philips' best possible estimates. As we gain new insights and retrieve more and better data, we will enhance the methodology, use-cases and accuracy of results in the future. For more information and details we refer to our [methodology document](#).

The definition of the use-case scenarios has a significant impact on the result, especially for consumer products, which have large sales volumes, long lifetimes and frequently high energy consumption.

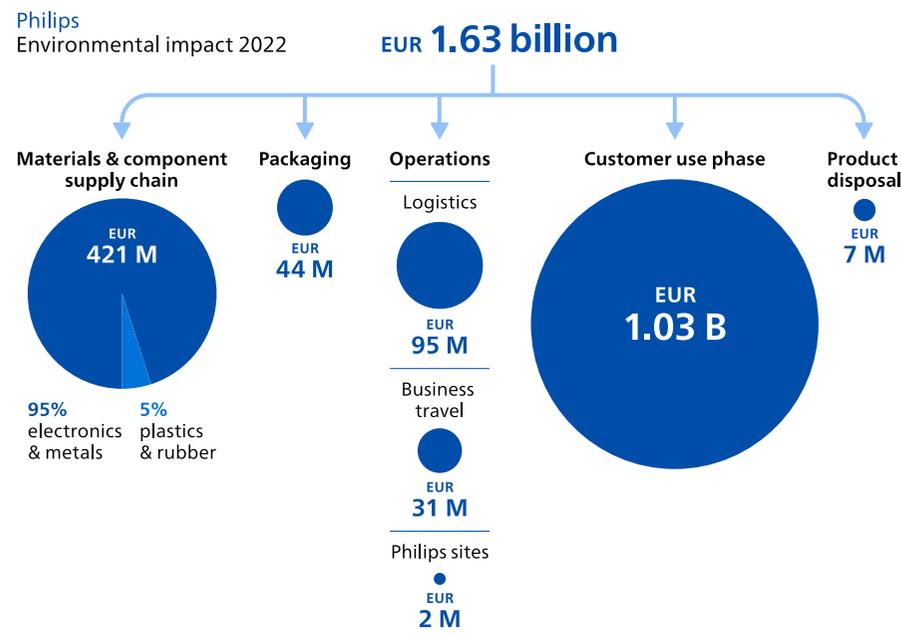
The current EP&L account only includes the hidden environmental costs. It does not yet include the benefits to society that Philips generates by improving people's health and well-being through our products and solutions. We have a well-established methodology to calculate the number of lives we positively touch with our products and solutions. We aim to look into valuing these societal benefits in monetary terms in the future.

The Philips products subject to the Respironics recall were evaluated as part of the 2022 EP&L calculation. In accordance with the EP&L methodology, products replaced during the recall by new products with lifetime guarantees were included in the 2022 EP&L calculation for all life cycle stages. Refurbished products and repair kits were not included.

Results 2022

In 2022, Philips' environmental impact amounted to EUR 1.63 billion, compared to EUR 2.16 billion in 2021. This reduction was mainly driven by updated energy use cases for hair dryers (causing a reduction of around EUR 450 million) and a changed product mix (causing a EUR 250 million reduction), but was mitigated by the update to the EcoInvent 3.8 database (our Life Cycle Inventory database containing environmental impacts of products and services, causing around EUR 75 million increase) and further granulation of the data, including the application of country emission factors (causing around EUR 100 million increase). The most significant environmental impact, 63% of the total, is related to the usage of our products, which is due to electricity consumption. Human toxicity, particulate matter formation, and climate change are other important impacts. The environmental costs include the environmental impact of the full lifetime of the products that we put on the market in 2022, e.g. 10 years in the case of a MRI or 5 years of usage in the case of a Sonicare toothbrush. Products identified as rentals are the only exception, with an energy consumption of one year. As we expand our EcoDesign activities, with a target to have all our products EcoDesigned by 2025, we expect an environmental impact in the years to come.

Of the total 2022 impact, just EUR 128 million (7%) is directly caused by Philips' own operations, mainly driven by outbound logistics, followed by business travel. Compared to EUR 106 million in 2021, this is a 21% increase, mainly due to more granular data on our operations and updating the emission factors from EcoInvent 3.4 to EcoInvent 3.8, mitigating the downward trend in logistics emissions as presented in [Sustainable Operations, starting on page 56](#).



Our materials and components supply chain currently has an environmental impact of some EUR 421 million, which is 26% of our total environmental impact. The main contributors are the electronic components (including printed circuit boards), cables and metals used in our products. Through our Circular Economy and Supplier Sustainability programs we will continue to focus on reducing the environmental impact caused by the materials we source and apply in our products. We will also include the impact on biodiversity and ecosystem services in the future.

In order to deliver on our carbon neutrality commitment, we have set ambitious reduction targets. In 2018, we were the first health technology company to have its 2020-2040 targets (including the use-phase of our products) [approved by the Science Based Targets initiative](#) – a collaboration between CDP (formerly Carbon Disclosure Project), the United Nations Global Compact (UNGC), the World Resources Institute (WRI) and the World Wide Fund for Nature (WWF) aimed at driving ambitious corporate climate action. Approval confirms that Philips' long-term targets are in line with the level of decarbonization required to keep the global temperature increase below 2 °C. As a next step in our journey to reduce our environmental impact, and part of our ESG commitments launched in September 2020, we have committed to reduce our full value chain emissions in line with a 1.5 °C global warming scenario.

For more information on our efforts to reduce emissions in the supply chain, please refer to [Supplier indicators, starting on page 286](#).

For more information on our efforts to reduce emissions in the customer use-phase, please refer to [Green/EcoDesigned Innovation, starting on page 54](#) and [Green/EcoDesigned Revenues, starting on page 56](#).

5.3.1 Green/EcoDesigned Innovation

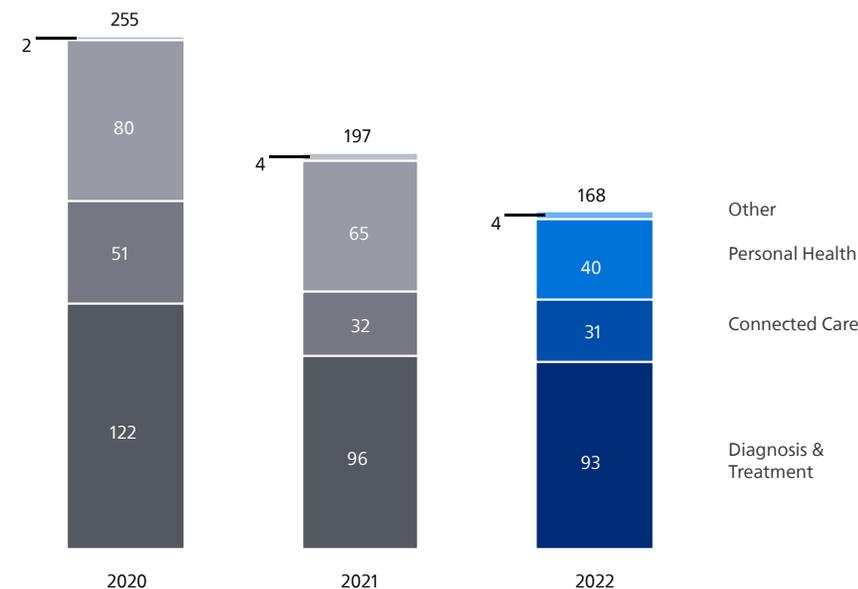
Research from the Potsdam Institute for Climate Impact research shows that over 4% of global CO₂ emissions are caused by the Healthcare sector. We see a growing demand from our customers, including hospitals, to reduce their environmental impact and decarbonize healthcare. Our Green/EcoDesigned Innovation – the Research & Development spend related to the development of new generations of Green/EcoDesigned products and solutions and Green technologies, addressing SDG 12 (*Ensure sustainable consumption and production patterns*) – is focused on addressing that impact.

Sustainable Innovation is the Research & Development spend related to the development of new generations of products and solutions that address the United Nations’ Sustainable Development Goals 3 (*Ensure healthy lives and promote well-being for all at all ages*) or 12.

In 2022, Philips invested EUR 168 million in Green/EcoDesigned Innovation, a reduction compared to 2021 due to the completion of a number of sizeable innovation projects in the course of 2022. We expect this spend to increase again in the years to come. In 2022, over EUR 1.8 billion was invested in Sustainable Innovation.

As the current EU Taxonomy delegated act only applies to sectors with highest CO₂ emissions, Philips’ activities are not within the scope of this delegated act and consequently none of Philips’ R&D investments were eligible under this taxonomy during 2022.

Philips Group
Green Innovation per segment in millions of EUR



Diagnosis & Treatment businesses

Philips develops innovative diagnosis and treatment solutions that support precision diagnosis and effective, minimally invasive interventions and therapy, while respecting the limits of natural resources. Investments in Green Innovation in 2022 amounted to EUR 93 million, comparable to EUR 96 million in 2021.

All Philips EcoDesign/Green Focal Areas are taken into account as we aim to reduce environmental impact over the total lifecycle. Energy efficiency is an area of focus, especially for our large imaging systems such as MRI. Through circular-ready design, Philips also pays particular attention to enabling the upgrading and reuse pathways, so our customers can benefit from enhancements in workflow, dose management and imaging quality and availability of re-used service parts with the equipment they already own. In addition, we are reducing the amount of hazardous substance and improving our packaging. We continued to actively partner with multiple leading care providers to investigate innovative ways to reduce the environmental impact of healthcare, for example by maximizing energy-efficient use of medical equipment (by for example introducing EcoModes) and optimizing lifecycle

value. Philips aims to close the loop on all medical equipment that becomes available to us by the end of 2025. To achieve this target, we actively drive trade-ins in markets where de-install, trade-in and reverse logistics capabilities are in place, and build these capabilities in countries that do not yet have them.

Connected Care businesses

Philips' connected health IT solutions integrate, collect, combine and deliver quality data for actionable insights to help improve access to quality care, while respecting the limits of natural resources. It is our belief that well-designed e-health solutions can reduce the travel-related carbon footprint of healthcare, increase efficiency in hospitals, and improve access to care and outcomes. This has also become apparent during the COVID-19 crisis. Green/EcoDesigned Innovation investments in 2022 amounted to EUR 31 million, in line with EUR 32 million in 2021. Green Innovation projects in 2022 will deliver the coming years, among other things, new EcoDesigned patient monitors with lower environmental footprints, reflecting all the Philips EcoDesign/Green Focal Areas. Energy efficiency, material reduction, less hazardous substances and closing the loop activities are the main areas of focus.

Personal Health businesses

R&D investments at our Personal Health businesses amounted to EUR 40 million in 2022, compared with EUR 65 million in 2021, as some larger innovation projects were finalized in the course of 2022. The Personal Health businesses continued their work on improving the energy efficiency of their products, closing the materials loop (e.g. by using recycled materials in products and packaging), and the voluntary phase-out of polyvinyl chloride (PVC), brominated flame retardants (BFR), Bisphenol A (BPA) and phthalates from, among others, food contact and childcare products. More specifically, as part of our Fit for Future Packaging program, we launched the first plastic free, mailbox-ready, packaging solution in our Grooming and Beauty portfolio for an online One Blade shaver, and plastic free packaging in the Female Depilation and Hairstyling portfolio. Philips also launched a foldable, more energy-efficient hairdryer containing recycled plastic.

Other

The segment Other invested EUR 4 million in Green/EcoDesigned Innovation, spread over projects focused on global challenges relating to water, air, energy, food, circular economy, and access to affordable healthcare.

Circular economy

For a sustainable world, the transition from a linear to a circular economy is essential. A circular economy aims to decouple economic growth from the use of natural resources and ecosystems by using these resources more effectively. It is a driver of innovation in the areas of material, component and product re-use, as well as new business models such as system solutions and services. At Philips, we have set ambitious targets to guide this journey. In 2020, as we announced our ESG commitments, we aimed, among other things, to generate 25% of our revenues from circular products and services, to extend our 'closing the loop' practices across all our medical products, and to further embed circular practices at our sites and send zero waste to landfill in our own operations.

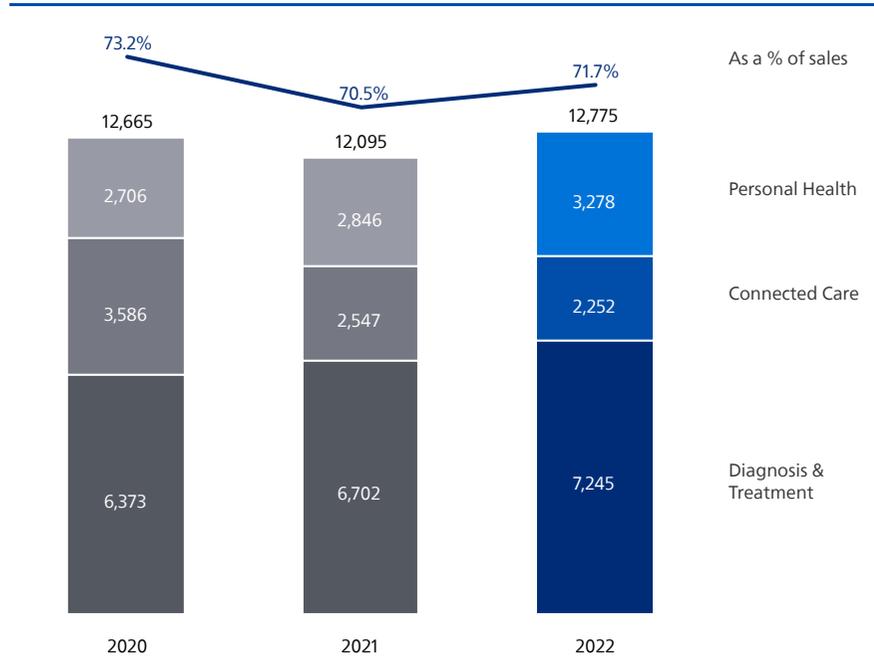
For more information on our Circular Economy activities and the progress towards targets in 2022, please refer to [Circular Economy, starting on page 274](#).

5.3.2 Green/EcoDesigned Revenues

Green/EcoDesigned Revenues are generated through products and solutions that offer a significant environmental improvement in one or more Green Focal Areas – Energy efficiency, Packaging, Hazardous substances, Weight, Circularity, and Lifetime reliability – and thereby deliver a contribution to SDG 12 (*Ensure sustainable consumption and production patterns*). Green/EcoDesigned Revenues amounted to EUR 12.8 billion in 2022, or 71.7% of sales (70.5% in 2021). This increase is mainly attributable to higher Green/EcoDesigned revenues in the Precision Diagnosis and Personal Health businesses.

As the current EU Taxonomy delegated act only applies to sectors with highest CO₂ emissions, Philips’ activities are not within the scope of this delegated act and consequently none of Philips’ revenues were eligible under this taxonomy during 2022.

Philips Group
Green Revenues per segment in millions of EUR unless otherwise stated



Through our EcoDesign process we aim to create products and solutions that have significantly less impact on the environment over their whole lifecycle. Overall, the most significant improvements have been in energy efficiency and lower weight (thus less

resources), although increased attention was also given to hazardous substances, packaging and recyclability in all segments in 2021, the latter driven by our Circular Economy initiatives.

Diagnosis & Treatment businesses

In 2022, a number of main platforms were launched in our Diagnosis & Treatment businesses. CT7500 and various redesigns of current platforms have been launched offering further environmental improvements. Specific attention was paid to preparing for future EcoDesigned product launches.

Connected Care businesses

After several launches of new Green/EcoDesigned products in 2020, no major new launches took place in 2021 and 2022 except for the VS20 monitor which has good performance on all EcoDesign focal areas. New EcoDesigned Products are expected in 2023 with improvements on all EcoDesign focal areas.

Personal Health businesses

In our Personal Health businesses, the focus is on Green/EcoDesigned Products and Solutions that meet or exceed our minimum requirements in the areas of energy consumption, packaging, substances of concern, and application of recycled plastics. Green/EcoDesigned Revenues in 2022 amounted to 90% of total sales, compared to 85% in 2021. We continue to make progress in developing PVC/BFR-free products. More than 90% of our consumer product sales consist of PVC/BFR-free products, with the exception of power cords, for which there are not yet economically viable alternatives available. In our Oral Healthcare portfolio we introduced the first brush heads containing 75% bio-based materials.

5.3.3 Sustainable Operations

Philips’ Sustainable Operations programs focus on the main contributors to climate change, recycling of waste, reduction of water consumption, and reduction of emissions.

Full details can be found in [ESG statements, starting on page 266](#).

Carbon footprint and energy efficiency

At Philips, we see climate change as a serious threat. Therefore, we are taking action to rethink our business models and decouple economic growth from the impact we have on the environment. We believe large corporates should lead the transition to a low-carbon economy. This will not only benefit the environment, but will also positively impact social and economic aspects.

During the COP 21 United Nations Climate Conference in Paris in 2015, we committed to become carbon-neutral in our operations, pursue all efforts to reduce our operational emissions, source all our electricity from 100% renewable sources, and offset all unavoidable

emissions by year-end 2020. Since 2020, Philips has been carbon-neutral in its operations. We delivered on this commitment as a result of a comprehensive program that included energy-efficiency improvements, on-site renewables, Power Purchase Agreements, as well as business travel reduction and transport mode shifts to low-carbon emitting alternatives, and finally a carbon offset program.

Our efforts are acknowledged by the CDP (formerly known as the Carbon Disclosure Project), a global NGO that assesses the greenhouse gas (GHG) emission performance and management of reporting companies. In 2022, we were ranked on the CDP Climate Change 'A' List for our continued climate performance and transparency for the 10th consecutive year.

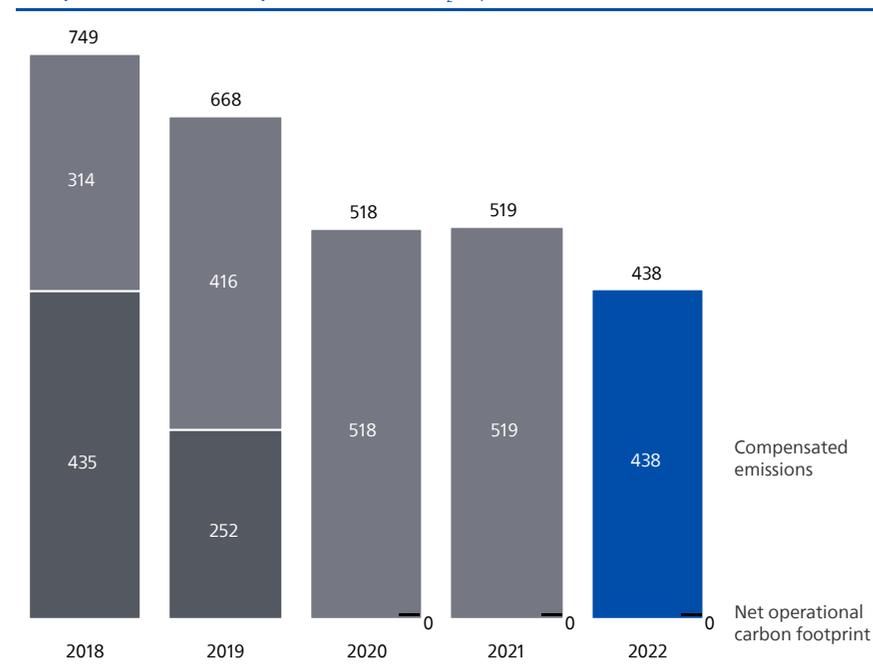
Having achieved our 2020 carbon neutrality target, we have raised the bar and set ambitious emission reduction targets to ensure we help limit the impact of global warming, not only in our operations, but throughout our value chain – collaborating with suppliers and customers to amplify our impact. That is why Philips has set new long-term emission reduction targets, which have been assessed and approved by the Science Based Targets initiative (SBTi) – locking down our commitment to drive climate action across the value chain, from suppliers to customers, and ensuring that we contribute to the decarbonization required to keep the global temperature increase below 1.5 °C. At COP 26, we announced our plan to step up our acclaimed supplier sustainability program with the goal of having at least 50% of our suppliers (based on spend) committing to science-based targets (SBTs) for CO₂-e emissions reduction by 2025.

We stepped up our commitment to reduce our scope 3 carbon emissions in line with the 1.5 °C global warming scenario (Paris agreement). This commitment has been reviewed and approved by the Science Based Targets initiative (SBTi) in 2022, after we sold the Domestic Appliances business in 2021. The latter had a material downward impact on our scope 3 emissions, requiring a new assessment by the SBTi.

In 2022, our net operational carbon footprint resulted in zero kilotonnes carbon dioxide-equivalent (CO₂-e), mainly driven by continued use of 100% electricity from renewable sources and a continuing reduction in air freight. A total of 438 kilotonnes carbon dioxide-equivalent (CO₂-e) were compensated via carbon offsets.

Philips reports all its emissions in line with the Greenhouse Gas Protocol (GHGP) as further described in [Scope, starting on page 271](#).

Philips Group
Net operational carbon footprint in kilotonnes CO₂-equivalent



Scope 1

In our sites, we reduced our scope 1 (direct) CO₂-e emissions by 16% compared to 2021. Scope 1 emissions cover the emissions from our direct fuel consumption and the use of refrigerants that have a global warming potential. The reduction in scope 1 emissions is mainly driven by our continued energy efficiency measures, our program to phase out fossil fuels, working from home, and mild winters. As the consumption of natural gas is still the main source of our scope 1 emissions, we will continue to drive down our overall consumption and find alternative renewable sources to heat our buildings.

Scope 2

In 2022, our indirect scope 2 (market-based method) CO₂-e emissions declined by 33% compared to 2021. Scope 2 (market-based) emissions cover the emissions of non-renewable electricity and purchased (city/district) heating and cooling. As we have already been sourcing 100% renewable electricity since 2020, the remaining emissions are associated with purchasing (city/district) heating and cooling, which we leverage as a low-carbon alternative

to natural gas to heat our buildings. Moving forward, we will continue to increase the renewable energy share of our (city/district) heating and cooling that we purchase.

To secure long-term delivery and quality of our renewable electricity, we have multiple Power Purchase Agreements (PPAs) in place. For instance, the Los Mirasoles wind farm in the US and the Krammer and Bouwdokken wind farms in the Dutch province of Zeeland. We closed the latter agreements with our renewable electricity purchasing consortium with Nouryon, DSM and Google, powering all our operations in the Netherlands. Combined with the Los Mirasoles wind farm, this covers 49% of our total electricity demand. In December 2020, Philips announced its **next Power Purchase Agreement** that will become operational during the summer of 2023, again in a purchasing consortium with Heineken, Nouryon and Signify, to power most of the remaining European sites with renewable electricity for the long term.

In 2022, our indirect scope 2 (location-based method) CO₂-e emissions declined by 6% compared to 2021. Scope 2 (location-based method) emissions cover the emissions of electricity (excluding the renewable share) and purchased (city/district) heating and cooling. Emissions are calculated using average grid emission factors, ignoring the renewable electricity share of the reporting entity. This method indicates the efforts to reduce energy.

Our operational energy efficiency improved by 9%, from 0.031 GWh/millions EUR sales in 2021 to 0.028 GWh/millions EUR sales in 2022.

Our continued efforts to reduce our energy consumption, eliminate refrigerants with a high global warming potential (GWP), and increase our renewable energy share led to a 16% reduction in (scope 1 and scope 2 market-based) emissions in 2022 compared to 2021. Overall, we are making good progress, increasing our renewable energy share to 77% in 2022, from 74% in 2021. We are already overachieving our 2025 ambition to source 75% of our energy from renewable sources and delivering on our 2025 scope 1 and scope 2 (market-based method) ambition. Even though we have already achieved our 2025 SBTi targets, we will continue to accelerate our efforts to phase out fossil fuels (mainly natural gas) consumption from our operations by driving down overall consumption and finding alternative renewable sources, making sure we remain well on track to deliver on our long-term (2040) science-based targets.

Scope 3

In our operational carbon footprint, we include two scope 3 (indirect) emission categories – not included in scope 2 – that occur in the value chain, namely business travel and transportation & distribution. Together with our scope 1 and scope 2 (market-based method) emissions, these comprise our operational carbon footprint.

Our business travel emissions, covering emissions from air travel, lease cars and rental cars, increased by 20% compared to 2021. This is mainly due to the fact that more of our employees are traveling to meet customers and are using their lease cars again post-COVID-19. The remaining effects of COVID-19 also continued to keep these emissions low compared to pre-COVID-19 levels. Moving forward, we continue to electrify our lease fleet and to promote online collaboration post-COVID-19 to limit air travel, as well as increasing our efforts to move travelers to rail transport for shorter distances.

In 2022, we recorded a 22% decrease in emissions from our transportation & distribution compared to 2021. The scope of these emissions covers the CO₂-e emitted by air freight, ocean freight, road freight and parcel shipments. As air freight accounts for most of our operational carbon footprint, we have taken several measures, such as the Corridor Project, where we shifted air freight shipments to ocean freight for several lanes. This helped to reduce our air freight emissions by 15% compared to 2021. CO₂-e emissions from ocean freight decreased by 43% in 2022 compared to 2021. Most of these reductions can be attributed to the fact that the Domestic Appliances businesses have now been fully disentangled and (combined) shipment data for ocean freight now fully excludes all their related shipments. To quantify our ocean freight emissions by leveraging carrier-trade-lane specific emission factors, we use data from the Smart Freight Center – Clean Cargo (formerly known as the CCWG). This improved approach was implemented in 2021, allowing us to quantify our ocean freight emissions more accurately. This approach has been implemented for 2020, 2021 and 2022.

Emissions from parcel shipments decreased by 10%, as the number of shipments increased but was mitigated by shorter average distances per shipment. The emissions from road transport decreased by 51%, mainly driven by a reduction of shipments and the average weight per shipment. The emission reductions in road freight are also impacted by the inclusion of combined shipments of Domestic Appliances and Philips in 2021. Historically, we were not able to exclude all the Domestic Appliances businesses' shipments from our shipment data.

Moving forward, we will continue to drive efforts to further reduce emissions from air freight and are exploring options to source sustainable fuel alternatives for shipments, which will help us to reach our long-term emission reduction targets.

Although reduction is key to achieving carbon neutrality, unavoidable carbon emissions required offsetting to gradually drive down our emissions to zero by year-end 2022. We did this by financing projects in emerging regions that have a strong link with UN Sustainable Development Goals 3 (*Ensure healthy lives and promote well-being for all at all ages*) and 12 (*Ensure sustainable consumption and production patterns*). In 2022, we decreased offsets to 438 kilotonnes, equivalent to the annual uptake of approximately 13 million medium-sized oak trees. This covers the total emissions of our entire operations, including all CO₂-e

emissions from our sites, all business travel, and all transportation & distribution. We do this by financing carbon reduction projects through long-term carbon offsets in emerging regions that drive social, economic and additional environmental progress for the local communities, such as:

Providing access to safe drinking water while reducing wood consumption

This carbon-emission reduction project will provide millions of liters of safe drinking water in Uganda and will reduce the mortality risk from water-borne diseases. Additionally, less wood will be required for boiling water, leading to less indoor air pollution and slowing down the deforestation rate. To ensure quality, all offsets are verified under the Gold Standard.

Replanting degraded land while providing education on health matters

Planting trees will improve livelihoods and address issues such as deforestation, biodiversity loss, and adaptation to climate change and provide support and education including on HIV and malaria. To ensure quality, all offsets are verified under the VCS standard.

Protecting forests through sustainable production

Deforestation is reduced through promotion of sustainable businesses to protect the forest. Unsustainable harvest of fuelwood is reduced. The forest supports the supply of water to other parts of Ethiopia and neighboring countries. It is also the habitat of diverse and, in some cases, rare species. To ensure quality, all offsets are verified under the VCS standard.

Increasing employment through provision of sustainable energy

The energy supply gap is reduced by providing access to clean energy and related employment through wind generation in India. This enables an improvement in livelihoods. To ensure quality, all offsets are verified under the VCS standard.

Improving respiratory health and reducing deforestation through provision of clean cookstoves

By supporting a range of cookstove technologies across Ghana and Kenya, the projects improve respiratory health, reduce fuel costs and reduce deforestation for fuel. This also enables more time for paid work, thus improving prospects. To ensure quality, all offsets are verified under the Gold Standard.

Operational carbon footprint

Philips Group

Operational carbon footprint by scope in kilotonnes CO₂-equivalent unless otherwise stated

	2018	2019	2020	2021	2022
Scope 1	36	32	30	27	23
Scope 2 (market-based)	26	14	3	3	2
Scope 2 (location-based)	200	196	173	177	167
Scope 3	687	622	485	489	413
Scope 3 - Transportation & Distribution	540	470	415	417	327
Scope 3 - Business Travel	147	152	70	72	86
Total (scope 1, 2 (market-based), and 3)¹⁾	749	668	518	519	438
Emissions compensated by carbon offset projects	314	416	518	519	438
Net operational carbon emissions	435	252	-	-	-
Operational CO ₂ e efficiency in tonnes CO ₂ e/mln EUR sales	47.2	39.0	29.9	30.3	24.6

¹⁾ Considered as operational carbon footprint

In 2022, we updated our emission factors to the latest available sources to reflect the most accurate results. For more information, please refer to [Scope, starting on page 271](#). Historical emissions of our discontinued Domestic Appliances business have been excluded for all years, except for some combined ocean and road freight shipments in 2021 as described above. Where available, actual emission allocations were applied. Where business-specific emission data were not available, a spend allocation key was applied. Philips reports all its emissions in line with the Greenhouse Gas Protocol (GHGP).

Energy consumption

Philips Group

Energy consumption ¹⁾ in gigawatt hours (GWh) unless otherwise stated

	2018	2019	2020	2021	2022
Electricity consumption	421.6	403.5	381.6	389.1	382.1
Renewable electricity	374.6	382.0	381.3	389.1	382.1
<i>In-contract renewable electricity</i>	146.8	95.5	63.1	56.7	39.6
<i>Power Purchase Agreement (PPA)</i>	45.7	160.9	186.2	168.7	187.4
<i>Purchased renewable electricity certificates</i>	181.1	124.5	130.0	161.3	152.3
<i>Renewable electricity generated and consumed on-site</i>	1.0	1.1	2.1	2.4	2.7
Fuel consumption	146.1	134.7	133.8	120.6	102.7
Natural gas	137.0	127.3	126.4	116.3	97.7
Other non-renewable fuel	9.1	7.4	7.4	4.3	5.0
Purchased heat, steam and cooling	17.2	17.8	12.4	14.4	11.9
Total energy consumption	584.9	556.1	527.9	524.1	496.7
Renewable energy consumption	374.6	382.0	381.3	389.1	382.1
Renewable energy share	64%	69%	72%	74%	77%
Renewable electricity share	89%	95%	100%	100%	100%
Non-renewable energy consumption	210.3	174.0	146.5	135.0	114.7
Non-renewable energy share	36%	31%	28%	26%	23%
Sales to thirds in millions of EUR	15,878	17,147	17,313	17,156	17,827
Operational energy efficiency in GWh/millions EUR sales	0.037	0.032	0.030	0.031	0.028

¹⁾ This table reflects Philips energy consumption, excluding potential heat and transmission losses from electricity generation and transport

Our high-level plan to deliver on Science Based Targets

Philips has set long-term CO₂-e emission targets approved by the Science Based Targets initiative (SBTi) for all three scopes. The approval confirms that Philips' targets across our value chain are in line to limit global warming to below 1.5 °C. By joining forces with our customers and suppliers, we can reduce our shared carbon footprint and help create a sustainable and more resilient healthcare industry.

Together with our customers and suppliers, we intend to continue to reduce our collective need for fossil fuels by using renewable and energy-efficient alternatives. To deliver, we will focus on the following four objectives:

1. **Collaborating with our suppliers to reduce emissions in our supply chain**
 With growing global concerns about the impact of climate change, there is a pressing need for industry and business to manage and reduce CO₂-e emissions across the entire

value chain – including at supplier level. To this end, we have invited many of our largest suppliers – first-tier manufacturing and transportation-related suppliers – to report their climate performance and strategy as part of the Carbon Disclosure Project (CDP) Supply Chain program. Additionally, we engage with these suppliers to reduce their emissions as part of our **Supplier Sustainability program**. In October 2021, during COP26, we announced our ambition to have at least 50% of our suppliers (based on spend) committed to science-based targets for carbon reduction by 2025. At year-end 2022 already 41% of our suppliers (based on spend) had committed. Please refer to **Supplier indicators, starting on page 286** for more details.

2. **Minimizing our climate impact in our supply chain by adopting circular economy principles**
 From a climate perspective, applying circular business models leads to a significant emission reduction in our supply chain. As the value of materials is retained, the need for new abiotic resources is significantly reduced, and consequentially, the need for energy to produce those new resources/materials, leading to reduced emissions. This is also part of our **Circular Economy program**.
3. **Transitioning to lower carbon emitting energy in our sites**
 By continuing to phase out fossil fuels at our sites, we will be able to achieve our long-term emission targets. This entails, for example, moving towards geothermal and district heating and cooling solutions where available.
4. **Designing energy-efficient products and collaborating with our customers to reduce emissions during the use-phase**
 More and more, our customers – both in healthcare and retail – are seeking solutions that are less impactful to the environment. To address that demand, we are continuously reducing the climate impact of our products by increasing energy efficiency, increasing the use of recycled plastics and other recyclable materials, and ensuring we make our packaging easier to re-use and recycle. We see improving energy efficiency as a huge lever to deliver on our value chain emission reductions. In 2022, we performed an initial assessment of our scope 3 category Use of Sold Products by estimating the lifetime energy consumption and applying the Life-Cycle Assessment (LCA) methodology on a country-by-country basis. Initial results indicate that the emissions from the use of sold products are 3,898 kilotonnes CO₂-e, approximately 9 times more than our entire operational carbon footprint. This emphasizes the need to drive energy efficiency efforts under our **EcoDesign** program and collaborate with our customers to magnify our impact.

Water

Philips is not a water-intensive company. However, a number of our manufacturing sites are located in water-stressed regions in, for example, USA (California), India and Israel. With the help of the WRI Aqueduct tool, the water withdrawn from areas with high baseline water stress was identified across all Philips' industrial operations. It shows that around 13% of the industrial sites are located in Extremely High (>80%) baseline water stress areas. However,

the impact from these operational sites is very limited, only amounting to 4% of Philips' total water withdrawal.

We were included in the CDP "A-list" for water in the 2022 ranking, achieving a 'double-A' score when combined with our Climate Change results.

Total water withdrawal in 2022 was 677,632 m³, a 4% decrease compared to 2021 and a 5% reduction compared to 2019 (pre-COVID level). Water consumption in 2020 and 2021 was impacted by the government-mandated lockdowns and the working-from-home protocol – resulting in a significant reduction in water intake at several sites (mainly in China).

Diagnosis & Treatment, which consumes 46% of total water usage, recorded an 8% decrease, mainly caused by lower construction activity and effective processes, mitigated by a site expansion in India. Personal Health recorded a 4% increase. This was mainly due to the construction of a new factory in China, mitigated by decreased production volume at a water-intensive manufacturing site in Asia. Connected Care showed a decrease of 7%, due to the decreased production volume at a site in Asia, mitigated by construction activity at a site in North America.

Philips Group
Water withdrawal in thousands of m³

	2018	2019	2020	2021	2022
Diagnosis & Treatment	288	295	286	337	310
Connected Care	161	150	116	119	111
Personal Health	238	265	221	247	257
Philips Group	687	710	623	703	678

In 2022, 99.7% of water was purchased and 0.3% was extracted from groundwater wells.

Waste

In 2022, our manufacturing sites generated 22,802 tonnes of waste, an increase of 3% compared to 2021, mainly driven by the high impact of our construction activities in different locations across the globe and changes in the operations.

The Diagnosis & Treatment businesses increased waste by 7%, mainly driven by a strong increase in construction-related reused material in Best (see below), which was partially offset by the operational changes and lower construction activity on the other sites. The reported reused materials now constitute 22% of total waste. The Connected Care businesses increased waste by 5% due to the increased volume of reused materials and operational changes. The reported reused materials are 24% of the total waste. Personal Health decreased waste by 3% due to lower construction activity and changes in production.

Re-using temporary offices to house refugees

In the past, Philips in Best (Netherlands) decided to purchase temporary offices to resolve office space shortages, and after many years these temporary offices became redundant. Since the temporary offices were still of good quality, Philips made every effort to find a sustainable solution for the building and found a partner in COA (Centraal Orgaan opvang asielzoekers, the Dutch national organization helping asylum seekers). These units were completely refurbished for their new purpose: a COA location for people seeking asylum in the Netherlands. The 'new' building is located in Zeist. By re-using the offices, we are contributing to the provision of good housing for asylum seekers and to a circular society.

Philips Group
Total waste in tonnes

	2018	2019	2020	2021	2022
Diagnosis & Treatment	8,368	9,675	19,703	9,974	10,694
Connected Care	3,962	4,095	3,475	2,753	2,899
Personal Health	8,820	8,758	7,929	9,477	9,209
Philips Group	21,150	22,528	31,107	22,204	22,802

Until 2020, total waste consisted of waste that is delivered for landfill, incineration, waste to energy or recycling. We extended the scope with materials sent for reuse and other recovery as of 2021.

Materials delivered for reuse, other recovery or recycling via an external contractor amounted to 20,406 tonnes, which equals 89% of the total waste. Of the 11% remaining waste, 77% comprised non-hazardous waste and 23% hazardous waste. We recorded 1,484 tonnes of waste prevented in our own activities in 2022, compared to 1,525 tonnes in 2021.

Philips Group

Total waste by destination in tonnes

	Waste generated	Hazardous waste	Non-hazardous waste
Reuse	3,382	11	3,371
Recycling	16,978	1,582	15,396
Other recovery	46	0	46
Waste diverted from disposal by recovery operation	20,406	1,593	18,813
Incineration (with energy recovery)	1,802	156	1,646
Incineration (without energy recovery)	412	383	29
Landfilling	182	5	177
Waste directed to disposal by disposal operation	2,396	544	1,852
Total waste generated	22,802	2,137	20,665

Our sites addressed both the Circular Material Management percentage as well as waste sent to landfill, as part of our ESG commitments.

The Circular Material Management percentage has replaced the recycling percentage, and includes circular measures such as waste prevented, reuse and other recovery, but excludes waste delivered to landfill and incineration (with and without energy recovery) due to regulatory requirements. The Circular Material Management percentage was 91% in 2022, compared to 87% in 2021.

Our Zero Waste to Landfill KPI excludes one-time-only waste and waste delivered to landfill due to regulatory requirements. According to this definition, in 2022 we reported 1 tonne of waste sent to landfill, a significant reduction compared to 19 tonnes in 2021. All our 23 industrial sites achieved Zero Waste to Landfill status at the end of 2022.

Philips Group

Total waste by composition in tonnes

	Waste generated	Waste diverted from disposal	Waste directed to disposal
Wood	4,413	4,356	57
Paper/ cardboard	4,122	4,117	5
Metal scrap	3,490	3,440	49
Plastic waste	2,891	2,533	358
General waste	2,308	1,266	1,042
Demolition scrap	2,216	2,163	53
Chemical waste	2,117	1,570	547
Other	1,245	961	285

Philips included reduction targets for the substances that are most relevant for its businesses in its ESG commitment. For more details on emissions from substances, please refer to [Sustainable Operations, starting on page 277](#).

5.4 Social performance

Our people strategy and culture support a constantly evolving workforce capable of delivering strong business performance and executing our strategy. As such, we focus on developing our Workforce of the Future and delivering on our deep commitment to Inclusion & Diversity.

Together with the announcement of our Q3 results in October 2022, we had to take the difficult decision to reduce our workforce by approximately 4,000 roles globally. This was followed in January 2023 by the announcement of a further reduction of our workforce by an additional 6,000 roles globally. While executing these measures, we are committed to leading with openness, respect and care at every step of the way. We highly respect our impacted employees and are focused on providing support for them during this process and helping them find a new role.

5.4.1 Improving people’s lives

Lack of access to affordable, quality care is one of the most pressing issues of our time. Climate change is exacerbating this situation and putting the lives of millions of people at risk. At Philips, we are conscious of our responsibilities towards society and the planet. It is our purpose to improve people’s health and well-being through meaningful innovation. As such, we aim to improve the lives of 2.5 billion people a year by 2030. To ensure we remain on track to achieve this goal, we have developed an **integrated approach** that tells us how many lives have been improved by our products and solutions in a given year. We call this our Lives Improved model.

The Lives Improved model helps us to track our performance on a country-to-country basis in line with UN Sustainable Development Goal 3, allowing us to shape strategies to *ensure healthy lives and promote well-being for all at all ages*.

In 2022, Philips improved 1.81 billion lives, an increase of around 135 million compared to 2021. This increase was driven by a steady growth of all segments and the inclusion of our Picture Archiving and Communication System (PACS) products in the Lives Improved model. PACS is an image-management software within our Enterprise Diagnostic Informatics business. From a market perspective, we saw significant growth mainly in Latin America, North America, Asia Pacific, Iberia, Middle East & Turkey, and Africa.

Philips believes that improving access to healthcare requires meaningful innovation. It also requires a deep understanding of the relationship between all stakeholders and their specific needs in underserved communities to truly make a difference and help improve access to healthcare. We have an additional commitment to improve the lives of 300 million people in underserved communities with our health-related products by 2025, rising to 400 million by 2030. This commitment allows us to increase our focus on those populations where we can make a positive impact by providing access to effective and affordable healthcare for those in greatest need. By combining the strengths of Philips, Philips Ventures, Philips Foundation, and its partners, we can provide better healthcare and improve health outcomes for all. In 2022, our health-related solutions improved the lives of 202 million people in underserved markets (an increase of 35 million compared to 2021).

For more information, please refer to our **Lives Improved methodology** document.

Lives Improved per market

The following table shows the number of Lives Improved per market.

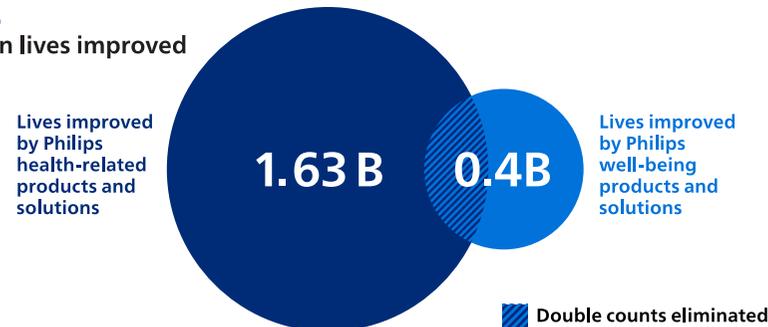
Philips Group
Lives improved per market

Market	Lives Improved (million) ¹⁾	Population (million) ²⁾	Saturation rate (as % of population)
Africa	29	1,340	2%
ASEAN & Pacific	125	976	13%
Benelux	26	30	87%
Central & Eastern Europe	79	164	48%
Germany, Austria & Switzerland	84	101	83%
France	44	68	64%
Greater China	496	1,442	34%
Iberia	47	58	81%
Indian Subcontinent	92	1,610	6%
Italy, Israel & Greece	47	81	58%
Japan	48	125	38%
Latin America	158	654	24%
Middle East & Turkey	72	378	19%
Nordics	19	28	68%
North America	360	369	98%
Russia & Central Asia	50	252	20%
UK & Ireland	41	73	56%

¹⁾ Source: Philips, double counts eliminated

²⁾ Source: The World Bank, CIA Factbook & Wikipedia

Philips Group
1.81 billion lives improved



5.4.2 Our culture

Culture is foundational to achieving our strategic ambitions. Our behaviors create a shared understanding of how we all need to act in order to live up to our purpose of improving the lives of people around the world. All Philips employees are expected to commit to living our behaviors – customers first, patient safety, quality and integrity always, team up to win, take ownership to deliver fast, and be eager to improve and inspire – every step of the way. As we evolve our culture, we will drive patient- and people-centricity, accountability and empowerment, transparency and execution rigor in order to become an industry-leading player in HealthTech.

As we continue strengthening our position as a focused leader in health technology, leading with open, respectful and caring communication is critical. We foster a culture within Philips that will help us achieve operational excellence and extend our solutions capability to address our customers' unmet needs. Patient safety and quality are at the heart of our purpose. To further strengthen our patient- and people-centric culture, we launched in 2022 a company-wide 'Accelerating Patient Safety & Quality' culture program. We also foster an inclusive and psychologically safe environment where our people feel valued for who they are and for their contributions. We do this through our rich Well-being offering, as well as a 'Speak Up!' campaign in 2022. As a health technology leader, the health and well-being of our people is imperative for success.

In the wake of the evolving external economic, geopolitical, and global health situation, we remain flexible in our ways of working, making use of learnings developed through the COVID-19 pandemic. We have embraced a hybrid working model that offers greater flexibility and improved collaboration across teams. Our new ways of working are defined by three goals:

- Embracing flexibility: Making innovative choices for how and where to work, allowing more autonomy for our employees.
- Being at our best: Caring for ourselves, each other and our customers, patients and consumers. This means prioritizing our own well-being, as well as making time for personal growth and development.
- Impactful collaboration: Creating moments to come together, supporting employees' sense of connection and belonging, so we can build strong teams, generate ideas and solve problems.

All of the above underpins how we lead, engage, hire and develop our employees. We have been focusing on well-being, deepening our leadership asks into the organization and supporting our culture shift as a leading innovative, customer-focused health technology company.

We are building an organization that is fit for today and the future with the skills and capabilities needed to successfully deliver on our strategic imperatives. We attract, onboard and retain the best talent to accelerate our business transformation.

5.4.3 Workforce of the Future

In 2022, transforming our organization and workforce for the future remained a key pillar of our People strategy. We are operating in a fast-changing landscape and adapting to changes in the nature of work accelerated by the pandemic. Moreover, at the end of 2022, a company-wide change initiative was launched. This requires us to continuously evolve capabilities in support of our business transformation. Our focus on the Workforce of the Future helps us attract, onboard, develop and retain a workforce that is fit for today and future with the skills and capabilities to successfully deliver on our strategic imperatives.

We staff our positions based on assessed behavior, potential and capabilities. In 2022, we filled 71% of our Director-level and more senior positions from within the company. We ensure our candidates are high performers with strong potential – more than 69% of all internal vacancies were filled by appointing top performers. We supplement this internal growth with targeted external hiring, bringing in employees with the behaviors and capabilities we require for our Workforce of the Future.

Strategic Capability Building

We apply an enterprise-wide Strategic Workforce Planning approach, which all businesses, markets and functions adopt as part of the strategic planning cycle, to identify and develop the capabilities needed to realize our ambitions as a health technology company. This approach recognizes that capabilities are complex, with people, processes and systems being developed holistically. In 2022, we strengthened our focus on strategic priorities and top talent and used the lens of strategic enterprise capabilities to streamline our talent attraction, onboarding, and development initiatives.

Total Workforce Strategy

We continue our Total Workforce Strategy, which considers all sources of skills, capabilities, locations and changes in the labor market in order to deliver the Workforce of the Future. Our Right Shoring & Sourcing methodology is used to implement this strategy. This methodology steers improvements in workforce composition towards the 'right shore' (onshore, nearshore and offshore) and the 'right source' (employees, contingent workers and outsourced). The program has delivered € 20 million in savings in 2022.

We continue working with the Freelance Management System, which covers India, Netherlands, Germany and the USA. By advertising opportunities for freelancers on our own career site alongside employee jobs, in 2022 we filled 48% of all our freelancer roles without having to go through staffing agencies.

Our Philips-wide Graduate Development Program (GDP) continues to perform well and has increased from 40 participants in 2021 to 285 in 2022. The GDP lasts two years and includes three job rotations, as well as offering the graduates a comprehensive learning and development track and access to career centers to help guide future steps. We continue focusing on campus hiring, with 901 campus hires in 2022. Philips also offered meaningful work experience to 1,822 interns in 2022, and they formed a critical source of our graduate hires – with 55% of all graduate hires having been an intern with us prior.

More information on training and learning programs can be found in [People development, starting on page 282](#).

5.4.4 Inclusion & Diversity

As a health technology leader, we attach great importance to the health and well-being of our workforce and to creating an environment of inclusion and belonging, where all employees feel psychologically safe. Our company’s success depends on our employees feeling valued, respected, and empowered to contribute fully. We are a diverse team made up of some 77,000 individuals across over 100 countries, all with different backgrounds, perspectives, and experiences. We fully value and leverage these differences to ensure that creativity and innovation can flourish. Philips’ commitment towards Inclusion & Diversity is reflected in our General Business Principles and the company-wide Inclusion & Diversity Policy and Fair Employment Policy.

Representation

We continue to put in place measures to enhance representation of diverse talent at all levels within the organization, and to ensure that representation at senior management levels reflects the diversity of our stakeholders, including consumers, our customers and their patients.

To this end, in 2022, Philips restated its commitment to having 35% of senior management positions held by women, by the end of 2025. Senior management positions (including senior directors and executives) amount to approximately 1,300 employees. As of year-end 2022, we had reached our initial goal (set in 2020) of a 30% representation of women in senior management.

Our Supervisory Board has adopted the Diversity Policy for the Supervisory Board, Board of Management and Executive Committee, which also includes the Supervisory Board’s aim that at least one-third of the members of each of the Board of Management and the Executive Committee are women and at least one-third are men. For more information on the Diversity Policy, please refer to [Report of the Corporate Governance and Nomination & Selection Committee, starting on page 115](#). At year-end, none of the three members of the Board of Management were women, and two out of the other nine members of the

Executive Committee were women. These numbers reflect a slight decline compared to previous years (2021: 3 out of 13; 2020: 3 out of 15), pending expected announcements of new leaders. The company generally seeks to fill vacancies by considering candidates that bring a diversity of (amongst others) gender, and it is noted that the selection of candidates is based on merit and there have been and may be pragmatic reasons – such as other relevant selection criteria and the availability of suitable candidates – that have impacted the achievement of our gender diversity goals.

Long-term Inclusion & Diversity ambitions are embedded in our People strategy. In our ongoing effort to increase transparency and accountability, we are sharing data on the representation of women throughout our businesses, markets and functions, including a monthly review with the Executive Committee. We closely monitor the inflow, advancement and outflow of talent, which makes it possible to customize goals and intervene where appropriate. We continue various initiatives around unconscious bias, health and well-being, inclusion and development of underrepresented talent.

Philips Group
Gender diversity in %¹⁾



¹⁾ Includes Domestic Appliances

Global Diversity Council

Our Global Diversity Council is comprised of 10 senior leaders representing our businesses, markets and functions. The Council provides governance and oversight on diversity efforts, promotes company-wide behavior change, and communicates on progress. Additionally, every Council member is an Executive Sponsor to one of our Employee Resource Groups.

Employee Resource Groups

Since 2016, Employee Resource Groups (ERGs) provide an inclusive space for employees to support and care for one another, develop skills, experience meaningful cultural connections, expand their knowledge, all while strengthening relationships among the Philips community.

Philips currently has 13 ERGs globally, with over 7,000 employees participating: Able & Allies; Asian Employee Resource Group; Black Employee Resource Group; #BeTheChange Network; Caregivers Network; Future Leaders and Rising Employees; Latinx Employee Resource Group; Middle Eastern Employee Resource Group; Philips Empowering Parents; Philips Women Lead; Pride Network; Veterans and Family Coalition; and Neurodiversity Network.

Health & Well-being

In 2022, we embedded our health and well-being framework further across our businesses, markets and functions. We continued to address mental health by rolling out the Employee Assistance Program (EAP), extending the service to a further 25 countries, including crisis support for Ukraine and Poland.

We grew our Mental Health Champion program to 180 Champions across the globe, providing accredited training for peer-to-peer confidential support. We also encouraged leader-led dialogues on mental health, to remove stigma and help engender a sense of psychological safety.

Our efforts culminated in World Mental Health Day, with a variety of virtual mental well-being sessions and self-care tips that engaged employees from across our markets. In collaboration with Philips University, the Philips Energy Management well-being program was further extended across the organization.

Building Capability

In 2022, we continued the deployment of Unconscious Bias training across the organization while focusing new content on Allyship, Resilience and Psychological Safety. In North America, we launched four mandatory e-learnings, reaching our 20,000 employees in this market.

External awards

Many stakeholders, including customers and potential partners and employees, view third-party assessments as objective indications of how well we are demonstrating the strength of our commitment. Awards received in 2022 included: Forbes Best Employers for Women; Forbes Best Place to Work in America; Forbes World Best Employers; and 100% Human Rights Campaign's Corporate Equality Index.

5.4.5 Employee engagement

We continue to keep a close pulse on our employee sentiment through our quarterly Employee Engagement Survey. In 2022, average employee engagement scores remained high at 77% in line with the Fortune 500 benchmark. However there was a decline in overall engagement levels in the second half of 2022. This feedback does not come as a surprise given the recent challenges that the company has encountered and the announcement of productivity measures.

Philips Group
Employee Engagement index

	2020	2021	2022
Favorable	79%	79%	77%
Neutral	14%	14%	15%
Unfavorable	7%	7%	8%

In a challenging business environment, we listened actively to our employees to provide them with greater clarity on future direction and proactively deal with change to meet our customer and patient needs. Using the Customer Experience Index we look at how well employees think we orient ourselves to customer needs. These inputs are actively exchanged with the customer experience team to design and work on related programs.

Our employee engagement is primarily driven by how proud our employees feel to work for Philips, as well as feeling that they can be themselves and have trusting relationships at work. Another significant factor driving engagement is our high scores on the Inclusion & Diversity index, which stays above the Industry Benchmark.

5.4.6 Employment

The total number of Philips Group employees was 77,233 at the end of 2022, compared to 78,189 at the end of 2021, a decrease of 956 FTE.

Together with the announcement of our Q3 results in October 2022, we had to take the difficult decision to reduce our workforce by approximately 4,000 roles globally. This was followed in January 2023 by the announcement of a further reduction of our workforce by an additional 6,000 roles globally. As we go through this change, we do it with the utmost care and respect for our people, with a strong focus on supporting them in finding a new role.

Subject to local country legislation, our support offers include:

- Social Plan or respective severance policy
- Outplacement services and support through our Employee Assistance program
- Work placement agency, where applicable, for an Employment-to-Employment support
- Redeployment – where possible – as applicable by local legislation and in the context of the hiring restrictions

Philips Group Employees per segment in FTEs at year-end

	2020	2021	2022
Diagnosis & Treatment	32,193	32,390	32,904
Connected Care	15,866	17,751	16,673
Personal Health	10,253	10,134	9,319
Other	16,689	17,913	18,337
Philips Group	75,001	78,189	77,233

Philips Group Employment in FTEs

	2020	2021	2022
Balance as of January 1	73,311	75,001	78,189
Consolidation changes:			
Acquisitions	72	2,594	87
Divestments		(744)	(33)
Other changes	1,618	1,338	(1,010)
Balance as of December 31	75,001	78,189	77,233

Geographic footprint

Approximately 58% (2021: 59%) of the Philips workforce is located in mature geographies and 42% (2021: 41%) in growth geographies. In 2022, the number of employees in mature geographies decreased by 1,774. The number of employees in growth geographies increased by 819.

Philips Group Employees per geographic cluster in FTEs at year-end

	2020	2021	2022
Western Europe	19,925	19,775	19,297
North America	21,118	21,807	20,618
Other mature geographies	4,664	4,683	4,576
Mature geographies	45,707	46,265	44,491
Growth geographies	29,294	31,923	32,742
Philips Group	75,001	78,189	77,233

Employee turnover

In 2022, employee turnover amounted to 17.5%, of which 11.1% was voluntary, compared to 17.6% (10.0% voluntary) in 2021. External benchmarks show that our voluntary employee turnover remains in line with similar-sized companies, and that we are reasonably successful in retaining our employees.

Philips Group Employee turnover 2022

	Staff	Professionals	Management	Executives	Total
Female	23.2%	16.7%	14.6%	22.4%	19.6%
Male	19.5%	14.5%	14.5%	17.5%	16.2%
Philips Group	21.3%	15.3%	14.5%	18.7%	17.5%

Philips Group Voluntary turnover 2022

	Staff	Professionals	Management	Executives	Total
Female	12.9%	11.8%	9.2%	11.8%	12.2%
Male	11.8%	9.9%	8.2%	7.1%	10.4%
Philips Group	12.3%	10.5%	8.5%	8.2%	11.1%

5.4.7 Equal opportunities and equal pay

Philips is committed to ensuring equal pay for equal work. In the Netherlands, Philips was certified for Gender Equality by Economic Dividends for Gender Equality (EDGE) in 2021. The study did not find a gender pay gap that exceeds the threshold as set by EDGE. Philips continues to study gender pay parity using EDGE methodology. Many countries in which Philips operates have already undertaken pay equity reviews, for example in Australia, UK, Sweden, India and certain US states. In the US, Philips will be executing a company-wide Pay Equity Project during 2023, originally scheduled for 2022, building on work completed at US state level.

5.4.8 Living wage

Philips can only achieve its aim to improve the lives of 2.5 billion people per year by 2030 if we support and empower our people, so they can be their best and perform effectively. To this end, we conducted a living wage analysis for the fourth year in a row on the lowest salaries in every country in which we currently operate.

The living wage is a concept defined by Anker and Anker (2017) as “Remuneration received by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, healthcare, transport, clothing, and other essential needs, including provision for unexpected events”. We combined forces with Valuing Nature, several local NGOs, WageIndicator and other global corporates to develop living wage standards that are complete and have a reliable geographical scope.

Based on the living wage analysis conducted in 2022, all Philips employees received wages and benefits that are consistent with at least the minimum Living Wage standard for an individual. Furthermore, 99% of Philips employees received wages and benefits that are consistent with at least the minimum Living Wage standard for a family (based on reference data from WageIndicator). Assuming no significant changes in reference data, it is expected that the wages of the 1% of employees currently below the family standard will be within that standard in the course of 2023.

5.4.9 Health and Safety

In 2022, the safety of our employees remained paramount. However, as the COVID-19 pandemic entered the endemic phase, the centralized controls put in place during the pandemic were relaxed in line with local governments’ advice. Control was gradually returned from the Group Crisis Operations Team to the local Crisis Management Teams. As Philips started to resume normal operations, office occupancy started to rise and business travel restarted. However, critical control measures were maintained, including maintaining safety stocks of PPE, and the internal website containing guidance was updated regularly. Campaigns and advice concerning the importance of vaccinations was promoted widely. Philips has emerged from the pandemic with a good record of management and control that restricted the impact of the pandemic on employees and the wider business operations.

At Philips, we strive for an injury-free and illness-free work environment. Since 2016, the Total Recordable Cases (TRC) rate has been defined as a Key Performance Indicator (KPI). A TRC is a case where an injured employee is unable to work for one or more days, has medical treatment, or sustains an industrial illness. We set yearly TRC targets for the company, businesses and industrial sites.

We recorded 172 TRCs in 2022, a 19% decrease compared to 213 in 2021. While our workforce continued to expand in 2022, the TRC rate decreased from 0.29 per hundred FTEs in 2021 to 0.23 in 2022.

In 2022 we recorded 81 Lost Workday Injury Cases (LWIC). These are occupational injury cases where an injured person is unable to work for one or more days after the injury. This represents a 29% decrease compared with 114 in 2021. The LWIC rate decreased to 0.11 per 100 FTEs in 2022, compared with 0.16 in 2021. The number of Lost Workdays caused by injuries decreased by 216 days (5%) to 4,020 days in 2022.

For more information on Health and Safety, please refer to [Health and Safety performance, starting on page 284](#)

5.4.10 Human rights

Philips strongly believes that companies have both the responsibility to respect human rights and the ability to protect them. Philips’ Human Rights Policy, General Business Principles, and other relevant policies detail how Philips respects human rights, in line with the International Bill of Human Rights and the International Labor Organization’s Declaration on Fundamental Principles and Rights at Work. In this regard, Philips also follows the guidance given in the UN Guiding Principles on Business and Human Rights and the Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises. Philips has also been a signatory to the UN Global Compact since 2007. Philips’ ESG Committee, composed of Executive Committee members and senior executives from businesses and functions across Philips, leads our efforts and actions. The

Committee is responsible for strategy and oversight of all company activities across the three ESG dimensions. The Committee also monitors progress and takes corrective action where needed.

In 2022, we continued to develop our due diligence strategy by conducting Human Rights Impact Assessments (HRIA). Based on an updated risk analysis, the United States was added as a country of focus for Human Rights Impact Assessments, primarily due to the size of Philips' operations in this country. To efficiently cover more sites in the future, Philips also developed a remote assessment methodology to be used in conjunction with the on-site approach, which will help to better identify locations requiring on-site visits.

While no non-compliances were found in the two assessments carried out in 2022, ways to reduce risks concerning workers' health and safety and management of overtime were identified. There was also a lack of awareness among some production employees regarding General Business Principles reporting mechanisms, for whom the company is identifying more effective training mechanisms. Continuous support during the implementation of the action plan has been put in place.

Although the Human Rights Impact Assessment of selected sites is primarily focused on Philips own operations, a new deep-dive approach for certain suppliers was further developed and rolled out in 2022. For eight suppliers, a focused assessment on human rights was conducted, compared with the broader Supplier sustainability assessment approach which covers sustainability more holistically and is detailed in [Supplier sustainability, starting on page 25](#).

In 2022, we also deployed new training materials on our GBP, targeting employees without regular access to a computer, or otherwise unable to complete the online training module. For the approximately 12,000 employees who are not able to take the online General Business Principles course, an offline General Business Principles training has been created that was rolled out across various sites. Our [Human Rights Report](#) contains detailed information regarding our progress, targets, and plans for continuous improvement.

5.4.11 Philips Foundation

Stichting Philips Foundation, an independent foundation organized under Dutch law, is a registered charity established in 2014. In 2022, Royal Philips supported the Philips Foundation with a contribution of EUR 6.7 million, and provided the operating staff as well as the expert assistance of skilled employees in the execution of the Foundation's programs.

The Philips Foundation's mission is to reduce healthcare inequality by providing access to quality healthcare for underserved communities through meaningful innovation. It does this through the provision and application of Philips' healthcare expertise, innovation power, talent and resources and by financial support. Together with key partners around the globe

(including respected NGOs such as Red Cross organizations, UNICEF, Amref and Save the Children), the Philips Foundation seeks to identify challenges where a combination of Philips expertise and partner experience can be used to create meaningful solutions that have an impact on people's lives.

For more information on the Philips Foundation, please refer to [Philips Foundation, starting on page 285](#).

5.4.12 Working with stakeholders

In organizing ourselves around customers and markets, we conduct dialogues with our stakeholders in order to explore common ground for addressing societal challenges, building partnerships and jointly developing supporting ecosystems for our innovations around the world.

An overview of stakeholders and topics discussed is provided in [ESG statements, starting on page 266](#).

For more information on our stakeholder engagement activities in 2022, please refer to [Stakeholder engagement, starting on page 293](#).

5.5 Governance

5.5.1 Corporate governance structure

Koninklijke Philips N.V. (Royal Philips), a company organized under Dutch law, is the parent company of the Philips group. Its shares have been listed on the Amsterdam stock exchange (Euronext Amsterdam) since 1912. Furthermore, its shares have been traded in the United States since 1962 and have been listed on the New York Stock Exchange since 1987.

Royal Philips has a two-tier board structure consisting of a Board of Management and a Supervisory Board, each of which is accountable to the General Meeting of Shareholders for the fulfillment of its respective duties.

The company is governed by Dutch corporate and securities laws, its Articles of Association, and the Rules of Procedure of the Board of Management and the Executive Committee and of the Supervisory Board respectively. Its corporate governance framework is also based on the Dutch Corporate Governance Code (dated December 8, 2016) and US laws and regulations applicable to Foreign Private Issuers. Additionally, the Board of Management has implemented the Philips General Business Principles (GBP) and underlying policies, as well as separate codes of ethics that apply to employees working in specific areas of our business, i.e. the Financial Code of Ethics and the Procurement Code of Ethics. Many of the documents

referred to are published on the company's website and more information can be found in [Our approach to risk management, starting on page 88](#).

Please also refer to [Corporate governance, starting on page 132](#) where the main elements of the company's corporate governance structure have been addressed.

5.5.2 Philips Business System

Our operating model – the Philips Business System (PBS) – integrates key aspects of how we operate – from our strategy, governance, organizational design, processes and systems, to our people and team practices, and our culture and performance management.

Towards the end of 2022 we initiated the process of simplifying the way we work to drive accountability and agility, and to unlock significant productivity and margin gains. This simplification – with end-to-end accountable businesses supported by a much leaner Group layer and a culture of patient and people centricity, innovation impact and clear accountability – is a primary enabler to drive flawless execution.

It is designed to help us to fulfill our purpose of improving the health and well-being of billions of people and ensure the highest standards of quality and integrity in everything we do.

5.5.3 Quality & Regulatory and patient safety

Enabling the delivery of patient-centric, safe and high-quality care – the essence of patient safety and quality – is inextricably linked to Philips' purpose to improve the health and well-being of people through meaningful innovation. Patient safety and quality management represents the very foundation of our license to operate as a health technology company. Compliance with quality and regulatory standards is a pre-requisite for ensuring patient safety, which is Philips' highest priority.

Philips' reputation – and ultimately our long-term business continuity and success – fully depends on the quality and safety of our products, services and solutions for patients, customers and consumers, and on our compliance with global regulations and standards. This has never been more crucial than in this last year as we continued to remediate the devices included in the Philips Respironics recall: see section below, 'Philips Respironics voluntary recall notification'.

Acting with due urgency, in 2022 we accelerated our focus on patient safety and quality, with the goal of achieving and maintaining the highest level of quality. We upgraded the Quality & Regulatory leadership team with emphasis on medical technology expertise; over 90% of the renewed team has direct industry experience. We further strengthened our Post Market Surveillance global complaint handling organization and improved ways of working; this represents a significant milestone toward improving investigation and issues reporting

and moving away from transactional elements of complaint handling. In addition, Philips continued to focus on harmonizing processes and enhancing the quality culture across the enterprise. Activities include training approximately 77,000 employees throughout the world on key process changes and refreshers on quality and regulatory topics.

As a global business, we must ensure compliance with various and evolving regulations and standards. In the dynamic medical technology industry, we also must stay ahead of innovation and trends such as data privacy and cybersecurity. This involves increased levels of investment to meet the competitive demands and evolving regulatory compliance activities in such areas as secure electronic transmission and storage solutions for protected personal information, protected health information, financial information, intellectual property, and other sensitive information related to our customers, consumers, patients, and workforce. For information on how Philips manages cybersecurity risk, please refer to [Operational risks, starting on page 96](#).

Quality

Quality is an integral part of the leadership and culture at Philips. Philips is committed to delivering the highest quality products, services and solutions, which are compliant with all applicable laws and quality and safety standards. We continuously strive to raise our performance in ensuring quality, which is demonstrated by the continued, substantial investment to embed quality through standardization and adoption of industry best practices throughout our Quality Management Systems and enhanced capabilities.

Through quality system improvement program activities, our aim is to enhance consistency in how we work, collaborate, and make decisions. Our critical Accelerating Patient Safety & Quality program initially focused on awareness and compliance improvements, triaging, and process design. Examples of improvements include reducing and consolidating our Quality Management Systems from 107 to 75 by year-end 2022, with further reductions planned. In 2022 we harmonized and improved consistency for a significant number of processes across Philips to enhance our best practices and implemented standard education programs tailored to specific roles plus many mandatory all-employee, quality-related courses for capability building and to demonstrate compliance. The program is now focused on further strengthening design and product reliability, and patient safety and quality culture and competencies, while continuing efforts reducing complexity. This is an ongoing journey of continuous improvement and we expect our plans to yield demonstrable progress starting in 2023.

In 2022, we updated our Quality Policy, which expresses our overall intention and direction with respect to quality. Established by management with executive responsibility, it states our objectives for, and commitment to, quality. Everyone at Philips is responsible for understanding, implementing, and maintaining the Quality Policy, and all employees now have patient safety and quality as one of five key KPIs. Underscoring leadership's continued

commitment, all Philips business leaders are held accountable for patient safety and quality, and performance on Quality metrics will be part of the remuneration of all Philips Executives.

Regulatory compliance

As required by global regulatory requirements, Philips actively maintains Quality Management Systems that establish procedures, processes and documentation to ensure quality at each stage of the product lifecycle. These requirements outline actions from product design and pre-market submissions, production, operations, distribution, servicing and post-market management and oversight in every market we serve. These requirements include those from national government regulatory authorities (e.g. the US Food and Drug Administration and China National Medical Products Administration), Notified Bodies, and National Competent Authorities in the EU.

Products that we introduce to the market often must undergo pre-market regulatory review (e.g. pre-market approval (PMA), pre-market notification (510(k), or *de novo* authorization) before they can be marketed and sold in the USA as an FDA-regulated device, subjected to Notified Body review in the EU for a CE Mark, and subjected to review in China by the National Medical Products Association. If the regulatory body reviewing the submission determines that the required supporting data has not been provided, further data may be required to obtain the clearance or approval, which could prolong the process to market the product. During the lifecycle of a cleared/approved device, any modification that could significantly affect its safety or effectiveness, or that would constitute a new or major change in its intended use, may require a further regulatory submission and review. Regulatory bodies require each manufacturer to determine whether the proposed change requires a submission, but can review any such decision and disagree with a manufacturer's determination. If the regulatory body disagrees with a manufacturer's determination regarding whether a new submission is required for the modification of an existing device, they can require the manufacturer to cease marketing and/or recall the modified device until the relevant approval/clearance is obtained. In addition, in these circumstances, significant regulatory fines or other penalties may be imposed.

We also must comply with the EU's Waste from Electrical and Electronic Equipment (WEEE), Restriction of Hazardous Substances (RoHS), and Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), Energy-using Products (EuP), and other product safety regulations.

Post-market Regulation

After a device is cleared or approved for marketing, numerous and pervasive regulatory requirements continue to apply. In the USA these include:

- establishment of registration and device listing with the FDA;

- Quality System Regulation (QSR) requirements, which require manufacturers, including third-party manufacturers, to follow stringent design, testing, control, documentation and other quality assurance procedures during all aspects of the design and manufacturing process;
- labeling regulations and restrictions, including, for example, prohibitions against the promotion of investigational products, the promotion of "off-label" uses of cleared or approved products, or the use of false, misleading or unsubstantiated claims or statements;
- requirements related to promotional activities;
- clearance or approval of product modifications to 510(k)-cleared or, *de novo*-authorized devices that could significantly affect safety or effectiveness or that would constitute a major change in intended use of one of our cleared devices, and approval of certain modifications to PMA-approved devices;
- medical device reporting regulations, which require that a manufacturer report to the FDA if a device it markets may have caused or contributed to a death or serious injury, or has malfunctioned and the device or a similar device that it markets would be likely to cause or contribute to a death or serious injury, if the malfunction were to recur;
- correction, removal and recall reporting regulations, which require that manufacturers report to the FDA field corrections and product recalls or removals if undertaken to reduce a risk to health posed by the device or to remedy a violation of the FDCA that may present a risk to health;
- the FDA's notification and recall authority, whereby the agency can order a device manufacturer to take certain actions if the FDA determines the manufacturer's device presents an unreasonable risk of substantial harm to public health, such as: provide notice to users and other affected stakeholders; submit a plan for the repair, replacement or refund of devices; or recall the device from the market;
- post-market surveillance activities and regulations, which apply when deemed by the FDA to be necessary to protect the public health or to provide additional safety and effectiveness data for the device.

Our manufacturing processes are required to comply with the applicable portions of the QSR and/or ISO13485, which cover the methods and the facilities and controls for the design, manufacture, testing, production, processes, controls, quality assurance, labeling, packaging, distribution, installation and servicing of finished devices intended for human use. The QSR also requires, among other things, maintenance of a device master file, device history file and complaint files. As a manufacturer, we will be subject to periodic scheduled or unscheduled inspections by the FDA, Notified Bodies or other relevant regulatory bodies. Our failure to maintain compliance with the QSR or ISO 13485 requirements could result in the shut-down of, or the imposition of restrictions on, our manufacturing operations, imposition of an import alert, or the recall or seizure of our products, which would have a material adverse effect on our business. The discovery of previously unknown problems with any of our products, including unanticipated adverse events or adverse events of increasing

severity or frequency, whether resulting from the use of the device within the scope of its clearance or off-label by a physician in the practice of medicine, could result in restrictions on the device, including the removal of the product from the market or voluntary or mandatory device recalls.

In the USA, the FDA has broad regulatory compliance and enforcement powers, which it can impose on its own or in coordination with the Department of Justice (DoJ), which has separate enforcement authority. If the FDA determines that we failed to comply with applicable regulatory requirements, it may lead to any of the following sanctions:

- warning letters, untitled letters, fines, injunctions, consent decrees and civil penalties;
- orders to issue notifications to users and other stakeholders, or to submit to the FDA a plan for the repair, replacement or refund of devices;
- recalls, withdrawals or administrative detention or seizure of our products;
- operating restrictions or partial suspension or total shutdown of production;
- refusing or delaying requests for 510(k) marketing clearance, *de novo* authorization, or PMA approvals of new products or modified products;
- withdrawing 510(k) clearances, *de novo* authorizations, or PMA approvals that have already been granted;
- refusal to grant export approvals for our products; or
- criminal prosecution.

European Union Medical Device Regulation

The European Union Medical Device Regulation (EU-MDR) passed its date of application (May 26, 2021). For a portion of the portfolio, we used the available grace period, where products that were placed on the market under the predecessor of the EU-MDR, the European Union Medical Device Directive (EU-MDD), can continue to be placed on the market if meeting a subset of EU-MDR requirements in addition to the EU-MDD requirements. Reasons for this include stock depletion management and Notified Body capacity limitations. Throughout 2022, we made progress in transitioning some of the portfolio to become EU-MDR-compliant. We also started registering our entities and medical devices in the European Database for Medical Devices (EUDAMED) on a voluntary basis.

As the global regulatory environment continues to evolve, we are working to address the impact on cost, time and resources needed to obtain future approvals, and our ability to maintain existing approvals for our products, services, and solutions.

Philips Respironics voluntary recall and consent decree

On June 14, 2021, Philips' subsidiary, Philips Respironics, initiated a voluntary recall notification in the United States, and field safety notice outside the United States, for certain sleep and respiratory care products to address identified potential health risks related to the polyester-based polyurethane (PE-PUR) sound abatement foam in these devices.

This recall let down the patients who depended on them, as well as their caregivers, and we are deeply sorry for that. We are treating this matter with the highest possible seriousness and are working to address this issue as efficiently and thoroughly as possible.

1. Following the substantial ramp-up of production, service and repair capacity in 2021 and 2022, by year-end 2022 around 90% of the production required for the delivery of replacement devices to patients had been completed. In order to expedite the completion of the recall, Philips Respironics will increase the proportion of new replacement devices.
2. Working with five certified, independent testing laboratories in the US and Europe and other third-party qualified experts and an external medical panel, we have been conducting a comprehensive test and research program on the PE-PUR foam to better assess and scope the potential patient health risks related to possible emissions of particulate from degraded foam and Volatile Organic Compounds related to the first-generation DreamStation devices. We provided an update to healthcare providers, patients, and other stakeholders in **June 2022** and **December 2022**, outlining encouraging test results for the first-generation DreamStation (DS1), which accounts for over two thirds of the sleep therapy devices subjected to the recall.

The company developed and began executing a comprehensive plan to replace the PE-PUR sound abatement foam used in earlier-generation devices, with the new material used in next-generation products such as DreamStation 2, which was cleared by the US FDA and approved by many competent authorities around the world. Philips Respironics has regularly been communicating progress to regulators and competent authorities around the world, as well as customers, clinicians, and patients, to complete the needed repairs and replacements associated with this recall. In certain circumstances, the products in question may be replaced or financially compensated rather than repaired.

While third-party lab and internal testing efforts are ongoing, the company will continue with the remediation activities for all devices and continues to communicate with customers through a variety of channels.

- Philips Respironics will also continue to monitor complaints received following the recall/field safety notice via our Quality Management System, in accordance with the medical devices regulations and laws in the markets that we serve.

Following the FDA's inspection of a Philips Respironics manufacturing facility in connection with the recall and the subsequent inspectional observations, the US DoJ, acting on behalf of the FDA, began discussions with Philips in July 2022 regarding the terms of a consent decree to resolve the identified issues. Philips is engaged in ongoing discussions with FDA and DoJ on the proposed consent decree. For more information, see Note [Contingencies, starting on page 204](#).

Consent decree – ECR

In October 2017, Philips North America LLC reached agreement on a consent decree with the US Department of Justice, representing the Food and Drug Administration (FDA), related to compliance with current good manufacturing practice requirements arising from inspections conducted in 2015 and prior, focusing primarily on Philips' Emergency Care & Resuscitation (ECR) business operations in Andover, Massachusetts, and Bothell, Washington.

Following a successful inspection in Bothell, Washington, in April 2020, the FDA determined that Philips had met the conditions for resuming manufacturing and distribution of defibrillators in the US. The consent decree remains in effect for several years, during which the Emergency Care (formerly Emergency Care & Resuscitation) business will be subject to a series of annual assessments by an independent expert. Hospital Patient Monitoring (formerly Monitoring & Analytics), also named in the consent decree, is also under a heightened level of scrutiny over the same period.

Substantial progress continues to be made in our compliance efforts. In August 2021, the FDA inspected Emergency Care in Bothell as a consent decree follow-up. Three observations (Form 483) were issued and subsequently remediated and reported to the FDA. The FDA later presented Emergency Care with four Establishment Inspection Reports dating back to 2015, signaling the closure of the four open inspections. There was a consent decree follow-up inspection in October 2022, resulting in three observations (Form 483). These will soon be reported as fully remediated.

We cannot predict the outcome of this matter, and the consent decree authorizes the FDA, in the event of any violations in the future, to order us to cease manufacturing and distributing Emergency Care or Hospital Patient Monitoring devices, recall products, pay liquidated damages, and take other actions. We cannot currently predict whether additional monetary investment will be incurred to resolve this matter or the matter's ultimate impact on our business.

5.5.4 Remuneration policy

Our remuneration policy is designed to encourage employees to deliver on our purpose and strategy and create stakeholder value, and to motivate and retain them. Our executive long-term incentive plan includes environmental and social commitments. A description of the composition of the remuneration of the individual members of the Board of Management and the Supervisory Board is included in [Report of the Remuneration Committee, starting on page 116](#).

5.5.5 General Business Principles

While pursuing our business objectives, we aim to be a responsible partner in society, acting with integrity towards our employees, customers, business partners and shareholders, as well as the wider community in which we operate. Everyone at Philips is expected to always act with integrity, and Philips rigorously enforces compliance of its General Business Principles (GBP) throughout the company.

In the highly regulated world of healthcare, integrity requires in-depth knowledge of the applicable rules and regulations and a sensitivity to healthcare-specific issues. The GBP incorporate and represent the fundamental principles by which all Philips businesses and employees around the globe must abide. They set the minimum standard for business conduct, both for individual employees and for the company and our subsidiaries. Our GBP also serve as a reference for the business conduct we expect from all our business partners.

The GBP also include principles which set our integrity standard on inside information, aiming to prevent trading on or disclosure of non-public information, the publication of which would be likely to have a significant influence on the trading price of Philips securities or securities of companies that Philips is seeking to acquire. More specifically, Philips has adopted Rules of Conduct with respect to trading in Philips securities to promote compliance with applicable insider trading and other market abuse laws, rules and regulations, in particular the EU Market Abuse Regulation. The Rules of Conduct apply to all employees, the members of the Board of Management and the Supervisory Board of Royal Philips.

Translations of the GBP text are available in 30 languages, allowing almost every employee to read the GBP in their native language. Detailed underlying policies, manuals, training, and tools are in place to give employees practical guidance on how to apply and uphold the GBP in their daily work environment. Details can be found at www.philips.com/gbp.

In 2022, a total of 706 concerns were reported via Philips Speak Up (Ethics Line) and through our network of GBP Compliance Officers. This represents an increase of 16% from the total of 610 concerns in the previous reporting period (2021).

While this is a continuation of the upward trend, the increase is flattening. Specifically in 2022, we once more focused on increasing awareness on Integrity and on the importance of speaking up, following up on the conclusions of the deep-dives executed after our 2021 biennial Business Integrity Survey. We believe the upward trend in reporting remains in line with our multi-year efforts to encourage our employees to express their concerns, whilst realizing that the extraordinary business conditions in the past few years make it imprudent to draw any specific conclusions from these numbers.

More information on the Philips GBP can be found in [Risk management, starting on page 87](#).

The results of the monitoring measures in place are given in [General Business Principles, starting on page 292](#)

5.5.6 Risk management approach

Risk management and control forms an integral part of the Philips business planning and performance review cycle. The company's risk management policy and framework are designed to provide reasonable assurance that its strategic and operational objectives are met, that legal requirements are complied with, and that the integrity of the company's financial reporting and its related disclosures is safeguarded. Please refer to [Risk management, starting on page 87](#) for a more detailed description of Philips' approach to risk management (including Internal Control over Financial Reporting), risk categories and factors, and certain specific risks that have been identified.

With respect to financial reporting, a structured self-assessment and monitoring process is used company-wide to assess, document, review and monitor compliance with Internal Control over Financial Reporting. Please also refer to the statement made by the Board of Management on the basis of the outcome of this process, as included in [Risk management approach, starting on page 74](#).

5.5.7 Total tax contribution

To fulfil our company purpose, a responsible tax approach is required. We fully acknowledge our societal role when it comes to paying taxes in the geographies where value is created. We consider our tax payments as a contribution to the communities in which we operate, as part of our social value creation.

[Our Approach to Tax](#) sets the standard for our conduct, by which individual employees, the company and its subsidiaries must abide. We consider tax in the context of the broader society, inspired by our stakeholder dialogues, global initiatives of the Organization for Economic Cooperation and Development and United Nations, human rights, international tax laws and regulations and relevant codes of conduct.

Under the ultimate responsibility of the Board of Management, the Chief Financial Officer annually reviews, evaluates, approves and where necessary adjusts Philips' Approach to Tax. Part of our approach is to acknowledge the importance of transparency in respect of our tax contributions. Philips supports and participates in transparency initiatives such as the Dow Jones Sustainability Index (DJSI) and the Tax Transparency Benchmark of the Dutch Association of Investors for Sustainable Development (VBDO). Since 2020, we have been providing certain voluntary disclosures about taxes paid and collected in the countries in which we operate. The 2022 Country Activity and Tax Report is published on our website, in addition to, and simultaneously with the disclosures on tax included in this Annual Report.

Philips also endorses the ambitions expressed in the Tax Governance Code published by Dutch employers' organization VNO-NCW. We comply with the principles prescribed in the Code, available at www.vno-ncw.nl/taxgovernancecode, and we have touched upon the elements on this code in our [Country Activity and Tax Report](#).

In 2022, Philips contributed to the communities where we operate through taxes paid (e.g., corporate income tax) and taxes collected (e.g., VAT). Philips' total tax contribution in 2022, amounting to EUR 3,469 million, is presented by tax type in the following table. Please refer to our 2022 [Country Activity and Tax Report](#) for more details.

Philips Group
Total Contribution 2022 per Tax Type in millions of EUR

	Corporate income tax paid	Customs duties	VAT ¹⁾	Payroll Tax	Other Taxes	Total
Western Europe	224	10	183	848	68	1,333
North America	80	45	102	846	8	1,081
Other mature geographies	35	3	63	134	1	236
Growth geographies	22	86	317	345	48	818
Philips Group	362	144	664	2,174	124	3,469

¹⁾ Includes VAT, GST and sales tax.

5.6 Philips' ESG performance at a glance

Below we show how Philips performed in 2022 on the 21 Core metrics of the WEF ESG reporting framework, mapped to the three dimensions of our ESG commitments, as well as a number of additional Philips-specific metrics that we consider fundamental to the strategy and operation of our business.

Environmental

Green House Gas (GHG) emissions

- 100% electricity from renewable sources
- 0 kilotonnes CO₂-equivalent (net operational carbon footprint)

Taskforce on Climate-related Financial Disclosures (TCFD) implementation

Updated 1.5, 2 and 4 °C global warming scenarios and assessed their impact on our supply chain, Philips and customers (disclosed in separate report)

Land use and ecological sensitivity

- 1 tonne waste sent to landfill
- All 23/23 industrial sites 'Zero Waste to Landfill' at year-end

Water consumption and withdrawal in water-stressed areas

- 677,632 m³ total water intake
- 224,627 m³ in water-stressed areas

Circular revenues ^{*)}

18.1% of revenues

Closing the loop ^{*)}

Closed the loop for over 3,400 systems returned to us

Social

Lives Improved ^{*)}

1.81 billion, of which 202 million in underserved communities

Diversity & Inclusion

- 30% gender diversity in senior management positions
- 39% gender diversity in total workforce
- 77% Employee Engagement Index Score ^{*)}

Pay equality

- EDGE-certified for Gender Equality in the Netherlands
- US Nationwide Pay Equity project scheduled for 2023

Wage level

- EUR 6,952 million employee benefit expenses
- Philips pays all employees at least a living wage

Risk for incidents of child, forced or compulsory labor

Addressed in Philips GBP, Supplier Sustainability Declaration and Supplier Sustainability program

Health & Safety

- 0.23 Total Recordable Case rate per 100 FTEs
- 172 Total Recordable Cases

Training provided

- 1,880,416 training hours in Philips University
- 1,009,459 training completions

Absolute number and rate of employment

77,233 employees, 18% turnover

Supplier development program ^{*)}

296 companies, 459,000 employees impacted

Volunteering ^{*)}

29 new projects in 2022 reaching 26.0 million people

Governance

Setting purpose

Philips' purpose is to improve the health and well-being of people through meaningful innovation

Governance body composition

Philips has a Board of Management and an independent Supervisory Board

Material issues impacting stakeholders

Detailed double Materiality Analysis performed

Anti-corruption

62,000 employees completed General Business Principles training

Protected ethics advice and reporting mechanisms

Whistleblower mechanism in place

Integrating risk and opportunity in business processes

Included in Risk Management section

Economic contribution

- EUR 17,827 million revenues
- EUR 741 million dividend declared
- EUR 6.7 million contribution to Philips Foundation
- EUR 103 million government grants

Financial investment contribution

- EUR 2,638 million total tangible assets
- EUR 444 million capital expenditures on property, plant and equipment

Total R&D expenses

EUR 2.1 billion invested in R&D (11.8% of revenues)

Total tax contribution

EUR 3,469 million

^{*)} Philips-specific metric

5.7 ESG by key country

On the following pages we show how Philips performed in a number of key countries in 2022 on a subset of the WEF Core metrics, as well as a number of additional Philips-specific metrics that we consider fundamental to the strategy and operation of our business.

Brazil

Environmental

Net operational carbon footprint	0 kilotonnes CO₂-equivalent
Land use and ecological sensitivity	0 tonnes waste sent to landfill
Water withdrawal	4,564 m³
Circular revenues ^{*)}	27.6%

Social

Lives improved ^{*)}	96 million
Absolute number and rate of employment	2,047 employees, 15.0% employee turnover
Training provided	33,971 hours
Wage level	EUR 92 million employee benefit expenses

Governance

Economic contribution	EUR 262 million revenues
	EUR 180 million cost of sales
Financial investment contribution	EUR 57 million tangible assets
	EUR 1 million capital expenditure
Total tax contribution	EUR 71 million

Main business activities

- Research and Development
- Holding and/or managing of intellectual property
- Purchasing
- Manufacturing
- Sales, marketing and distribution
- Administrative, management and support services
- Provision of services to unrelated parties
- Holding shares or other equity instruments

Inclusion and diversity

The I&D Committee has some 80 volunteers engaged in Women, Race, Disabilities & Mental Health and LGBTQIA+. Philips Blumenau was recognized by DIO Digital Innovation One as the technology enterprise that generated most opportunity for people with disabilities.

Philips Foundation and volunteering

Philips Foundation has partnered with SAS Brazil to bring specialized healthcare to remote areas through technology and telemedicine. Primary healthcare units are equipped with digital virtual healthcare solutions to provide early diagnosis and remote physician referral.

Stakeholder engagement

Philips has engaged with health authorities at the federal, state and municipal levels to discuss the digital transformation of health. Philips also attended stakeholder meetings as a board member of local medical technology trade associations.

^{*)} Philips-specific metric

China

Environmental

Net operational carbon footprint	0 kilotonnes CO₂-equivalent
Land use and ecological sensitivity	0 tonnes waste sent to landfill
Water withdrawal	192,594 m³
Circular revenues ^{*)}	8.1%

Social

Lives improved ^{*)}	474 million
Absolute number and rate of employment	8,170 employees, 17.0% employee turnover
Training provided	104,367 hours
Wage level	EUR 466 million employee benefit expenses

Governance

Economic contribution	EUR 2,117 million revenues
	EUR 1,345 million cost of sales
Financial investment contribution	EUR 459 million tangible assets
	EUR 38 million capital expenditure
Total tax contribution	EUR 334 million

Main business activities

- Research and Development
- Purchasing
- Manufacturing
- Sales, marketing and distribution
- Administrative, management and support services
- Provision of services to unrelated parties
- Internal Group Finance
- Holding shares or other equity instruments

Inclusion and diversity

Special care, including mental health support, was offered to over 2,000 employees during lockdown in a number of cities. The Women's Leadership Council was activated and launched the #Being Philips Becoming Shero Campaign, which is designed to inspire female professionals to make a bigger impact. Philips China topped several employer rankings in 2022.

Philips Foundation and volunteering

Philips Foundation continued collaborating with the Chinese Red Cross Foundation in cardiovascular emergency care, completing 6,439 certified training sessions. It also donated AED equipment and training as a total solution and launched the 'Heart-safe Campus' program at Peking Union Medical College to ensure the health and safety of students and teachers.

Stakeholder engagement

Philips continues to work with the China Center for International Exchange on the China Sustainable Development Blue Book, as well with the Peking Union Medical College Foundation and the Peking Union Medical Foundation to discuss the sustainable site management of campus and hospitals, development and training of medical leaders, and empowerment of female medical talents.

^{*)} Philips-specific metric

France

Environmental

Net operational carbon footprint	0 kilotonnes CO₂-equivalent
Land use and ecological sensitivity	- tonnes waste sent to landfill
Water withdrawal	- m³
Circular revenues ^{*)}	10.8%

Social

Lives improved ^{*)}	42 million
Absolute number and rate of employment	982 employees, 18.0% employee turnover
Training provided	15,108 hours
Wage level	EUR 115 million employee benefit expenses

Governance

Economic contribution	EUR 375 million revenues
	EUR 238 million cost of sales
Financial investment contribution	EUR 41 million tangible assets
	EUR 6 million capital expenditure
Total tax contribution	EUR 110 million

Main business activities

- Research and Development
- Holding and/or managing of intellectual property
- Purchasing
- Manufacturing
- Sales, marketing and distribution
- Administrative, management and support services
- Provision of services to unrelated parties
- Holding shares or other equity instruments

Inclusion and diversity

Philips scored an overall rating of 93/100 in the government index on gender equity at work. There is continued focus on building a pipeline of talented women. Communication efforts around invisible disability were intensified through a partnership with DCA Handicap to raise awareness among managers and employees. Further training was provided on topics such as Bias@Work.

Philips Foundation and volunteering

To heighten awareness among the French population about the dangers of cardiovascular disease, Philips Foundation continued to work with Global Heart Watch to organize a series of first-aid training sessions for young people in underserved areas, so that they can act as first responders.

Stakeholder engagement

In 2022, Philips France continued to deliver on its commitment to the Ministry of Health to help accelerate the digital transformation of the healthcare system. We participate in all the projects led by the digital health agency (ANS) around the program 'Le Ségur du numérique'.

^{*)} Philips-specific metric

Germany

Environmental

Net operational carbon footprint	0 kilotonnes CO₂-equivalent
Land use and ecological sensitivity	0 tonnes waste sent to landfill
Water withdrawal	32,962 m³
Circular revenues ^{*)}	12.5%

Social

Lives improved ^{*)}	67 million
Absolute number and rate of employment	3,754 employees, 7.0% employee turnover
Training provided	39,686 hours
Wage level	EUR 424 million employee benefit expenses

Governance

Economic contribution	EUR 2,099 million revenues
	EUR 1,204 million cost of sales
Financial investment contribution	EUR 514 million tangible assets
	EUR 22 million capital expenditure
Total tax contribution	EUR 365 million

Main business activities

- Research and Development
- Holding and/or managing of intellectual property
- Purchasing
- Manufacturing
- Sales, marketing and distribution
- Administrative, management and support services
- Provision of services to unrelated parties
- Internal Group Finance
- Regulated financial services
- Holding shares or other equity instruments

Inclusion and diversity

2022 saw a significant increase in promotions of female top talent to leadership positions, and a mentoring program for female talent was set up. I&D activities were organized around International Women’s Day and World Refugee Day. Throughout the year, local Philips Women Lead Calls, Sustainability sessions and a meet-up on ‘living and working with disabilities’ took place.

Philips Foundation and volunteering

Philips Foundation and Pink Ribbon Deutschland have created a multilingual breast cancer awareness app focused on women with migrant backgrounds. It is available in seven languages, with others to follow. By tackling cultural and language barriers, the app aims to encourage women to become active, e.g. with self-palpation, and provides access to relevant information if something unusual is detected. In 2022, a broad communication campaign was rolled out, and work was done on additional content and interaction upgrades.

Stakeholder engagement

Philips has been working closely with the Ministry of Health (MoH), public institutions and industry associations to collect best practices and provide expertise for the MoH's upcoming National Digitalization Strategy. Philips also continues to liaise with the Federal State Governments and institutions, hospitals and solution partners to respond to the National Hospital Future Act (KHZG) project pipeline, foreseeing a large number of KHZG tenders in 2023.

^{*)} Philips-specific metric

India

Environmental

Net operational carbon footprint	0 kilotonnes CO₂-equivalent
Land use and ecological sensitivity	0 tonnes waste sent to landfill
Water withdrawal	15,850 m³
Circular revenues ^{*)}	12.2%

Social

Lives improved ^{*)}	87 million
Absolute number and rate of employment	9,234 employees, 17.0% employee turnover
Training provided	191,705 hours
Wage level	EUR 273 million employee benefit expenses

Governance

Economic contribution	EUR 850 million revenues
	EUR 408 million cost of sales
Financial investment contribution	EUR 240 million tangible assets
	EUR 14 million capital expenditure
Total tax contribution	EUR 152 million

Main business activities

- Research and Development
- Purchasing
- Manufacturing
- Sales, marketing and distribution
- Administrative, management and support services
- Provision of services to unrelated parties
- Other

Inclusion and diversity

ISC Philips Women’s League held sessions on return to work and psychological, physical and financial well-being for over 5,000 colleagues. A formal mentoring program was launched for female employees. Philips secured a Bronze category award in the India Workplace Equality Index 2022 for its efforts towards LGBTQ+ inclusion.

Philips Foundation and volunteering

2022 saw the conclusion of a two-year collaboration between Philips Foundation, Save the Children India, social enterprise ZMQ Development and Philips India to develop and prove low-cost innovative approaches for prevention, diagnosis and management of childhood pneumonia. The project uses the ChARM (Children’s Automated Respiration Monitor) device to aid pneumonia identification through automated respiratory rate measurement.

Stakeholder engagement

Philips presented to the Parliamentary Standing Committee on Health and Family Welfare and National Medical Device Promotion Council, discussing issues in the manufacturing, import and sales of high-end medical devices. Philips supported the compilation of approach papers on the Draft Medical Device Policy 2022, to reduce the regulatory burden for Ultrasound sales and marketing in India. Philips ensured business continuity by enabling postponement of the implementation of the amendment to India Specific Label (77E) by six months.

^{*)} Philips-specific metric

Japan

Environmental

Net operational carbon footprint	0 kilotonnes CO₂-equivalent
Land use and ecological sensitivity	- tonnes waste sent to landfill
Water withdrawal	- m³
Circular revenues ^{*)}	33.5%

Social

Lives improved ^{*)}	48 million
Absolute number and rate of employment	2,257 employees, 11.0% employee turnover
Training provided	19,107 hours
Wage level	EUR 158 million employee benefit expenses

Governance

Economic contribution	EUR 1,061 million revenues
	EUR 813 million cost of sales
Financial investment contribution	EUR 260 million tangible assets
	EUR 5 million capital expenditure
Total tax contribution	EUR 139 million

Main business activities

- Sales, marketing and distribution
- Administrative, management and support services
- Provision of services to unrelated parties
- Other

Inclusion and diversity

Breast and prostate cancer awareness events were held, with many employees of all ages and genders participating. Various I&D networking initiatives were conducted, as well as workshops on psychological safety and reverse mentoring aimed at creating a workplace where all employees can be themselves – #you are you.

Philips Foundation and volunteering

Improving cancer outcomes and survival rates is a key goal: measures for early detection through education and self-examination were implemented at our facilities during Pink Ribbon month and Movember. Together with local NPO organizations, Philips employees developed season's greetings cards to support pediatric patients who need to stay in hospital during the holiday season.

Stakeholder engagement

We have liaised with the Ministry of Health, Labor and Welfare (MHLW) on a reimbursement and authorization system through the European Business Council in Japan. The focus of the MHLW from 2022 will again be on Software as Medical Devices (SaMD) and cybersecurity. We are discussing the handling and authorization system for these through the Japan Federation of Medical Devices Associations.

^{*)} Philips-specific metric

Netherlands

Environmental

Net operational carbon footprint	0 kilotonnes CO₂-equivalent
Land use and ecological sensitivity	1 tonnes waste sent to landfill
Water withdrawal	82,419 m³
Circular revenues ^{*)}	5.9%

Social

Lives improved ^{*)}	17 million
Absolute number and rate of employment	10,807 employees, 10.0% employee turnover
Training provided	141,507 hours
Wage level	EUR 1,206 million employee benefit expenses

Governance

Economic contribution	EUR 8,194 million revenues
	EUR 5,073 million cost of sales
Financial investment contribution	EUR 1,512 million tangible assets
	EUR 74 million capital expenditure
Total tax contribution	EUR 490 million

Main business activities

- Research and Development
- Holding and/or managing of intellectual property
- Purchasing
- Manufacturing
- Sales, marketing and distribution
- Administrative, management and support services
- Provision of services to unrelated parties
- Internal Group Finance
- Holding shares or other equity instruments

Inclusion and diversity

Support was provided for employee health and well-being through health offerings, work-from-home policies and energy management programs. 125 people took part in the Employment Scheme, which offers vulnerable external jobseekers work experience. The new European Black Employee Resource Group (eBERG) continued to develop.

Philips Foundation and volunteering

A volunteering program was rolled out together with Samen voor Eindhoven. Activities included receiving Ukrainian refugees and supporting elderly citizens. Some 600 employees took part. With support from Philips Foundation, a special app, the KLIK Pain Monitor, was developed by the Princess Máxima Center for Pediatric Oncology. This app is designed to help children and parents at home quickly get in touch with caregivers at painful moments.

Stakeholder engagement

Philips is a member of the European Round Table for Industry (ERT), which strives for a strong, open and competitive Europe, with the EU and its Single Market as a driver of inclusive growth and sustainable prosperity. Philips is on the board of, among others, employers' organization VNO-NCW and trade association FME, as well as public-private committees on innovation, talent, AI, cybersecurity, and health.

^{*)} Philips-specific metric

Poland

Environmental

Net operational carbon footprint	0 kilotonnes CO₂-equivalent
Land use and ecological sensitivity	- tonnes waste sent to landfill
Water withdrawal	- m³
Circular revenues ^{*)}	8.0%

Social

Lives improved ^{*)}	26 million
Absolute number and rate of employment	2,219 employees, 22.0% employee turnover
Training provided	40,685 hours
Wage level	EUR 76 million employee benefit expenses

Governance

Economic contribution	EUR 226 million revenues
	EUR 109 million cost of sales
Financial investment contribution	EUR 22 million tangible assets
	EUR 2 million capital expenditure
Total tax contribution	EUR 49 million

Main business activities

- Research and Development
- Holding and/or managing of intellectual property
- Purchasing
- Manufacturing
- Sales, marketing and distribution
- Administrative, management and support services
- Provision of services to unrelated parties
- Holding shares or other equity instruments

Inclusion and diversity

We introduced the Employee Assistance Program to provide employees, their relatives and people leaders with psychological, financial, legal and professional counselling. We launched the Women's Network Poland, which brings together 300 female employees, to empower women to grow through coaching and experience sharing.

Philips Foundation and volunteering

Philips Foundation provided 65 patient monitors and 38 handheld diagnostic ultrasounds to organizations including the Polish Red Cross. It also helped cover some costs of temporary accommodation and settlement for Philips Ukraine employees and their relatives in Poland. Philips Poland provided the Polish Red Cross with 15,000 maternal and childcare units. Employees in Poland supported Ukrainian colleagues and their families by hosting them in their houses, providing transport from the border, and collecting food and other necessities for Ukrainian families arriving in Poland.

Stakeholder engagement

Philips has engaged strongly with NGOs and government organizations helping Ukraine. Philips and UNGC prepared the report 'Green hospitals in Poland'. Philips is discussing the digital transformation of health and oncology with the health authorities at the federal, state and municipal levels. Philips also attended stakeholder meetings as a board member of local medical technology trade associations.

^{*)} Philips-specific metric

United Kingdom

Environmental

Net operational carbon footprint	0 kilotonnes CO₂-equivalent
Land use and ecological sensitivity	- tonnes waste sent to landfill
Water withdrawal	- m³
Circular revenues ^{*)}	19.6%

Social

Lives improved ^{*)}	39 million
Absolute number and rate of employment	1,044 employees, 15.0% employee turnover
Training provided	13,813 hours
Wage level	EUR 104 million employee benefit expenses

Governance

Economic contribution	EUR 450 million revenues
	EUR 339 million cost of sales
Financial investment contribution	EUR 115 million tangible assets
	EUR 11 million capital expenditure
Total tax contribution	EUR 109 million

Main business activities

- Research and Development
- Holding and/or managing of intellectual property
- Purchasing
- Sales, marketing and distribution
- Administrative, management and support services
- Provision of services to unrelated parties
- Holding shares or other equity instruments

Inclusion and diversity

Employee events included living with disabilities, challenging gender stereotypes, and allyship. A UK chapter of the Philips Women Lead program was launched. We delivered psychological safety and bias at work training. We also maintained our focus on well-being, developing our mental health champions and menopause network, and training 95% of managers on employee mental health.

Philips Foundation and volunteering

Philips employees raised funds for the MIND charity, with 17 colleagues completing a 10-km sponsored walk. Philips signed the British Armed Forces Covenant and established an Armed Forces Network of volunteers, pledging support to past and current service personnel. Philips volunteers welcomed refugees to our UK headquarters, providing advice and holding practice interviews as part of our job-seeking mentoring program.

Stakeholder engagement

Philips continued to engage with the government, AXREM and the National Health Service (NHS) to support the transformation to more resilient health systems post-COVID. We maintain strong relations with the Association of British Health Technology Industries and the Office of Life Sciences and established partnerships with key academic institutions. Philips supported the commitment to help the NHS achieve its 'Net Zero' target through the launch of a circular economy report with the University of Exeter and the first sustainability workflow review with an NHS Hospital Trust. Philips published a further report on expanding diagnostic capacity in communities across England in partnership with Imperial College London.

^{*)} Philips-specific metric

United States

Environmental

Net operational carbon footprint	0 kilotonnes CO₂-equivalent
Land use and ecological sensitivity	0 tonnes waste sent to landfill
Water withdrawal	175,965 m³
Circular revenues ^{*)}	18.8%

Social

Lives improved ^{*)}	331 million
Absolute number and rate of employment	20,054 employees, 22.0% employee turnover
Training provided	364,217 hours
Wage level	EUR 3,029 million employee benefit expenses

Governance

Economic contribution	EUR 10,078 million revenues
	EUR 6,842 million cost of sales
Financial investment contribution	EUR 3,367 million tangible assets
	EUR 191 million capital expenditure
Total tax contribution	EUR 1,026 million

Main business activities

- Research and Development
- Holding and/or managing of intellectual property
- Purchasing
- Manufacturing
- Sales, marketing and distribution
- Administrative, management and support services
- Provision of services to unrelated parties
- Holding shares or other equity instruments

Inclusion and diversity

We progressed on our two-year I&D strategy, including increasing representation of Black talent and women in leadership roles, launching mentoring programs, implementing mandatory I&D trainings, hosting safe space dialogues, and partnering with organizations serving people of color. We were recognized by the Human Rights Campaign's Corporate Equality Index as a 'best place to work' for LGBTQ employees.

Philips Foundation and volunteering

Philips organized several volunteer opportunities, including American Heart Association walks for 16 groups representing 1,000 Philips families/friends. Philips collaborated with MedShare on multiple initiatives, including donating personal health products to safety net clinics and shelters that see 25,000 people per week, donating medical equipment to relief organizations building temporary hospitals in Ukraine, and packing safe birthing kits for moms in underserved communities.

Stakeholder engagement

Philips connected with government and private sector leaders at a White House Cancer Moonshot. In partnership with the American Cancer Society, Philips hosted a workshop with 30 top minds in healthcare to address cancer care delivery in the home. Philips also represented the private health sector at a White House roundtable on climate change and formally signed the US Department of Health and Human Services (HHS) Climate Pledge. The company then brought together 12 leading healthcare providers to discuss addressing sustainability through circular practices.

^{*)} Philips-specific metric

At a glance

Risk management



Risk management is integrated into our standard operating model

Explicitly connects our strategy and improvement initiatives to risk assessment

Evaluates the risk dynamics that could impact achievement of objectives and our main responses

Puts dedicated focus on risks related to Patient Safety and Quality

6 Risk management

6.1 Our approach to risk management

Vision and objectives

Philips approaches risk management as a value-creating activity that is integral to innovation and entrepreneurship. As such, it is part of the Philips Business System (PBS). Key elements are our risk management governance, Risk appetite, the Risk management process standard, the Philips Business Control Framework, and our General Business Principles (GBP), which are further described in this chapter. There can be no absolute assurance that our risk management will avoid or mitigate all risks that Philips faces. The material risks are described in the section [Risk factors, starting on page 92](#).

Risk management governance

The Executive Committee identifies and manages the risks Philips faces in realizing its objectives. It defines the risk appetite, provides the risk management framework, and monitors the effectiveness thereof. The Risk Management Support Team, consisting of experts on various categories of risk, supports the Executive Committee through regular analysis of the enterprise risk profile and enhancement of the risk management framework. Management is responsible for identifying critical risks and implementing appropriate risk responses within their areas of responsibility. Various functions (such as Internal Control, Quality & Regulatory, Legal, and Group Security) support the management of specific risk areas.

The Internal Audit function assesses the quality of risk management and controls through the execution of a risk-based audit plan, as approved by the Audit Committee of the Supervisory Board. Leadership from the Executive Committee, Businesses, Markets and key Functions meet quarterly with Internal Audit in Audit & Risk Committees to discuss strengths and weaknesses of risk management and controls – as evaluated by internal and external auditors and by means of other (self) assessments – and take corrective action where necessary.

The Disclosure Committee oversees the company's disclosure activities and assists the Board of Management in fulfilling its responsibilities in this respect. The Disclosure Committee ensures that the company implements and maintains internal procedures for the timely collection, evaluation and disclosure of information potentially subject to public disclosure under the legal, regulatory and stock exchange requirements to which the company is subject.

The GBP Review Committee is responsible for the effective deployment of the Philips General Business Principles (GBP) and for generally promoting a culture of compliance and ethics within the company. For more information see below under 'Philips General Business Principles'.

The Security Steering Committee (SSC) and the Group Security function manage security (including cybersecurity) risks. The SSC evaluates and sets the Group's security strategy, issues security policies and evaluates progress and effectiveness. Dedicated security reports are shared with the Executive Committee, the Supervisory Board and external auditors. On a quarterly basis, briefings on cybersecurity risks are provided to the IT Audit & Risk Committee.

The Environmental, Social and Governance (ESG) Committee initiates, drives and coordinates ESG strategy development, policy setting, disclosures and planning of programs and activities in relation to our ESG commitments and obligations. It administers ESG reporting, monitors progress, assesses risks in relation to ESG and makes recommendations to the Executive Committee on our ESG endeavors.

Philips actively maintains Quality Management Systems (QMS) with the aim of ensuring the quality and safety of product design, manufacturing, distribution, and servicing in compliance with regulation from various government and regulatory agencies, e.g., FDA (US), EMA (Europe), NMPA (China). Our Quality & Regulatory function closely monitors developments in the regulatory landscape. Through specialist teams at the global, regional or local level, standards and requirements are defined and continuously improved, deployed, and monitored to ensure our employees are aware of and comply with these requirements. Next to continuous improvement a program runs with the aim to accelerate patient safety and quality. A formal quality audit program assesses our organization's compliance with our QMS. Quality & safety is a standard item in personal goal setting and evaluation of all Philips' employees.

The Supervisory Board oversees Philips' risk management, including the identified risks in relation to the Risk appetite, the response measures put in place and the effectiveness thereof. The Audit Committee and the Quality & Regulatory Committee of the Supervisory Board assist the full Supervisory Board in fulfilling its risk management oversight responsibilities. The Audit Committee reviews the quality of risk management and controls, and the reported findings of internal and external audits. The Quality & Regulatory Committee's role particularly relates to the quality and regulatory compliance of the company's products (including software), services and systems throughout their lifecycle.

The **Corporate governance, starting on page 132** chapter of this report addresses the main elements of the company's corporate governance structure, reports on how it applies the principles and best practice provisions of the Dutch Corporate Governance Code and provides other information relevant to risk management governance.

Risk appetite

The Executive Committee and management seek to manage risks consistently within the risk appetite. Risk appetite is set by the Executive Committee and captured in the risk management policy. It is effectuated through our PBS, of which various elements – such as our strategy, Philips General Business Principles (GBP) and behaviors, authority schedules, policies, process standards and performance management systems – include or reflect risk-taking guidance.

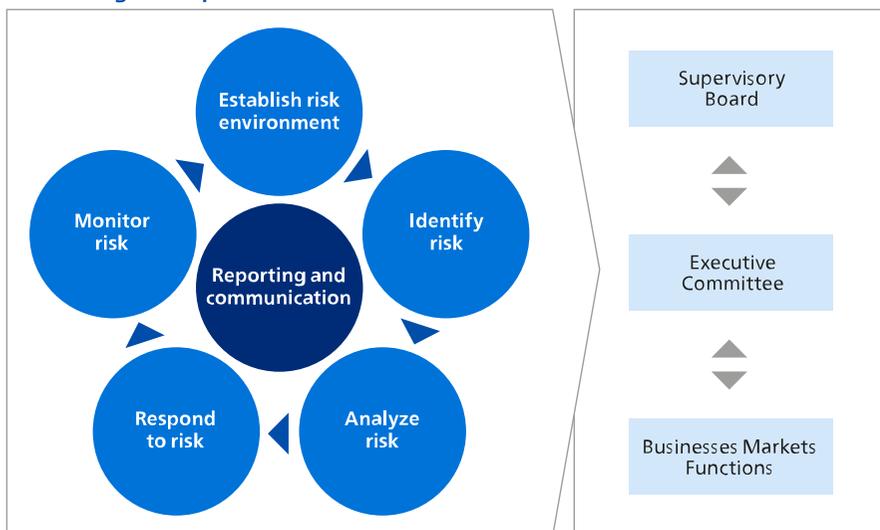
Philips' risk appetite differs depending on the type of risk, ranging from an averse to a seeking approach. Philips operates within the dynamics of the health technology industry and aims to take the risks needed to ensure we continually revitalize our offerings and the way we work. At the same time, Philips is committed to always act with integrity and is averse to risks impacting our GBP, which include (but not limited to) the Philips behavior 'Patient safety, Quality, and Integrity always'. Our employees are expected to ensure compliance with our GBP, laws and regulations and to act in case of concerns or violations to our GBP, please refer to the GBP section below for more information. Philips' Risk appetite for the main risk categories is visualized below. Philips does not classify these risk categories in order of importance.

Risk appetite	← Very low Low Medium High Very high →				
	Averse	Prudent	Balanced	Considerable	Seeking
Strategic e.g. Macroeconomic, Health informatics, Solutions transformation, M&A, Intellectual property					
Operational e.g. Product safety and quality, Supply chain, Cybersecurity, People, IT					
Financial e.g. Treasury and financing-related, Tax, Accounting and Reporting					
Compliance with our General Business Principles and regulations e.g. on products, privacy and ESG					

Risk management process

To provide a comprehensive view of Philips' risks, structured risk assessments take place according to the Philips risk management process standard, applying a top-down and bottom-up approach. Our process standard is designed based on the Enterprise Risk Management Framework: Integrating with Strategy and Performance (2017) from the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and on ISO 31000 - Risk Management.

Risk management process



Key elements of the Philips risk management process are:

- Management of Businesses, Markets and key Functions perform a risk assessment at least once a year, with updates of the strategic plan, to identify and prioritize risks, assign ownership, and implement appropriate risk responses. Risk workshops are conducted with senior management across the company to facilitate these risk assessments, and during 2022 several risk workshops were held.
- Senior management discusses and monitors the risk profile and risk response effectiveness at least quarterly in its performance reviews and during Audit & Risk Committees, which cover all Businesses, Markets and selected Functions and at Group level.
- Developments in the enterprise risk profile and management's initiatives to improve risk responses are discussed and monitored during the quarterly meeting of the Audit Committee of the Supervisory Board.

- As an integral part of the strategy review, each year the Executive Committee assesses the enterprise risk profile and the potential risk impact versus Group risk appetite. The assessment also covers the effectiveness of the risk management framework and potential improvements thereto.
- The Philips risk profile and the risk management framework are discussed at least once a year with the Supervisory Board.

Examples of measures taken during 2022 to further strengthen risk management:

- In addition to the continuous improvement of our QMS we run an enterprise-wide program Accelerating Patient Safety and Quality. This program was initiated in 2021 following the Respiroics voluntary recall to evaluate and further improve our QMS, our oversight & performance management and our culture where necessary. For more information, refer to the [Quality & Regulatory and patient safety, starting on page 70](#).
- An enterprise-wide analysis is conducted regarding detection and reporting of product defects/failures, applying the lessons learned from the Respiroics field action to each Philips business.
- Various improvements to our risk management process standards in several risk areas, for example enterprise risk, product risk, and supplier- and supply-chain-related risk.
- Further standardization and alignment of controls and the embedding in the global Philips standard process framework.
- Risk & Compliance (R&C) community building to drive continuous improvement, knowledge sharing, capability building and risk transparency across various R&C areas.
- Strengthening the risk dialogue as an integrated part of regular performance and strategy execution dialogues.
- Continued improvement of our risk management capabilities in security (including cyber, product and supply chain).
- Extension of our supplier risk management to deeper tiers, and diversified sourcing of high-risk components to further reduce supply dependencies.
- Analysis of global warming and weather scenarios on the geographical footprint of our facilities as well as suppliers', in line with the recommendations of the Task Force on Climate-Related Financial Disclosures.
- Ongoing exploration and capturing of opportunities to use data analytics and automation in controls monitoring, and the ongoing deployment of our governance, risk and compliance IT solutions.

Philips Business Control Framework

The Philips Business Control Framework (PBCF) sets the standard for internal control at Philips. The objective of the PBCF is to maintain integrated management control of the company's operations and reporting, as well as safeguard compliance with applicable laws and regulations. Philips has designed its PBCF based on the COSO Internal Control-Integrated Framework (2013).

As part of the PBCF, Philips has implemented a standard set of Internal Controls over Financial Reporting (ICFR). Together with Philips' established accounting procedures, this standard set of internal controls is designed to provide reasonable assurance that assets are safeguarded, that the books and records properly reflect transactions necessary to permit preparation of financial statements, that policies and procedures are carried out by qualified personnel, and that published financial statements are properly prepared and do not contain any material misstatements. In each reporting unit, management is responsible for customizing the controls set for their business, risk profile and operations.

Each year, management's accountability for ICFR is evidenced through the formal certification statement sign-off. Any deficiencies noted in the design and operating effectiveness of ICFR that were not completely remediated are evaluated at year-end by the Board of Management. The Board of Management's report, including its conclusions regarding the effectiveness of ICFR, can be found in this report in the section **Management's report on internal control, starting on page 143.**

Philips General Business Principles (GBP)

The GBP – part of the Philips Business System – incorporate and represent the fundamental principles by which all Philips businesses and employees around the globe must abide. They set the minimum standard for our business conduct as a health technology company, for our individual employees and for our subsidiaries. The GBP form an integral part of labor contracts in virtually every country in which Philips operates, and translations are available in 30 languages. Each year, employees reconfirm their commitment to the code of conduct after completing their GBP e-learning, and there is an additional annual sign-off for Executives. A similar sign-off is in place for Finance and Procurement staff for their respective codes of conduct. Detailed underlying policies, manuals, training, and tools are in place to give employees practical guidance on how to apply and uphold the GBP in their daily work.

The GBP Review Committee is responsible for the effective deployment of the GBP and for generally promoting a culture of compliance and ethics within the company. The Committee is chaired by the Chief ESG & Legal Officer, and its members include the Chief Financial Officer, Chief Human Resources Officer and the Chief of International Markets. Furthermore, each quarter all our key markets convene market compliance committees, which act as local satellites of the GBP Review Committee, dealing with GBP-related matters in the local context. They are also responsible for the design and execution of localized compliance plans that are tailored to their market-specific risks and organizational set-up, and regularly review the relevant compliance metrics for their respective market through dashboards delivered by the legal compliance monitoring team. The Secretariat of the GBP Review Committee, together with a worldwide network of GBP Compliance Officers, supports the organization with the implementation of GBP initiatives.

As part of our continuous effort to raise GBP awareness and foster dialogue throughout the organization, each year a global GBP communications and training plan is deployed, including structured dialogues led by managers where quality, integrity and speaking up are discussed. This is part of a company-wide initiative aimed at reinforcing a culture of dialogue using ethical dilemma case studies that are relevant to our workforce. A key control to measure implementation of our GBP is the GBP monitoring and reporting program, which is part of our Internal Control framework. In addition, we continue to expand the capabilities of our legal compliance monitoring team, serving our business customers as well as compliance networks with actionable data, thus further improving our compliance control framework.

The GBP are supported by established mechanisms with the aim of ensuring standardized reporting and enable employees and third parties to escalate concerns 24/7. Concerns raised are registered consistently in a single database hosted outside of Philips servers to ensure confidentiality and security of identity and information. Encouraging people to speak up through the available channels if they have a concern will continue to be a cornerstone of our GBP communications and awareness campaigns. At least twice a year, the GBP Review Committee, as well as the Executive Committee and Audit Committee of the Supervisory Board, are informed on relevant GBP metrics, cases, trends and learnings.

Through the Audit Committee of the Supervisory Board, the company also has procedures in place for the receipt, retention and treatment of complaints specifically relating to accounting, internal accounting controls or auditing matters, which enable the confidential, anonymous submission of complaints.

More information on the Philips GBP can be found in **Environmental, Social and Governance, starting on page 45.** The GBP and underlying policies, including the Financial and Procurement Code of Ethics, are published on the company website, at <https://www.philips.com/a-w/about/investor-relations/governance/business-principles.html>.

In the following sections we provide a description of each material risk factor, as well as our main risk mitigating responses, which we believe help us to manage these risks. However, we may not be successful in deploying some or all of these mitigating actions effectively, or these actions may not achieve the anticipated effect. If specific circumstances occur or are not sufficiently mitigated, our value creation objectives could be materially adversely affected. In addition, risks and uncertainties could cause actual results to vary from those described (including those described in forward-looking statements), could impact our ability to meet our targets, or could be detrimental to our reputation. The risk responses described below are designed to manage risks toward, and should be read in conjunction with, the Risk appetite as described above.

6.3 Strategic risks

Philips' global operations are exposed to geopolitical and macroeconomic changes

Philips' business environment can be adversely impacted by macroeconomic and geopolitical conditions in global and individual markets. Mature economies are currently the main source of Philips' revenues, while growth economies are an increasing source of revenues. Philips produces, sources, and designs its products and services mainly from the United States (US), the European Union (EU) (primarily the Netherlands) and China, and the majority of Philips' assets are located in these geographies. Changes in politics and monetary, trade and tax policies in the US, the EU and China may trigger reactions and countermeasures and may also have an adverse impact on other economies and international markets in which Philips is active. Philips continues to expect global market conditions to remain highly uncertain and volatile due to geopolitical and macroeconomic factors, whether or not related to or caused by the Russia-Ukraine war.

Philips observes a trend of geopolitical tensions and deglobalization which intensifies protectionism. Examples of protectionism measures are policies on trade, tariffs, sanctions, local value creation and production requirements to obtain market access, custom duties, taxation, technology and data restrictions, cyberattacks, import or export controls, talent mobility restrictions, nationalization of assets, restrictions on repatriation of returns from foreign investments, and general uncertainty on the development of local regulations and compliance thereto. Philips observes this trend in the major markets in which it operates and has a particular concern on the development of the US-China relationship and China's drive to expand its global political footprint and become self-sufficient in critical technologies, including health-related ones. If this trend continues, geopolitical relations deteriorate and economies decouple, it is expected that existing global trade and investment restrictions will remain, and further regulatory and compliance challenges for doing business globally may emerge, resulting in continued pressure on market growth and investments.

Uncertainty and challenges regarding various global macroeconomic factors continue to persist. Examples of general factors are an overall weakening economy, declines in economic growth projections in the US, the EU and China (which collectively account for around two-thirds of Philips' sales), reduced government spending, declining customer and consumer confidence and spending, rising inflation and interest rates, and the emergence of economic impacts related to the climate crisis. Examples of healthcare-specific potential factors include rising uncertainty over the future direction of public healthcare policy and the risk of declining public investment in healthcare ecosystems.

The Russia-Ukraine war has increased global economic and political uncertainty. Governments in the US, UK, EU, Canada, and Japan have each imposed export controls on certain products and sanctions on certain industry sectors and institutions in Russia, and additional controls and sanctions could be enacted in the future.

The Russia-Ukraine war may heighten the impact of other risks factors described herein, including but not limited to: volatility in prices for transportation, energy, commodities and other raw materials; disruptions in the global supply chain; decreased customer and consumer confidence and spending; increased cyberattacks; intensified protectionism; political and social instability; increased exposure to foreign currency fluctuations; rising inflation and interest rates; and constraints, volatility or disruptions in the credit and capital markets. It is possible that the conflict in Ukraine may escalate or expand and current or future sanctions and resulting geopolitical and macroeconomic disruptions could be significant. We cannot predict the impact the conflict may have on the global economy in the future.

Changes in geopolitical and macroeconomic conditions are difficult to predict, and the factors described above, or other factors, may lead to adverse impacts on global trade levels and flows, economic growth, and financial market and political stability, all of which could adversely affect the demand for, and supply of, Philips' products and services. This may result in a material adverse impact on Philips' business, financial condition, and operating results. These factors could also make it more difficult to budget and to make reliable financial forecasts or could have a negative impact on Philips' access to funding.

Risk response: Philips monitors economic, political, and general societal changes and, where necessary, develops response strategies to such events. High-risk markets (for example, markets exposed to high volatility) are regularly assessed for emerging risks, and if necessary, capital structure planning is performed. The Philips Group Crisis Operations team has activated response teams that are running programs on Russia and Ukraine. To be less exposed to the uncertainty caused by the Russia-Ukraine war we actively reduced balance sheet exposure in this market, and we closely manage accounts receivable to prevent customer defaults.

Philips is active in more than 100 countries, and we believe that this global footprint allows us to better deal with adverse local market developments. Philips establishes a strong local presence in both mature and growth geographies through market-specific strategies (for example for China, the US, and the EU). These market strategies cover various local value-creation aspects such as innovation, manufacturing and assembly; hosting of health data; and capability development. These strategies also leverage our in-depth knowledge of healthcare, Research & Development, Quality Management Systems, sustainable global business models, and brand. This local presence enables Philips to create value and tailor its propositions to local market needs. In addition to local measures, Philips also optimizes its integrated supply chain organization, supplier base, and global manufacturing footprint to enable agile responses to large and rapid shifts in demand and supply globally.

Philips may be unable to shift to the health technology solutions and services business model

With Philips' focus on health technology, our business model is transforming from transactional, product-focused business models to outcome-oriented, multi-year customer partnerships enabled by solutions and value-added services. If this transformation is made too slowly or is not successful, Philips may not meet the expectations of patients and other stakeholders in the Health Technology business environment. It may face a loss of customer relevance, fail to capture growth, and lose market share. In addition, because of our health technology focus, Philips may have a reduced ability to offset potential negative impacts (including, but not limited to, impacts on sales, operating results, liabilities, compliance, financing) on its health technology business by other businesses through a more diversified portfolio. As a result of the shift to a solutions and services business model, Philips is becoming more dependent on a number of key customers for long-term recurring revenues, thus increasing the risk that the loss of, or a significant reduction in, orders from one or more of our key customers could cause a significant decline in our revenues. Any of these factors may have a material adverse impact on Philips' brand value and reputation, business, financial condition, and operating results. More specific Health Technology risks and their potential impacts are included in the Operational, Financial and Compliance risk sections below as well as in the Note [Contingencies, starting on page 204](#).

Risk response: Philips is running multiple interconnected initiatives intended to enable, strengthen and accelerate various aspects our business model to the standards of the Health Technology solutions business environment including, but not limited to, patient safety, quality, innovation, social, the shift of our solutions business model, productivity and compliance. For examples of responses to these various aspects we refer to the related risk factors in this section, Examples of initiatives to shift from a transactional to a solutions business model are mentioned here. We pursue the end-to-end alignment of our governance, processes and IT systems to our solution offerings. We are making our solutions available through SaaS and Platform-as-a-Service (PaaS). We are also expanding digital customer engagement and e-commerce channels, as well as activation of our solutions in markets.

Where Philips engages in long-term service-based business models, we aim to run a disciplined deal process with strict acceptance criteria. It is noted that although our portfolio is focused on health technology, it covers various products, solutions and services across the health continuum without significant dependence on a single product, solution, service or market.

Philips may be unable to gain leadership in health informatics

New digital technologies and ways of conducting business are fundamentally changing the health technology industry, and thus our competitive business environment. A key trend, started in radiology, is the application of artificial intelligence (AI) and machine learning (ML) to drive quality and efficiency in clinical and operational workflows. Another trend, accelerated by the pandemic, is the shift toward cloud-based Software as a Service (SaaS) business models and remotely upgradable and serviceable systems with suites of apps. These new types of offerings are enabled by hybrid cloud/on-premise digital platforms. Our informatics and systems businesses may fall behind established and new 'born digital' competitors if Philips fails to, in a timely way, develop the requisite capabilities, adjust its business models, and find ways to globally commercialize new products and services at scale. This could result in an inability to satisfy customer and patient needs, thereby missing out on revenue and margin growth opportunities, which may have a material adverse impact on Philips' business, financial condition and operating results.

Risk response: Philips runs a coherent set of initiatives to accelerate the transformation of informatics-enabled propositions. Some examples of these initiatives are mentioned here (without limitation). We are moving existing informatics propositions (such as Radiology PACS and image viewing) to the cloud, with a SaaS business model. This is done in an end-to-end approach, including IT backbone and go-to-market adjustments. We are developing new informatics propositions with explicit data and AI strategies, such as acute care management with clinical decision support. We are extending our HealthSuite Platform (HSP) with state-of-the-art data and AI capabilities, enabling Philips businesses to easily generate AI enabled applications that can offer insights at scale to our customers. We are accelerating the roll out of our global cloud strategy, together with leading industry partners, such as Amazon Web Services (AWS). We are also transforming our traditional modality businesses, such as imaging and monitoring, toward offering 'software defined systems' with features, functions, and services that are primarily defined in software and continually upgraded over the lifetime to enable continuous value delivery to our customers (such as the enhancement of magnetic resonance systems with AI-based reconstruction or remote sensing capabilities, and preventative maintenance services).

Acquisitions could fail to deliver on Philips' business plans and value creation expectations, and we may not be able to successfully integrate acquired operations

Selected acquisitions have been, and are expected to remain, part of Philips' growth strategy. We may not be able to successfully or efficiently integrate new acquisitions with our existing operations, culture and systems, which may expose Philips to risks in areas such as sales and service, logistics, quality, regulatory compliance, legal claims, information technology and finance. Integration challenges may adversely impact the realization of value creation expectations. Transactions may incur significant costs, result in unforeseen operating difficulties, divert management attention from other business priorities, and may ultimately be unsuccessful. Cost savings expected to be implemented, or other assumptions underlying the business case relating to a particular acquisition, may not be realized. If we are unable to accomplish any of our objectives in respect of any of our new acquisitions, we may not realize the anticipated benefits of such acquisitions and we may experience lower than anticipated profits, or even incur losses. Acquisitions may also lead to a substantial increase in long-lived assets, including goodwill, which may later be subject to write-down if an acquired business does not perform as expected, which may have a material adverse effect on Philips' earnings.

Risk response: Philips has an active acquisition allocation strategy and roadmap per growth area to ensure organizational fit. Philips aims to use a structured and disciplined acquisition process with strict acceptance criteria, budgets and tollgates, and time allocated for critical review of due diligence, including integration risks and expected integration benefits. A broad range of internal and external functional experts are involved in this process. Philips develops and deploys a high-quality post-acquisition integration playbook with set milestones and conducts value-creation progress reviews with the responsible business leader throughout the integration of each acquisition.

Philips may be unable to meet internal or external aims or expectations with respect to ESG-related matters

Environmental, Social and Governance (ESG) factors may directly and indirectly impact the business environment in which Philips operates. Philips may, from time to time, disclose ESG-related initiatives or aims in connection with the conduct of its business and operations (for example, with respect to reducing greenhouse gas emissions in its supply chain). However, there is no guarantee that Philips will be able to implement such initiatives or meet such aims within anticipated timeframes, or at all. In addition, there is an increasing focus from Philips' stakeholders – including customers, employees, regulators, and investors – on ESG matters, and those stakeholders may also have ESG-related expectations with respect to Philips' business and operations. For example, customers may focus on ESG-related criteria in buying our products, and any inability by Philips to address concerns about ESG-related matters could negatively impact sentiment towards Philips and our products and brands. There are an increasing number of regulatory and legislative initiatives in the EU and other

jurisdictions to address ESG issues, which will or may (if implemented) require Philips to significantly increase the scope of mandatory ESG disclosures. They will or may (if implemented) require Philips to identify and act on adverse environmental and human rights impacts across the organization and potentially the entire value chain, beyond our current efforts. These regulatory and legislative initiatives, in turn, could also affect how customers or other stakeholders perceive our products or business operations. If our products or business operations do not meet the criteria for sustainability according to, for example, the EU Taxonomy Regulation (including the related delegated regulations) or any other similar regulations, this may negatively affect how customers or other stakeholders view Philips. Philips may fail to fulfill internal or external ESG-related initiatives, aims or expectations, or be perceived to do so, or we may fail adequately or accurately to report performance or developments with respect to such initiatives, aims or expectations. In addition, Philips could be criticized or held responsible for the scope of its initiatives or goals regarding ESG matters. Any of these factors may have an adverse impact on Philips' reputation and brand value, or on Philips' business, financial condition and operating results.

Risk response: We have raised our 2025 ESG commitments and have adopted a comprehensive ESG framework. Environmental: We are working to minimize our impact on the planet by taking climate action, driving the transition to a circular economy, implementing EcoDesign in our products, and partnering with our suppliers to reduce their environmental footprint. Social: We aim to deliver social impact by improving people's health and well-being, offering the best place to work, and engaging with our suppliers and the communities where we operate. Governance: At Philips, everything we do is anchored by ethical and responsible practices. Our management structure, operating model, ethics framework and robust risk management help us maintain the highest standards. We have established an ESG Committee that monitors progress and assesses risks in relation to our ESG strategy, and it makes recommendations to the Executive Committee on the continuous improvement of our ESG endeavors. For more information, please refer to the chapter in this report.

Philips may be unable to secure and maintain intellectual property rights for its products and services or may infringe others' intellectual property rights

Philips is dependent on its ability to obtain and maintain licenses and other intellectual property (IP) rights covering its products and services and its design and manufacturing processes. The IP portfolio is the result of an extensive IP generation process that could be influenced by a number of factors, including innovation and acquisitions. The value of the IP portfolio is dependent on the successful promotion and market acceptance of standards (co-)developed by Philips. This is particularly applicable to the segment 'Other', where licenses from Philips to third parties generate IP royalties and are important to Philips' results of operations. The timing of licenses from Philips to third parties and associated revenues from IP royalties are uncertain and may vary significantly from period to period. Additionally,

royalties are often based on sales by third parties, creating an exposure to macroeconomic effects and continuity of these third parties. A loss or impairment in connection with such licenses to third parties could have a material adverse impact on Philips' financial condition and operating results. Philips is also exposed to the risk that a third party may claim to own IP rights to technology applied in Philips' products and services. If any such claims of infringement of these IP rights are successful, Philips may be required to pay damages to such third parties or may incur other costs or losses.

Risk response: Philips has an Intellectual Property & Standards organization (IP&S) that proactively pursues the creation of new IP and the protection of existing IP in close co-operation with Philips' operating businesses and the Innovation & Strategy function. IP&S is a leading industrial IP organization providing IP solutions to Philips' businesses to support their growth, competitiveness and profitability. In addition, Philips aims its business as a whole not to be materially dependent on any particular third-party patent or license, or any particular group of third-party patents and licenses.

6.4 Operational risks

Products and services may fail quality or security standards, which may adversely affect patient safety and customer operations

The safety of patients and our reputation depends on the safety and quality of our products and services. Our products and services, either new and/or in field use by our customers, may fail to meet product quality or product security standards. In particular, Philips is exposed to the ongoing impact of the Respironics voluntary recall and related matters. Please refer to the section [Quality & Regulatory and patient safety, starting on page 70](#) and the Note [Contingencies, starting on page 204](#). If products fail to meet product quality and/or security standards, this may cause (patient) harm, negatively impact customer operations and their ability to provide healthcare, provide unauthorized access to patient records and medical devices through cybersecurity incidents or generally cause customer dissatisfaction. Given Philips' focus on health technology, products and services often require regulatory approvals, including approval of quality and benefit/risk prior to market introduction. Many of our products also have multiple software components, which may be exposed to security threats, including potentially in the event of obsolescence or insufficient maintenance. Issues with the quality or security of our products and services can occur as a result of various factors, including product design, production, suppliers, materials used, installation, or newly emerging and rapidly evolving cybersecurity threats. These (and other) issues could cause events that need to be actively addressed, which may lead to (amongst others) higher costs of design, market de-activation, stop use, field recalls and repairs, financial claims and liabilities, damage to our brand reputation, competitive disadvantage, regulatory non-compliance (refer to the section [Compliance risks, starting on page 103](#)), consent decrees or

losing our license to operate for products or access to markets. Any of these may have a material adverse impact on Philips' business, financial condition and operating results.

Notwithstanding the proliferation of technology and technology-based control systems to detect defects or other errors in our products before they are released, our business ultimately relies on people as our greatest resource, and, from time to time, they make mistakes or engage in violations of applicable policies, laws, rules or procedures. These events are not always caught immediately by our technological processes or by our controls and other procedures, which are intended to prevent and detect such errors or violations. In addition to human error, our quality controls are also subject to overriding, as well as resource or technical constraints. As such, these quality controls and preventative measures may not be effective in detecting all defects or errors in our products before they have been released into the marketplace. In such an event, the technological reliability and safety of our products could be below our standards, and our reputation, brand and sales could be adversely affected. In addition, we could be required to, or may find it necessary to, offer a refund for the product or service, suspend the availability or sale of the product or service, or expend significant resources to cure the defect or error. Any of these factors may have an adverse impact on Philips' reputation and brand value, or on Philips' business, financial condition and operating results.

Risk response: Philips is committed to delivering the highest-quality products, services and solutions compliant with all applicable laws and standards, and patient safety is paramount to everything we do. We design, produce, and supply our products and services with a focus on safety, security and effectiveness. Post-market surveillance processes monitor our devices after release to market to attempt to uncover emerging issues as early as possible. The quality of production and performance of our critical suppliers is also monitored closely. A cybersafe program is running to address obsolescence issues.

We continuously invest substantially in embedding quality in our organizational culture as well as consolidating and standardizing our Quality Management Systems (QMS). We run an enterprise-wide program Accelerating Patient Safety and Quality. This program was initiated in 2021 following the Respironics voluntary recall to evaluate and further improve our QMS, our oversight & performance management and our culture where necessary. A formal quality audit program assesses our organization's compliance with our QMS. With consistency of purpose, top-down accountability, consolidation, standardization and continuous improvement, we aim to drive the adoption of a quality mindset as well as improved quality and safety outcomes throughout the enterprise. Quality is an integral part of the evaluation of all levels of management. While we believe our processes have become more robust, continuing to enhance our quality culture remains a top priority. We perform extensive programs to monitor and evaluate product performance, and we correct or remove any product from service that presents harm to patients or users. In the event of issues, we run extensive programs with the goal of recalling, repairing or replacing affected products and

attempting to prevent such issues from reoccurring. For example, in June 2021, our subsidiary, Respiroics, initiated a voluntary recall notification for certain sleep and respiratory care products to address identified potential health risks and substantially ramped up the production, service and repair capacity. In 2022, Respiroics continued to make progress with the repair and replacement program and the comprehensive test and research program for the affected devices. As of January 2023, around 90% of the production required for the delivery of replacement devices to patients has been completed. In order to expedite the remaining 10% of the affected devices, Philips Respiroics will increase the proportion of replacement devices.

For further details refer to section *Quality & Regulatory and patient safety, starting on page 70*, the Notes *Provisions, starting on page 193* and *Contingencies, starting on page 204*.

Philips may be unable to ensure a resilient supply chain

Most of Philips' operations are conducted internationally, which exposes Philips to supply chain challenges and uncertainties. Philips produces and procures products and parts in various countries globally, including Asian countries. Disruption to production in, and shipping from, Asian countries could have a disproportionate impact on our business compared to disruptions in other markets. The production and shipping of products and parts, whether from Philips or from third parties, could be interrupted by various external factors, such as geopolitics (for example, US-China relations and protectionist measures taken in other markets), regional conflicts, natural disasters or extreme weather events (the effects of which may be exacerbated by climate change), container imbalances, port congestions, and continued uncertainty related to COVID-19 measures (particularly in China). Throughout 2022 we experienced supply chain headwinds and expect these to continue throughout 2023. Currently, components are scarce. Global supply constraints and cost impacts as a result of worldwide economic disruptions, electronic component shortages, fear of future or ongoing pandemics, inflation, and geopolitical events, including the war in Ukraine, are impacting our ability to procure components. Obtaining alternative sources of components could involve significant costs and regulatory challenges and may not be available to us on reasonable terms, if at all. As a health technology company, Philips is dependent on the availability of components, including semiconductors. Semiconductors have been subject to an ongoing global supply shortage. At the same time our product design may include obsolescent semiconductors and other components. If semiconductor shortage continues, we may experience delays, production interruptions, increased costs, the need to make engineering design changes or the inability to fulfill customer demand, any of which could adversely affect our business and financial performance. Philips, our customers, our suppliers, and our third-party service providers may also be exposed to labor shortages, potentially as a result of COVID-19. These factors may cause increased lead times and adversely impact our production capacity, which may negatively impact the delivery of products and services to customers, for example the postponement of equipment installations in hospitals. If Philips is not able to respond swiftly to those factors, this may

result in an inability to deliver on customer needs, ultimately resulting in loss of revenue and margin.

A general shortage of energy, materials, (sub-)components or means of transportation may drive fluctuations in price. Philips purchases raw materials, including rare-earth metals, copper, steel, aluminum, noble gases and oil-related products. There is no assurance that these raw materials will be available for purchase in the future. The actions by the governments in the US, UK, and the EU in response to the war between Russia and Ukraine, among other factors, have had an adverse impact on the cost of the raw materials that we purchase. Commodities have been subject to volatile markets, and such volatility is expected to continue and costs to increase. Costs may also increase as a result of stricter climate-change-related laws and regulations. Such legislation could require investments in technology to reduce energy use and greenhouse gas emissions, beyond what we expect in our existing plans, or could result in additional and increased carbon pricing. If Philips is not able to compensate for increased costs of energy, (sub-)components, (raw) materials and transportation – either by reducing reliance thereon or passing on increased costs to customers – then price increases could have a material adverse impact on Philips' business, financial condition, and operating results.

Philips may increase its dependency on a concentration of external suppliers, as a result of the continuing process of creating a leaner supply base and launching initiatives to replace internal capabilities with less costly outsourced products and services. These initiatives also need to be balanced with local-market value-creation requirements, including those relating to local manufacturing and data storage. Although Philips works closely with its suppliers to avoid supply discontinuities, there can be no assurance that Philips will not encounter future supply issues, causing disruptions or unfavorable conditions.

Risk response: Philips is extending the simplification of its portfolio and its Design for Excellence approach to the full value chain, which includes designing products in such a way that supply dependencies are minimized (for example, redesigning our printed circuit boards to qualify alternate sources of supply). Furthermore, we are optimizing our supplier base, manufacturing, and warehousing footprint to enable agile responses to shifts in demand and supply, as well as a changing geopolitical risk landscape. Philips is engaging with senior government officials, strategic suppliers and foundries to prioritize healthcare supplies, directly working on component issues across all tiers of suppliers and diversifying sourcing of high-risk components. Philips is making balanced investments in global and local supply chain capabilities to reduce dependencies and lead times, and to meet local market requirements.

Philips has deployed an integrated risk management framework to assess and manage suppliers from various perspectives, such as strategic fit, financial stability, operational performance and quality, sustainability, compliance, and location. We also maintain close

relationships with our suppliers and maintain an ongoing dialogue to align our demand to their supply allocation.

Philips conducts various scenario assessments and develops response strategies to events potentially impacting its supply chain, such as geopolitical changes, natural disasters, emerging markets volatility, and pandemics. We run various global warming and weather scenarios on the geographical footprint of our facilities, as well as our suppliers', in line with the recommendations of the Task Force on Climate-Related Financial Disclosures.

Philips manages carbon pricing risk by reducing its full value-chain carbon footprint, as well as partnering with suppliers to reduce their environmental footprint and closely monitor carbon regulations, including carbon taxes. Philips manages the risk of rising commodity prices by several means, including engaging in long-term contracts and keeping physical inventories. Philips closely monitors price developments and takes pricing action where appropriate.

Philips may face challenges in connection with its strategy to improve execution and other business performance initiatives

As announced in January 2023, Philips has prioritized the further strengthening of our patient safety and quality management, our supply chain operations, and the simplification of the organization and the ways we work. If we do not effectively manage the necessary changes, including any upgrades to Philips' IT architecture, this may result in us not realizing our business ambitions with respect to growth, safety, quality, operational excellence, productivity and solutions delivery, amongst others, and/or may cause business discontinuities. There can be no assurance that the recently announced changes in operating model will be successful in supporting Philips' strategy or improving Philips' results of operations, and Philips may need to undertake further restructurings in the future. If the recently announced restructuring or any future restructurings ultimately prove unsuccessful or have a material adverse effect on Philips' reputation and brand value, Philips' business, financial condition, and operating results could be materially adversely affected.

Philips continually seeks to create a more open, standardized, and cost-effective IT landscape. Approaches include further outsourcing, offshoring, commoditization, and ongoing reduction in the number of IT systems. These changes create third-party dependency risks regarding the delivery of IT services, the availability of IT systems, and the functionality offered by IT systems. Although Philips has sought to strengthen security measures and quality controls relating to these systems, these measures may prove to be insufficient or unsuccessful, which may lead to a material adverse impact on Philips' business, financial condition, and operating results.

Risk response: Philips runs a process to simplify the way we work, to drive accountability and agility and to unlock significant productivity and margin gains. This simplification is a primary enabler for flawless execution. Philips has a dedicated business transformation and IT implementation organization that drives end-to-end orchestration of this change. To enable change, Philips has adopted several practices to drive a culture of performance and to ensure programs are effective. These practices include Lean and Agile, change management, project management, knowledge management, and performance management. Philips is rolling out an Enterprise Process Framework to simplify and standardize our business processes and supporting enterprise (IT) architecture.

Philips uses a structured IT risk management method to identify and address risks to our critical business applications. Our ongoing IT Business Continuity Management activities include real-time monitoring of availability, redundancies, testing, and upgrading of applications. We regularly validate IT systems and continuously improve our IT change management capabilities to make sure that every change of an IT system is executed in a controlled way and sufficiently tested to minimize the impact of business disruptions due to failure of the system. Philips has deployed a global Business Continuity Management System, which includes a global early warning system for operational threats and is certified against ISO 22301:2019, the international standard for Business Continuity.

Philips is dependent on its people for leadership and specialized skills and may be unable to attract and retain such personnel

In October 2022 and January 2023, Philips announced a series of reductions in workforce. These restructuring measures may negatively impact Philips' reputation and its ability to attract and retain employees whose skills and experience are important for its business. Layoffs of skilled employees may subject Philips to potential employment lawsuits and benefit Philips' competitors. Philips' restructuring measures may also pose operational challenges and place a substantial strain on remaining management and employees. The reduction in workforce may adversely affect the pace and breadth of Philips' research and development efforts. The diversion of management time to planning and implementing any restructuring measures may also cause disruptions to Philips' business.

The attraction and retention of talented employees is critical to Philips' success, and the loss of employees with specialized skills could result in business interruptions. There is fierce competition for talent in key capability segments, and there is a heightened expectation of attrition post-pandemic. The announced organizational restructuring may also impact employee engagement. These factors may affect Philips' ability to attract and retain critical talent. Post-COVID-19 adjustments such as hybrid working may continue to present challenges to team interactions and the onboarding of new people. If employees perceive our post-COVID-19 approach to working to be inadequate, overly burdensome, or prefer the safety or convenience of working from home, employees may choose to terminate their employment with us, productivity may decline, or we may experience employee unrest,

slowdowns, stoppages or other demands. Philips is competing for the best talent and most sought-after skills, and there is no assurance of succeeding compared to other companies in attracting and retaining the highly qualified employees needed in the future. Wage inflation is increasing the competition for talent and the cost of labor. This may negatively impact our ability to deliver on our strategic imperatives, and if we are unable to offset the increased costs of labor through higher selling prices, then rising costs could also have a material adverse impact on Philips' business, financial condition and operating results.

Risk response: Philips continuously assesses capability gaps for its key positions and has initiatives in place to close any employee capability gaps. This includes monitoring and understanding the drivers behind attrition, maintaining appropriate remuneration structures aimed at attracting and retaining talent, and leveraging its purpose and contribution to societal and environmental challenges, as a differentiating proposition for employees. Philips measures employee engagement through regular surveys and benchmarks the results across the organization against high-performing external norms. Philips performs deep-dives where necessary and drives improvement actions to address any gaps. For example, the company is running a Future of Work program to drive a hybrid-model approach, with continued emphasis on embracing flexibility, being at our best, and engaging in impactful collaboration.

Philips could be exposed to a significant enterprise cybersecurity breach

Philips relies on information technology to operate and manage its businesses and store and process confidential data (relating to patients, employees, customers, intellectual property, suppliers and other partners). Philips' products, solutions and services increasingly contain sophisticated and complex information technology. The healthcare industry is subject to strict privacy, security and safety regulations with regard to a wide range of health information. At the same time, geopolitical conflicts and criminal activity continue to drive increases in the number, severity, and sophistication of cyberattacks globally. Considering the general increase in cybercrime, our customers and other stakeholders are becoming more demanding regarding the cybersecurity of our products and services. As a global health technology company, Philips is inherently and increasingly exposed to the risk of cyberattacks and potential impact of attacks on our suppliers. Information systems may be damaged, disrupted (including the provision of services to customers), or shut down due to cyberattacks. In addition, breaches in the security of our systems (or the systems of our customers, suppliers, or other partners) could result in the misappropriation, destruction or unauthorized disclosure of confidential information (including intellectual property) or personal data belonging to us or our employees, customers, suppliers or other partners. These risks are particularly significant with respect to patient medical records. Cyberattacks may result in substantial costs and other negative consequences, which may include, but are not limited to, lost revenues, reputational damage, remediation and enhancement costs, penalties, and other liabilities to regulators, customers and other partners. Philips has not encountered any material breaches or other cybersecurity incidents in 2022. While Philips deals with the operational threat of cybercrime on a continuous basis and has so far been

able to prevent significant damage or significant monetary cost in taking corrective action, there can be no assurance that future cyberattacks will not result in significant or other consequences than as described above, which may result in a material adverse impact on Philips' business, financial condition and operating results.

Risk response: Philips has established a Group Security function and implemented security management processes and controls, and monitors risk trends on material security topics, such as the risk of security breaches and ransomware attacks, in our information systems and our products and services. The Philips Security Steering Committee continually monitors the risks, as well as required investments and progress made on the programs to reduce security risk. Risk workshops are held across the company to calibrate cybersecurity risks and the appropriate risk appetite. Philips is deploying security risk management further into our businesses and functions to enhance the completeness and quality of overall risk reporting, and management of identified improvement actions.

Philips assesses and continuously improves key security controls (e.g., strengthening endpoints, email security, and network security, and conducting global vulnerability scans, including mitigation of vulnerabilities). We have strengthened the IT function to assure IT systems are kept up to date and applications are designed and developed with security in mind. We run initiatives to enhance security awareness for all Philips staff. For example, there are mandatory security trainings and specific phishing training, and we give additional focus to groups who need it across the company. Philips evaluates its supply chain and continuously monitors the security maturity of critical suppliers, as well as their performance against contractually agreed security standards. Philips has also strengthened its procurement process for security. Philips also continuously improves the Philips Business System to ensure adequate security management of products and services via the Quality Management Systems. Philips maintains relationships and cooperates with several government intelligence and law enforcement agencies, as well as with healthcare -specific Information Sharing and Analysis Centers (ISACs) and Cyber Emergency Response Teams (CERTs), to remain abreast of new threats.

Philips may face challenges to drive excellence and speed in bringing innovations to market

To gain sustainable competitive advantage and to deliver on our purpose and the Quadruple Aim (better health outcomes, improved patient experience, improved staff experience and lower cost of care), it is important that Philips continues to innovate and delivers these innovations to the market on a timely basis. The emergence of new low-cost competitors, particularly in Asia, further underlines the importance of improvements in the innovation process. Success in launching innovations depends on a number of factors, including development of value propositions, architecture and platform creation, product development, market acceptance, production, and delivery ramp-up. It is also dependent on addressing potential quality issues or other defects in the early stages of introduction, and on attracting and retaining skilled employees. Costs of developing new products and solutions may partially be reflected on Philips' balance sheet and may be subject to write-down or impairment depending on the performance of such products or services. The significance and timing of such write-downs or impairments are uncertain, as is the ultimate commercial success of new product introductions. Accordingly, Philips cannot determine in advance the ultimate effect that innovations will have on its financial condition and operating results. If Philips fails to create and commercialize its innovations at scale, it may lose market share and competitiveness, which could have a material adverse effect on its financial condition and operating results.

Risk response: Philips is in continuous dialogue with customers to better understand their needs and to reaffirm that its strategy is translated into a balanced portfolio of products, software, services and integrated solutions with a corresponding innovation pipeline. Philips transformed its marketing to accelerate the understanding of rapidly evolving customer needs and to translate that understanding into integrated value propositions. Philips is also driving the Customer First Innovation transformation to accelerate its innovation ambitions and effectiveness across all elements of the Philips Business System. The focus is on digital platform-based solutions and software-defined systems, leveraging data and AI at scale, and enabling delivery of informatics and system-related applications with a Software as a Service business model. Furthermore, Philips runs initiatives to rationalize our Research & Development (R&D) footprint and to prioritize R&D projects. Ways of working are anchored in standardized processes and tools in all aspects of customer-needs-focused innovation (from exploration to launch in the market and eventually customer success management). In addition, a number of initiatives are running to improve innovation capabilities, in areas such as software and systems engineering, data and AI, and usability. Finally, Product Design Centers have been set up to take responsibility for common modules used by multiple businesses, such as wireless connectivity modules and batteries. These initiatives, taken together, will improve innovation effectiveness, efficiency, quality, and regulatory compliance.

Pandemics could have an adverse effect on Philips' operations and employees

Although the ability to manage pandemics (for example, resurgences of COVID-19 or mutations thereof) has improved, pandemics may continue to affect Philips' operations and results in 2023 and Philips expects uncertainty and volatility related to the impact of pandemics and the local response policies thereto, in China in particular given our footprint in China and recent developments in China to loosen restrictions and countervailing measures imposed by other countries. This is driven by, among other things, the extent and depth of government policies to restrict the spread of viruses, the effectiveness of vaccination programs, the appearance of mutations, and the emergence of new viruses that may cause new pandemics. COVID-19 and other pandemics may continue to impact delivery on our triple duty of care in various ways: the health and safety of our employees (in our various working environments); meeting critical customer needs (for example, our production capacity and our ability to deliver, install and provide services); and business continuity (for example, our functional operations, supply chain, and commercial processes). In 2022, we have gradually reopened our offices mostly applying a hybrid schedule. For further discussion or the risks related to hybrid working, see the risk factor "Philips is dependent on its people for leadership and specialized skills and may be unable to attract and retain such personnel". The expectation remains that responses to the risks of COVID-19 continue to require effort and expense and may negatively affect Philips' business, financial conditions, and results of operations. In addition, Philips' customers may not yet be fully focused on making new investments in medical equipment while recovering from COVID-19 disruptions, or they may be facing liquidity issues caused by COVID-19, which may adversely impact Philips' revenue and cash flow generation.

Risk response: The Philips Group Crisis Operations team has activated a comprehensive COVID-19 response program, which is continuously maturing and helps Philips be better prepared to respond to future events. Philips' response measures are focused on delivering on its triple duty of care:

- *Safeguarding the health and safety of employees, including personal hygiene measures and safety protocols, work-from-home protocol, safe working environments, personal protective equipment, and remote servicing capabilities.*
- *Meeting critical customer needs, including production volume ramp-up, delivery and installation of critical equipment, fair and ethical allocation of scarce equipment and supplies, customer services, updated clinical guidance, increased cloud-enabled telehealth, remote patient engagement and hub-and-spoke models.*
- *Ensuring business continuity, including liquidity measures and our Business Continuity Management System covering functional operations, the integrated supply chain and commercial processes.*

6.5 Financial risks

Philips is exposed to a variety of treasury and financing risks, including liquidity, currency, credit and country risk

Negative developments impacting the liquidity of global capital markets could affect Philips' ability to raise or re-finance debt in the capital markets or could lead to significant increases in the cost of such borrowing in the future. If the markets expect a downgrade by the rating agencies, or if such a downgrade has actually taken place, this could increase the cost of borrowing, reduce our potential investor base and adversely affect our business.

Philips' financing and liquidity position may also impact its ability to implement or complete any share-buyback program or distribute any dividends in accordance with its dividend policy or at all. Any announced share-buyback program or dividend policy may also be amended, suspended or terminated at any time, including at Philips' discretion or as a result of applicable law, regulation or regulatory guidance, and any such amendment, suspension or termination could negatively affect the trading price of, increase trading price volatility of, or reduce the market liquidity of Philips' shares or other securities. Additionally, any share-buyback program or distribution of dividend could diminish Philips' cash or other reserves, which may impact its ability to finance future growth and to pursue potential future strategic opportunities. Any share-buyback program or dividend payment will depend on factors such as availability of financing, liquidity position, business outlook, cash flow requirements and financial performance, the state of the market and the general economic climate, and other factors, including tax and other regulatory considerations. Philips and its subsidiaries may also be subject to limitations on the distribution of shareholders' equity under applicable law.

Philips operates in over 100 countries and its reported earnings and equity are therefore inevitably exposed to fluctuations in exchange rates of foreign currencies against the euro. Philips' sales and net investments in its foreign subsidiaries are sensitive in particular to movements in the US dollar, Japanese yen, Chinese renminbi, and a wide range of other currencies from developed and emerging economies. Philips' sourcing and manufacturing spend is concentrated in the EU, the US and China. Income from operations is particularly sensitive to movements in currencies of countries where Philips has no or very small-scale manufacturing/local sourcing activities but significant sales of its products or services, such as Japan, Canada, Australia, the United Kingdom, and a range of emerging markets, such as South Korea, Indonesia, India and Brazil. Philips' operations in all segments were scaled back in Russia and Ukraine in 2022, which together represented less than 2% of group sales in 2021 and in 2022. The asset value of the activities in Russia and Ukraine were less than 1% of the consolidated total assets of the group as of December 31, 2022. While there have been no significant asset write-downs to date in Russia and Ukraine, we continue to closely monitor developments in this regard.

In view of the long lifecycle of health technology solution sales and long-term strategic partnerships, the financial risk of counterparties with outstanding payment obligations creates exposure risks for Philips, particularly in relation to accounts receivable from customers, liquid assets, and the fair value of derivatives and insurance contracts with financial counterparties. A default by counterparties in such transactions can have a material adverse effect on Philips' financial condition and operating results.

Contingent liabilities may have a significant impact on the company's consolidated financial position, results of operations and cash flows. For an overview of current cases please refer to the Note [Contingencies, starting on page 204](#).

Risk response: At Philips, liquidity is monitored by the Group Treasury department, which tracks the actual cash flow for the Group against forecasts of the liquidity requirements on both a short- and longer-term basis. This includes regular reviews of liquidity versus credit rating constraints to manage the risk of potential downgrades in credit ratings. Philips manages the available liquidity for the Group in several ways, e.g., by spreading maturities of external debt over time and by having appropriate standby credit facilities available. As an example, in the second quarter of 2022, Philips issued EUR 750 million fixed-rate notes due 2027, EUR 650 million Green Innovation Notes due 2029, and EUR 600 million Sustainability Innovation Notes due 2033 under its Euro Medium Term Note program. Philips also entered into a series of transactions to extend and optimize the company's debt maturity profile.

Philips hedges the anticipated net exposure of developed-market foreign currencies resulting from sales, purchases and net investments in its foreign subsidiaries in those currencies. For emerging markets, Philips mainly relies on pricing adjustments for its products and services to counteract any expected depreciation of emerging-market currencies. Philips performs ongoing evaluations of the financial and non-financial condition of its customers and other counterparties and uses various tools to manage the credit risks.

Please also refer to the Note [Details of treasury and other financial risks, starting on page 218](#).

Philips is exposed to tax risks which could have a significant adverse financial impact

Philips is exposed to tax risks which could result in double taxation, penalties and interest payments. The source of the risks could originate from local tax rules and regulations as well as international and EU regulatory frameworks. These include transfer pricing risks on internal cross-border deliveries of goods and services, as well as tax risks relating to changes in the transfer pricing model. Examples of initiatives that may result in changing tax rules and regulations include, but are not limited to, the OECD/G20 Inclusive Framework to address the allocation of income to user markets ("Pillar One") and a 15 per cent. minimum income tax rate ("Pillar Two"). The formal adoption of Directive (EU) 2022/2523 (the "Pillar Two Directive") in December 2022 aims to achieve a coordinated implementation of Pillar

Two in EU Member States and is expected to have an effect on the draft Dutch legislative proposal for the proposed Minimum Tax Rate Act 2024 (the “MTR Act”) Philips is closely monitoring these developments, but does not currently expect that it will be affected by Pillar One implementing measures (subject to clarity on final regulations). However, Philips may be affected by the “MTR Act” following its implementation, which is expected to occur on 1 January 2024, and other regulations and rules that have been, or will be, enacted to implement Pillar Two (for example, any implementing acts in EU Member States in respect of the “Pillar Two Directive”). This may impose an additional tax burden and increase Philips’ tax compliance requirements. Furthermore, Philips is exposed to tax risks related to acquisitions and divestments, permanent establishments, tax loss, interest and tax credits carried forward, and potential changes in tax law that could result in higher tax expenses and payments. The risks may have a significant impact on local financial tax results, which, in turn, could adversely affect Philips’ financial condition and operating results. The value of the deferred tax assets, such as tax losses carried forward, is subject to the availability of sufficient taxable income within the tax loss-carry-forward period. It is also subject to the availability of sufficient taxable income within the foreseeable future, in the case of tax losses carried forward with an indefinite carry-forward period. The ultimate realization of the company’s deferred tax assets is uncertain. Accordingly, there can be no absolute assurance that all deferred tax assets, such as (net) tax losses and credits carried forward, will be realized.

Risk response: Philips’ tax policy, strategy and planning provides overarching governance. The Philips global tax organization designs and implements this and provides tax advice, ensures tax compliance, including accounting and reporting, and deploys our tax risk management and control framework to ensure adherence to up-to-date tax policies. The Group Tax department is in charge of establishing, maintaining and overseeing the tax policies. Potential risks are carefully monitored and dealt with by tax specialists from relevant areas (e.g., corporate income tax, transfer pricing, indirect taxes, wage tax and tax accounting). In monthly reviews, a group of Market Tax Managers helps manage the risks and overall tax governance by applying their knowledge of local markets (e.g., introduction of new tax law), among others.

Please also refer to the disclosure in the Note [Income taxes, starting on page 168](#) and the [Country Activity and Tax Report](#).

Flaws in internal controls could adversely affect our financial reporting and management process

Accurate disclosures provide investors and other market professionals with significant information for a better understanding of Philips’ businesses. Failures in internal controls or other issues with respect to Philips’ public disclosures, including disclosures with respect to cybersecurity risks and incidents, could create market uncertainty regarding the reliability of the information (including financial data) presented. This could have a negative impact on

the price of Philips securities. In addition, the reliability of revenue and expenditure data is key for steering the businesses and for managing top-line and bottom-line growth. The long lifecycle of health technology solution sales, from order acceptance to accepted installation and servicing, together with the complexity of the accounting rules recognizing revenue in the accounts, presents a challenge in terms of ensuring consistent and correct application of the accounting rules throughout Philips’ global business. Significant changes in the way of working, such as hybrid working and shifting processes to remote Global Business Services locations, may have an adverse impact on the control environment under which controls are executed, monitored, reviewed and tested. Any flaws in internal controls, or regulatory or investor actions in connection with flaws in internal controls, could have a material adverse effect on Philips’ business, financial condition, operation results, and reputation and brand.

Risk response: Philips’ Business Control Framework (PBCF) sets the standard for risk management and internal control over financial reporting. Key components of our PBCF are the standards on management testing of controls and our Financial Code of Ethics. The code is designed to deter wrongdoings; to promote honest and ethical conduct; to ensure full, fair, accurate, timely, and understandable disclosures, and to encourage internal reporting of (suspected) violations. Please also refer to the section [Our approach to risk management, starting on page 88](#) for more information on our PBCF.

Global inflation could materially adversely impact our business and results of operations

Changes in macroeconomic conditions, supply chain constraints, labor shortages, the conflict in Ukraine, and steps taken by governments and central banks, particularly in response to the COVID-19 pandemic as well as other stimulus and spending programs, have led to higher inflation, which is likely, in turn, to lead to increased interest rates and adverse changes in the availability and cost of capital. These inflationary pressures could affect our manufacturing costs, operating expenses (including wages), and other expenses. We may not be able to compensate for increased costs by driving productivity to reduce costs and by passing these cost increases on through price measures in a timely manner, if at all, which could have an impact on our gross margins and profitability. Inflation may also cause our customers to reduce or delay orders for our products, which could have a material adverse effect on our business, results of operations, and cash flows.

Risk response: To improve agility and productivity Philips has stepped up its performance initiatives to remove organizational complexity, optimize quality and simplify ways of working. These initiatives relate to, however are not limited to, the following areas. Procurement spend reduction through for consolidation of suppliers and leveraging low-cost locations. We maintain close relationships with our suppliers and maintain an ongoing dialogue to align our demand forecast to their supply allocation and manage the risk of rising prices by several means, including engaging in long-term contracts and keeping physical inventories. Supply chain cost reductions through rationalization of manufacturing,

warehousing, logistics providers, digitalization, and remote servicing. R&D cost productivity increases through platforms and footprint simplification and simplification of our product designs. General productivity measures including organizational restructuring, headcount reduction, real estate optimization and the expansion of our Global Business Services and automation initiatives. Refer to Treasury and Financing risk for financing costs management examples.

Furthermore, Philips relies on pricing adjustments for its products and services and periodic indexation clauses in long term contracts to counteract costs increases as well as building capabilities to drive value extraction and handle inflation for the foreseeable future, for example through training of commercial teams.

6.6 Compliance risks

Philips is exposed to risks of non-compliance of its products and services with various regulations and standards, including quality, product safety and security

Our reputation and license to operate depends on our compliance with global regulations and standards. In particular, Philips is exposed to the ongoing impact of the Respironics voluntary recall and related matters. Please refer to the section [Quality & Regulatory and patient safety, starting on page 70](#) and the Note [Contingencies, starting on page 204](#). Philips operates in a highly regulated health-technology product safety and quality environment and its products and services, including parts or materials from suppliers, are subject to regulation by various government and regulatory agencies, e.g., FDA (US), EMA (Europe), NMPA (China), MHRA (UK), ANSM (France), BfArM (Germany), and IGZ (the Netherlands). In the EU, the Medical Device Regulation (EU MDR) became effective in May 2021 and imposes significant additional pre-market and post-market requirements. Examples of other product-related regulations are the EU's Waste from Electrical and Electronic Equipment (WEEE), Restriction of Hazardous Substances (RoHS), Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) and Energy-using Products (EuP) regulations. We are subject to various domestic, EU, US and foreign environmental laws and regulations, which are continuing to develop. Any failure to comply with such laws and regulations could jeopardize product quality, safety and security and/or expose us to lawsuits, administrative penalties and civil remedies, which may have a material adverse impact on Philips' business, financial condition and operating results.

Philips has observed an increase in safety and security requirements in a variety of new and upcoming legislation dealing with market access of consumer goods, medical devices, information and communication technology products, (cloud) services, and specific areas such as data protection, AI, and supply chain. Both regulators and customers require us to demonstrate legal compliance and adequate security management using national and

international standards and associated certifications. Non-compliance with conditions imposed by regulatory authorities could result in product recalls, a temporary ban on products, stoppages at production facilities, remediation costs, fines, disgorgements of profits, and/or claims for damages. Product safety incidents or user concerns could jeopardize patient safety and/or trigger inspections by the FDA or other regulatory agencies, which, if failed, could trigger the impacts described above, as well as other consequences. These issues could adversely impact Philips' financial condition or operating result through lost revenue and cost of any required remedial actions, penalties or claims for damages. They could also negatively impact Philips' reputation, brand, relationship with customers and market share.

Risk response: Philips is committed to patient safety and delivering the highest-quality products, services and solutions compliant with all applicable laws and standards. Our Quality & Regulatory function closely monitors developments in the regulatory landscape. Through specialist teams at the global, regional or local level, detailed standards and requirements are defined and continuously improved as an integral part of our process standards and through dedicated programs when needed, with the aim of ensuring that our employees are aware of and able to comply with these requirements. In the event of compliance issues, we actively engage with the regulatory authorities with respect to compliance and remediation, where relevant. For example, in June 2021 our subsidiary, Respironics, initiated a voluntary recall notification for certain sleep and respiratory care products to address identified potential health risks, and the FDA conducted an inspection of a Respironics manufacturing facility in connection with the recall. Following the FDA's inspection and the subsequent inspectional observations, the US Department of Justice, acting on behalf of the FDA, began discussions with Philips in July 2022 regarding the terms of a consent decree to resolve the identified issues. We are publishing the latest updates on the Respironics field action on our corporate website www.philips.com.

For more information, refer to the sub-section [Quality & Regulatory and patient safety, starting on page 70](#) in the Governance section of the ESG chapter in this report and the Notes [Provisions, starting on page 193](#) and [Contingencies, starting on page 204](#).

Philips is exposed to the risks of non-compliance with business conduct rules and regulations, including privacy and upcoming ESG disclosure and due diligence requirements.

In the execution of its strategy, Philips could be exposed to the risk of non-compliance with business conduct rules and regulations and our General Business Principles, including, but not limited to, patient safety, quality, anti-bribery, healthcare compliance, privacy and data protection, as well as upcoming ESG disclosure requirements and due diligence requirements. This risk is heightened in growth geographies, as the legal and regulatory environment is less developed compared to mature geographies. Examples of compliance risk areas include commission payments to third parties and remuneration payments to

agents, distributors, consultants and similar entities, as well as the acceptance of gifts, which may be considered in some markets to be normal local business practice. The ongoing digitalization of Philips' products and services, including its processing of personal data, increases the importance of compliance with privacy, data protection and similar laws. These risks could adversely affect Philips' financial condition, reputation and brand and trigger the additional risk of exposure to governmental investigations, inquiries and legal proceedings and fines. In various jurisdictions, ESG disclosure requirements are currently being drafted. In Europe, the Corporate Sustainability Reporting Directive has been approved. European Sustainability Reporting Standards (ESRS) will be adopted in 2023 and will significantly increase the scope of mandatory ESG disclosures. Also, the proposed European Corporate Sustainability Due Diligence Directive will (if implemented) require companies to identify and act on adverse environmental and human rights impacts across their organization – and potentially their entire value chain. Failure to meet these requirements could trigger the additional risk of exposure to inquiries from supervisory bodies and adversely affect Philips' reputation and brand, or could adversely impact Philips' financial condition or operating result through lost revenue and cost of any required remedial actions, penalties or claims for damages.

For further details, please refer to the sub-section Legal proceedings within the Note [Contingencies, starting on page 204](#).

Risk response: Over the years, we have extensively transformed the company and strengthened our business processes. As part of that, we have invested substantially in adherence to our General Business Principles (patient safety, quality and integrity always) through the deployment of compliance and awareness programs, as well as the establishment of policies and processes that reinforce adherence. With respect to privacy and data protection, Philips has established a privacy compliance framework, which includes policies, standards and procedures (such as the Binding Corporate Rules), with the aim of ensuring and demonstrating compliance with applicable data protection laws and regulations. Philips has a strong track record on ESG disclosures, often ahead of legislation, and has been closely involved in the development of ESRS. The company already has reasonable assurance on all its ESG disclosures and has started a project to meet the increased requirements of ESRS.

For more details, please refer to the sub-section Philips General Business Principles in the section [Our approach to risk management, starting on page 88](#).

7 Supervisory Board

In the two-tier corporate structure under Dutch law, the Supervisory Board is a separate body that is independent of the Board of Management and the company. The Supervisory Board supervises the policies, management and general affairs of Philips, and assists the Board of Management and the Executive Committee with advice. Please also refer to [Supervisory Board, starting on page 133](#) within the chapter Corporate governance.

Feike Sijbesma ^{2) 3)}

Born 1959, Dutch

Chairman of the Supervisory Board since May 2021
Chairman of the Corporate Governance and Nomination & Selection Committee
Member of the Supervisory Board since 2020; first term expires in 2024

Former CEO and member of the Managing Board of Koninklijke DSM NV. Currently Honorary Chairman of Koninklijke DSM NV, member of the Supervisory Board of Dutch Central Bank (DNB), non-executive Director of Unilever NV, Co-Chair of the Global Climate Adaptation Center and Member of the Board of Trustees of the World Economic Forum.

Chua Sock Koong ¹⁾

Born 1957, Singaporean

Member of the Supervisory Board since 2021; first term expires in 2025

Former Group CEO of Singapore Telecommunications Limited and currently member of the Board of Directors of Prudential plc, Bharti Airtel Limited, Bharti Telecom Limited and Ayala Corporation. Member of the Council of Presidential Advisors of Singapore, Deputy Chairman of the Public Service Commission of Singapore.

Liz Doherty ¹⁾

Born 1957, British/Irish

Chairwoman of the Audit Committee
Member of the Supervisory Board since 2019; first term expires in 2023

Former CFO and board member of Reckitt Benckiser Group PLC, former CFO of Brambles Ltd, former non-executive director and audit committee member at Delhaize Group, Nokia Corp., SABMiller PLC and Dunelm Group PLC. Currently, member of the Supervisory Board and Chairwoman of the audit committee of Novartis AG and of Corbion N.V. Fellow of the Chartered Institute of Management Accountants. Former non-executive board member of the UK Ministry of Justice and of Her Majesty's Courts and Tribunals Service (UK). Currently advisor to GBfoods SA and Affinity Petcare SA, subsidiaries of Agrolimen SA.

Marc Harrison ⁴⁾

Born 1964, American

Member of the Supervisory Board since 2018; second term expires in 2026

Former President and Chief Executive Officer of Intermountain Healthcare and former Chief of International Business Development for Cleveland Clinic and Chief Executive Officer of Cleveland Clinic Abu Dhabi. Currently Executive leading Health Assurance at General Catalyst.

Peter Löscher ^{1) 4)}

Born 1957, Austrian

Member of the Supervisory Board since 2020; first term expires in 2024

Former President and CEO of Siemens AG, President of Global Human Health and Member of the Executive Board of Merck & Co., President and CEO of GE Healthcare Bio-Sciences and member of GE's Corporate Executive Council, CEO and Delegate of the Board of Directors of Renova Management AG. Currently member of the Board of Directors of Telefónica S.A. and Chairman of the Supervisory Board of Telefónica Deutschland Holding AG, Non-Executive Director of Thyssen-Bornemisza Group AG and Doha Venture Capital LLC and Senior Advisor at Bain Capital Private Equity.

Indra Nooyi ³⁾

Born 1955, American

Member of the Supervisory Board since 2021; first term expires in 2025

Former CFO and Chairman and CEO of PepsiCo. Currently member of the Board of Directors and Chair of the Audit Committee of Amazon, Inc. Member of the International Board of Advisors of Temasek, member of the Board of Trustees of the Memorial Sloan Kettering Hospital.

Sanjay Poonen¹⁾

Born 1969, American

Member of the Supervisory Board since 2022; first term expires in 2026

Former Chief Operating Officer at VMware and President at SAP. Currently CEO and President of Cohesity and member of the Board of Directors of Snyk.

David Pyott^{2) 4)}

Born 1953, British/American

**Chairman of the Quality & Regulatory Committee
Member of the Supervisory Board since 2015; second term expires in 2023**

Former Chairman and Chief Executive Officer of Allergan, Inc. and former Lead Director of Avery Dennison Corporation. Currently member of the Board of Directors of Alnylam Pharmaceuticals Inc., BioMarin Pharmaceutical Inc. and Pliant Therapeutics. Deputy Chairman of the Governing Board of London Business School, member of the Board of Trustees and Executive Committee of the California Institute of Technology, President of the Ophthalmology Foundation and President of the Advisory Board of the Foundation of the American Academy of Ophthalmology.

Paul Stoffels^{2) 3)}

Born 1962, Belgian

**Vice-Chairman and Secretary
Chairman of the Remuneration Committee
Member of the Supervisory Board since 2018; second term expires in 2026**

Former CEO of Virco, Chairman of Tibotec, worldwide Chair of Pharmaceuticals at Johnson & Johnson and Chief Scientific Officer & member of the Executive Committee at Johnson & Johnson. Currently CEO and Chairman of the Board of Directors of Galapagos NV.

Herna Verhagen²⁾

Born 1966, Dutch

Member of the Supervisory Board since 2022; first term expires in 2026

Currently CEO of PostNL, member of the Supervisory Board of ING Groep N.V., member of the Supervisory Board of Het Concertgebouw N.V., member of the Advisory Board of Goldschmeding Foundation and member of the executive committee and general board of VNO/NCW (Confederation of Netherlands Industry and Employers).

¹⁾ member of the Audit Committee

²⁾ member of the Remuneration Committee

³⁾ member of the Corporate Governance and Nomination & Selection Committee

⁴⁾ member of the Quality & Regulatory Committee

For a current overview of the Supervisory Board members, see also <https://www.philips.com/a-w/about/supervisory-board.html>

At a glance

Supervisory Board report



Roy Jakobs appointed as new CEO/President

Regular discussion on patient safety, quality, supply chain, business and financial performance, organization, succession planning and strategy

Changes in Supervisory Board composition

Reports of Supervisory Board committees

8 Supervisory Board report

Letter from the Chairman of the Supervisory Board

Dear Stakeholder,

2022 was an extremely challenging year for Philips, which was reflected in a disappointing set of results. The company faced significant issues, including the consequences of the Philips Respironics recall, supply chain and inflationary pressures, the war in Ukraine and the COVID situation in China, which all contributed to the below-par business and financial performance. These developments had a significant impact on our shareholders and employees. In that context, we greatly appreciate the trust our customers show in us, as reflected in our order book.

Mindful of the seriousness of the situation, the Supervisory Board is fully committed to supporting management in leading the company out of its current difficulties and towards a future of progressive value creation with sustainable impact. As we explain in our Report, the Supervisory Board spent many sessions in 2022 engaging with the Board of Management and closely and actively reviewing key priority issues and actions to put Philips back on a value creation track for its stakeholders.

In the course of the year, our succession planning – during which we extensively evaluated internal and external candidates – resulted in the appointment of Roy Jakobs as CEO of Philips. The Board recognizes the portfolio transformation of Philips over the last decade into a focused, global solutions leader in health technology, which needs further performance improvement on several aspects. Our Board is convinced that Roy is the right CEO to take Philips to the next level of performance, by driving execution of the strategic plan and the firm measures announced in the October and January releases. Our Board focus is fully aligned with the company's priorities: driving quality, completing the recall, improving supply chain and business performance, and simplifying the organization. We continue to offer the leadership team our support wherever applicable.

The Supervisory Board knows that addressing the Philips Respironics recall and strengthening patient safety and quality is Philips' first priority. We feel encouraged by the most recent update around the recall, as the company strives to finalize remediation and testing. We fully understand the impact this issue has had on patients, clinicians, care givers, as well on regulators and investors. We are pleased to note that by year-end 2022, following the substantial ramp-up of capacity, Philips Respironics had completed around 90% of the production required for the delivery of replacement devices to patients. We are also

encouraged by the complete set of test results for the first-generation DreamStation (DS1), which accounts for over two thirds of the sleep therapy devices subjected to the recall.

The Supervisory Board also discussed the supply chain situation frequently and in depth in 2022 – both the external situation and the improvements needed internally to improve business and financial performance.

The Supervisory Board supports the simplification of Philips' organizational structure, where the businesses are leading, supported by the regions and global functions, with more focused KPIs. The workforce reductions announced in October 2022 and January 2023 were difficult, yet necessary measures as the company as drives a major step-up in productivity, including focusing its R&D activities on fewer, yet more impactful projects. Philips will strive to implement these reductions with due respect for every employee affected and in line with all local rules and regulations.

Changes to the composition of the Supervisory Board

At the Annual General Meeting of Shareholders held in May 2022, the Supervisory Board was strengthened by the addition of Herna Verhagen and Sanjay Poonen as new members. With her proven track record in driving a customer-first company culture and a background in e-commerce logistics, Herna Verhagen has brought valued and new perspectives to the Supervisory Board, while Sanjay Poonen's extensive experience in enterprise IT and cloud-enabled business models has further strengthened the Supervisory Board's digital competencies. I also wish to thank Neelam Dhawan, who stepped down at the end of the 2022 AGM, for her long-term counsel and support.

Together with my fellow Supervisory Board members, I look forward to providing further oversight of Philips as the company addresses the key priorities for its recovery and at the same time continues to deliver on its purpose of improving people's health and well-being through meaningful innovation.

Feike Sijbesma

Chairman of the Supervisory Board

Introduction Supervisory Board report

The Supervisory Board supervises, advises and challenges the Board of Management in performing their management tasks, as well as setting and executing the strategy of the Philips Group. As members of the Supervisory Board, we act in the interests of Royal Philips, its businesses and all its stakeholders. This report includes a more specific description of the Supervisory Board's activities during the financial year 2022 and other relevant information on its functioning.

2022 focus areas and activities of the Supervisory Board

In 2022, Philips' performance continued to be impacted by the Philips Respironics voluntary recall and operational and supply challenges, such a shortage of electronic components, longer shipping timelines, and disruptions at suppliers caused by the COVID-19 pandemic, which also affected Philips' manufacturing sites in China. The company also faced other headwinds, such as inflationary pressure and the Russia-Ukraine war. These headwinds negatively impacted the conversion of the company's strong order book into sales and the 2022 margin. Furthermore, performance continued to be negatively impacted by the consequences of the Philips Respironics voluntary recall notification in the Sleep & Respiratory Care business in June 2021.

Against this background, the Supervisory Board was regularly updated by management on the company's performance and outlook, and the Supervisory Board engaged in discussions with management on improving performance, among others by addressing the patient safety and accelerating our focus on quality, resilience and quality of the supply chain operations and simplifying the ways of working at Philips to improve performance and increase productivity and agility. Near term and longer-term actions to strengthen the supply chain resilience, as proposed by management, were reviewed by the Supervisory Board.

In this context, the Supervisory Board and management also discussed the external environment in which the company operates, and the impact that the macro-economic outlook has on its performance.

In 2022, the Supervisory Board devoted considerable time to the Philips Respironics voluntary recall, as a recurring agenda item for each of its (regular) meetings. The Supervisory Board discussed and tracked the progress made with the repair and replacement program, as well as the comprehensive test and research approach for the CPAP, BiPAP and mechanical ventilator devices affected. Putting the interest of patients first, the Supervisory Board asked management to keep patients regularly updated on the status of the repair or replacement of their devices and to accelerate the repair and replacement program where possible, despite operational and supply challenges. The Supervisory Board was also regularly updated on other aspects of the recall, such as the ongoing engagements with the US Food and Drug Administration (FDA) and other competent authorities globally,

discussions with the US Department of Justice (DOJ), acting on behalf of the FDA regarding the consent decree, as well as the criminal and civil investigation opened by the DOJ's Consumer Protection Branch and Civil Fraud Section, and the US Attorney's Office for the Eastern District of Pennsylvania to which Philips Respironics is subject and the ongoing class-action lawsuits and individual personal injury claims in which Philips Respironics is a defendant.

Recognizing the importance of patient safety and quality of products and solutions sold by the Philips Group generally, significant time was spent in 2022 on reviewing and tracking progress of the company-wide program launched in 2021 ('Accelerating Patient Safety and Quality') to improve and foster a culture, behaviors and a mindset that puts quality and patient safety first. In the context of this program, the Supervisory Board also discussed the process framework for product design and production controls in the company.

The Supervisory Board carefully considered the CEO succession planning and ran an extensive selection and evaluation process, supported by an external executive search firm, during which various scenarios were considered to ensure the best outcome. Following the completion of this process in which both internal and external candidates were considered and evaluated, the Supervisory Board unanimously concluded that Mr Roy Jakobs was the best candidate. The Supervisory Board subsequently nominated Mr Jakobs as the new CEO/ President of the company effective October 15, 2022, to allow for him to take full ownership of the 2023 budget and business plan. The Supervisory Board is very pleased that Philips' shareholders appointed Mr Jakobs at the Extraordinary General Meeting of Shareholders (with 99.77% of our shareholders voting favor) held on September 30, 2022. Since the appointment of Mr Jakobs, the Supervisory Board has been working closely with him on his key priorities to further improve and strengthen Philips' performance as a leading health technology company, which priorities include: (i) further deepening the patient safety and quality capability across the company, which includes the completion of the Philips Respironics voluntary recall; (ii) leading the Philips Group to resume its profitable growth trajectory by addressing current headwinds, including strengthening the supply chain resilience as noted above; and (iii) simplification of the organization to improve performance and productivity.

Following Mr Jakobs' appointment, the Supervisory Board and the Board of Management interacted on the company's overall strategy to extend its leadership as a health technology company and its plan to create value with sustainable impact towards 2025 and beyond, based on focused organic growth and scalable innovation with improved execution as the key value driver, as presented on January 30, 2023. This plan is designed to restore sales growth and improvement of profitability, including the strategic plans and priorities of each of the segments Diagnosis & Treatment, Connected Care and Personal Health. These interactions led to the company's ambition and productivity initiatives, restructuring and other actions designed to improve its supply operations and performance, as well as its plans

to invest in quality, simplify ways of working, remove organizational complexity by putting businesses with single accountability in the lead, enabled by strong regions and lean functions, and reduce operating expenses, as publicly announced by management on October 24, 2022 and January 30, 2023. Furthermore, the number of key performance indicators that is used to track the company's performance will be significantly reduced. In this context, the Supervisory Board is also pleased with the strengthening of the Executive Committee with the appointments of Steve C. de Baca and Jeff DiLullo as members of the Executive Committee, in their roles as Chief Patient Safety & Quality Officer and Chief Market Leader of Philips North America respectively. This includes the immediate reduction of around 4,000 roles globally across the organization announced on October 24, 2022 and the further reduction of the company's workforce by around 6,000 roles globally by 2025 announced on January 30, 2023.

The overview below indicates other key matters that were reviewed and/or discussed during one or more meetings in the course of 2022:

- Capital allocation, including the dividend policy and pay-out and the M&A framework, and specifically the company's flexibility under its capital structure and credit ratings to pay dividends and to fund capital investments, including share repurchases and other corporate finance initiatives.
- The company's liquidity position and leverage, including the measures taken to strengthen it in light of the financial underperformance of the company. These measures include securing a EUR 1 billion credit facility and executing the settlement of the forward contracts (entered into as part of the share repurchase program announced on July 26, 2021) at the original settlement dates in 2023 and 2024 instead of in 2022 as announced on April 28, 2022.
- Geopolitical developments and their impact on Philips' business, in particular the impact of the Russia-Ukraine war on Philips' employees and the (potential) implications on continuity of Philips' business in these countries.
- Regular review of the dashboard tracking the performance of the 2022 key performance indicators for the Executive Committee versus target.
- Philips' annual management commitments, including the 2023 key performance indicators for the Executive Committee, the 2023 targets for such key performance indicators, and the annual operating plan for 2023.
- Quality & Regulatory compliance, systems and processes. The Supervisory Board was regularly updated on past and upcoming FDA inspections at various company sites, including the preparations for and outcomes of such inspections. Also, refer to the Report of the Quality & Regulatory Committee.
- Oversight of the adequacy of the company's Internal Control over Financial Reporting.
- Enterprise risk management, including updates on and improvements to the relevant processes; the outcome of the annual risk assessment dialogue with the Executive Committee; and an update of the top risks faced by the Philips Group, including the

possible impact of such risks, as well as control and mitigation measures. Refer to Our approach to risk management.

- Engagement with shareholders on the remuneration for the Board of Management following the negative advisory shareholder vote against the 2021 Remuneration Report at the 2022 Annual General Meeting of Shareholders. See the [Letter from the Remuneration Committee Chair, starting on page 116](#) below for more information.
- Succession planning for the Supervisory Board, as well as for the Board of Management and Executive Committee, including the appointments of Wim Appelo, Steve C. de Baca and Jeff DiLullo as members of the Executive Committee.
- The company's People strategy and priorities, employee engagement and retention of employees, review of talent management, leadership and talent development, leadership culture, inclusion and diversity.
- Following best practices, an evaluation of the CEO succession process, with a satisfactory outcome.
- Evaluation of the Board of Management and the Executive Committee based on the achievement of specific group and individual targets approved by the Supervisory Board at the beginning of the year.
- Significant civil litigation claims against, and public investigations into, Philips.
- Philips' Environmental, Social and Governance (ESG) approach, comprising an update on progress made with respect to the 2025 ESG key programs and sustainability commitments and aims (including circular revenues) and Philips' aim to improve the health and well-being of 2.5 billion people per year by 2030 through meaningful innovation. The Supervisory Board was also educated on sustainability reporting requirements and requirements related to sustainability-related financial disclosures, as well as European Union regulatory developments in this context. These include but are not limited to education on the European Union Corporate Sustainability Reporting Directive and European Union Sustainability Reporting Standards and the impact thereof on reporting by the Philips Group.
- The agenda for the 2022 Annual General Meeting of Shareholders (held on May 10, 2022) and the Extraordinary General Meeting of Shareholders (held on September 30, 2022) and the proposed agenda for the 2023 Annual General Meeting of Shareholders (to be held on May 9, 2023).
- The re-appointment, at the 2022 Annual General Meeting of Shareholders, of Ernst & Young Accountants LLP as the company's external auditor for a term of one year, starting on January 1, 2023.
- The proposed re-appointment of Ernst & Young Accountants LLP as the company's external auditor for a term of one year, starting on January 1, 2024, and the proposed appointment of PricewaterhouseCoopers Accountants N.V. as the company's new external accountant, starting on January 1, 2025 for a term of four years. Both proposals will be submitted to the shareholders for their approval at the 2023 Annual General Meeting of Shareholders.
- The market environment for global M&A activities that has slowed down in the second

half of 2022 driven by growing macro-economic challenges, inflationary pressure and rising interest rates, as well as the company's selective approach towards M&A going forward and the (business) performance of companies previously acquired by the company.

The Supervisory Board also conducted 'deep dives' into the strategy and performance of:

- The Image Guided Therapy businesses; and
- Philips North America and Philips International Markets, including market trends, business performance and key strategic and transformation initiatives and priorities.

The Supervisory Board also reviewed Philips' annual and interim financial statements, including information related to ESG, prior to publication.

Supervisory Board meetings and attendance

In 2022, the members of the Supervisory Board convened for seven regular meetings and four extraordinary meetings. Moreover, the Supervisory Board members collectively and individually interacted with members of the Board of Management, with members of the Executive Committee and with senior management outside the formal Supervisory Board meetings. The Chairman of the Supervisory Board and the CEO met regularly for bilateral discussions about the company's progress on a variety of matters. Herna Verhagen and Sanjay Poonen were appointed to the Supervisory Board with effect from May 10, 2022. They followed an induction program and interacted with the members of the Board of Management and various Executive Committee members for deep dives on strategy, finance and investor relations, governance and legal affairs.

The Supervisory Board meetings were well attended in 2022. All Supervisory Board members were present during the Supervisory Board meetings in 2022. The committees of the Supervisory Board also convened regularly (see the separate reports of the committees below) and the committees reported back on their activities to the full Supervisory Board. In addition to the formal meetings of the Board and its committees, the Board and Committee members held private meetings. The members of the Supervisory Board concluded that they devoted sufficient time to engage (proactively if the circumstances so required) in their supervisory responsibilities.

In May 2022, some Supervisory Board members visited Philips' Personal Health site in Drachten, the Netherlands and some Supervisory Board members participated in an innovation tour at the Philips site at the High Tech Campus in Eindhoven. In the course of 2022, various Supervisory Board members visited Philips' Diagnosis & Treatment manufacturing site in Best, the Netherlands, including a visit to the Customer Experience Center. Furthermore, in June 2022, the Supervisory Board visited the headquarters of Philips North America in Cambridge, Massachusetts, US, where the North American Research &

Development Center of the company is based and met with several key members of the North American management team.

Supervisory Board: composition, diversity and self-evaluation

The Supervisory Board is a separate corporate body that is independent of the Board of Management and the company. Its independent character is also reflected in the requirement that members of the Supervisory Board can be neither a member of the Board of Management nor an employee of the company. The Supervisory Board considers all its members to be independent under the Dutch Corporate Governance Code. Furthermore, the members of its Audit Committee are independent under the rules of the US Securities and Exchange Commission, applicable to the Audit Committee.

The Supervisory Board currently consists of 10 members. In 2022, there were a number of changes to the composition of the Supervisory Board, all effective as per (the end of) the 2022 Annual General Meeting of Shareholders. Herna Verhagen and Sanjay Poonen were each appointed to the Supervisory Board for a term of four years. Paul Stoffels and Marc Harrison were each re-appointed for a term of four years. The term of appointment of Neelam Dhawan expired.

The Supervisory Board attaches great value to diversity in its composition and has adopted a Diversity Policy for the Supervisory Board, Board of Management and Executive Committee. For more information on the Diversity Policy, please refer to [Report of the Corporate Governance and Nomination & Selection Committee, starting on page 115](#). The Supervisory Board spent time in 2022 considering its composition, as well as the composition of the Executive Committee (including the Board of Management), taking into account the criteria set forth in the Diversity Policy.

The composition of the Supervisory Board furthermore follows its profile (which was updated in early 2023), as included in the Rules of Procedure of the Supervisory Board. The profile which aims for an appropriate combination of knowledge and experience among the members of the Supervisory Board, encompassing general management, international business, environmental, social and governance (ESG) and sustainability, (consumer) health and medical technology, quality and regulatory, finance and accounting, human resources, manufacturing and supply chain, information technology and digital, marketing, and governmental and public affairs, all in relation to the global character of Philips' businesses. The Supervisory Board also aims for having members with different nationalities and (cultural) backgrounds, working experiences or otherwise diverse qualities, as well as one or more members with an executive or similar position in business or society no more than five years ago. The composition of the Supervisory Board shall furthermore be in accordance with the Dutch Corporate Governance Code best practice provisions on independence, and each member of the Supervisory Board shall be capable of assessing the broad outline of the

overall policy of the company. The size of the Supervisory Board may vary as it considers appropriate to support its profile.

Effective 2022, (re-)appointments of members of the Supervisory Board must meet the gender quota, in accordance with Dutch law, requiring that at least one-third of the supervisory board members are women and at least one-third are men. (For calculation purposes, a total number of board members that cannot be divided by three, must be rounded up to the next number that can be divided by three.) Currently, the statutory quota is met, as out of ten Supervisory Board members, four members are female and six members are male.

In 2022, each member of the Supervisory Board completed a questionnaire to verify compliance with the applicable corporate governance rules and the Rules of Procedure of the Supervisory Board. The outcome of this survey was satisfactory.

An independent external party facilitated the 2022 self-evaluation process for the Supervisory Board and its committees. This included drafting and submitting relevant questionnaires, interviewing members of the Supervisory Board and aggregating and reporting on the results. The members of the Board of Management also provided their input. The questionnaires covered topics such as the composition, size, skills and experience, geographical coverage and diversity of the Supervisory Board, stakeholder oversight, strategic oversight, the management, dynamics and focus of the meetings of the Supervisory Board, the effectiveness of the Supervisory Board's oversight of various aspects of the company's business, risk management, succession planning and people oversight, the CEO succession process, the engagement with management and recommendations to improve the Supervisory Board's functioning and ways of working going forward. Furthermore, the performance of the Chairman, the other Supervisory Board members individually, and of the Supervisory Board's committees was evaluated separately.

The reports on the results of the evaluation were discussed in a meeting of the Supervisory Board. The results of the evaluation indicated that the Supervisory Board continues to be a well-functioning team, as also demonstrated during the expedited CEO succession process in 2022. The results demonstrated that the Supervisory Board is of appropriate size and benefits from different expertise, diversity, and international geographical representation. Suggestions were made to further strengthen the functioning of the Supervisory Board and its Committees going forward. The Supervisory Board stresses the importance of going deep in some important matters, in which the Committees play a key role too. This is in full alignment with the current focus of management on patient safety and quality, supply chain reliability and performance and simplification of the organization, with the aim to enhance organic growth and people and patient centric innovation. Early 2023, the Chairman of the Supervisory Board also discussed the results of the self-evaluation with each of the individual

members of the Supervisory Board; the Chairman also discussed the evaluation of his own functioning with the Vice-Chairman.

Key topics that the Supervisory Board and its Committees will focus on in 2023 include tracking progress on certain aspects of the Philips Respironics voluntary recall notification (including but not limited to the repair and replace program and the testing program), the internal Accelerating Patient Safety and Quality program launched in 2021, with respect to improving the resilience of the supply chain and the company's performance and cash flow generation. Furthermore, in 2023, the Supervisory Board will focus on the company's liquidity position and financial headroom and prepare updates to the remuneration policies for the Supervisory Board and the Board of Management that will be submitted to the 2024 Annual General Meeting of Shareholders, and track the progress made with the simplification of the company's operating model with the aim of reducing complexity and clarifying accountabilities and tracking the reduction of roles as announced by the company on October 24, 2022 and January 30, 2023 respectively.

The periodic use of an external facilitator to measure the functioning of the Supervisory Board will continue to be considered in the future.

Supervisory Board composition

	Feike Sijbesma	Paul Stoffels	Chua Sock Koong	Liz Doherty	Marc Harrison	Peter Löscher	Indra Nooyi	Sanjay Poonen¹⁾	David Pyott	Herna Verhagen¹⁾
Year of birth	1959	1962	1957	1957	1964	1957	1955	1969	1953	1966
Gender	Male	Male	Female	Female	Male	Male	Female	Male	Male	Female
Nationality	Dutch	Belgian	Singaporean	British/Irish	American	Austrian	American	American	British/ American	Dutch
Initial appointment date	2020	2018	2021	2019	2018	2020	2021	2022	2015	2022
Date of (last) (re-)appointment	n/a	2022	n/a	n/a	2022	n/a	n/a	n/a	2019	n/a
End of current term	2024	2026	2025	2023	2026	2024	2025	2026	2023	2026
Independent	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Committee memberships ²⁾	RC & CGNSC	RC & CGNSC	AC	AC	QRC	AC & QRC	CGNSC	AC ³⁾	RC & QRC	RC ⁴⁾
Attendance at Supervisory Board meetings	(11/11)	(11/11)	(11/11)	(11/11)	(11/11)	(11/11)	(11/11)	(8/8)	(11/11)	(8/8)
Attendance at committee meetings	RC (7/7) CGNSC (9/9)	RC (7/7) CGNSC (9/9)	AC (7/7)	AC (7/7)	QRC (6/6)	AC (7/7) QRC (6/6)	CGNSC (8/9)	AC (4/4)	RC (7/7) QRC (6/6)	RC (5/5)
General management	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
International business	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
ESG & sustainability	yes					yes	yes			yes
(Consumer) health and medical technology	yes	yes		yes	yes	yes			yes	
Patient safety, quality & regulatory and product development		yes			yes	yes			yes	
Finance and accounting	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Human Resources	yes	yes	yes		yes	yes	yes	yes	yes	yes
Manufacturing and supply chain	yes	yes		yes		yes	yes			
Information technology and digital	yes	yes	yes	yes	yes	yes	yes	yes		yes
Marketing	yes	yes				yes	yes	yes	yes	yes
Governmental and public affairs	yes	yes	yes	yes	yes	yes	yes			yes

¹⁾ Appointed as member of the Supervisory Board with effect from May 10, 2022

²⁾ CGNSC: Corporate Governance & Nomination and Selection Committee; AC: Audit Committee; RC: Remuneration Committee; QRC: Quality & Regulatory Committee

³⁾ Sanjay Poonen joined the Audit Committee in the course of 2022

⁴⁾ Herna Verhagen joined the Remuneration Committee in the course of 2022

Supervisory Board committees

While retaining overall responsibility, the Supervisory Board has assigned certain of its tasks to the three long-standing committees, also referred to in the Dutch Corporate Governance Code: the Corporate Governance and Nomination & Selection Committee, the Remuneration Committee and the Audit Committee. In 2015, the Supervisory Board also established the Quality & Regulatory Committee. The separate reports of these committees are part of this Supervisory Board report and are published below.

The function of all of the Supervisory Board's committees is to prepare the decision-making of the full Supervisory Board, and the committees currently have no independent or assigned powers. The full Supervisory Board retains overall responsibility for the activities of its committees.

Financial statements 2022

The financial statements of the company for 2022, as presented by the Board of Management, have been audited by Ernst & Young Accountants LLP, the independent external auditor appointed by the General Meeting of Shareholders. We have approved these financial statements, and all individual members of the Supervisory Board have signed these documents (as did the members of the Board of Management).

We recommend to shareholders that they adopt the 2022 financial statements. We likewise recommend to shareholders that they adopt the proposal of the Board of Management to make a distribution of declare a dividend of EUR 0.85 per common share, against retained earnings, and to distribute such dividend in shares.

Finally, we would like to express our thanks to the members of the Board of Management, the Executive Committee and all other employees for their continued contribution throughout 2022.

February 21, 2023

The Supervisory Board

Feike Sijbesma
Paul Stoffels
Chua Sock Koong
Liz Doherty
Marc Harrison
Peter Löscher
Indra Nooyi
Sanjay Poonen
David Pyott
Herna Verhagen

Further information

To gain a better understanding of the responsibilities of the Supervisory Board and the internal regulations and procedures governing its functioning and that of its committees, please refer to [Corporate governance, starting on page 132](#) and to the following documents published on the [company's website](#):

- Articles of Association
- Rules of Procedure of the Supervisory Board, including the Charters of the Supervisory Board committees
- Diversity Policy for the Supervisory Board, Board of Management and Executive Committee

8.1 Report of the Corporate Governance and Nomination & Selection Committee

The Corporate Governance and Nomination & Selection Committee is chaired by Feike Sijbesma. Its other members are Paul Stoffels and Indra Nooyi. The Committee is responsible for the review of selection criteria and appointment procedures for the Board of Management, the Executive Committee, certain other key management positions, as well as the Supervisory Board.

In 2022, the Corporate Governance and Nomination & Selection Committee held nine meetings and all Committee members attended these meetings, with the exception of one member unable to attend the meeting in August 2022. Furthermore, the Committee had numerous additional special meetings in 2022, in particular on the topic of the CEO succession process, which were attended by all Committee members.

The Committee devoted time to the appointment or reappointment of candidates to fill current and future vacancies on the Supervisory Board. Following those consultations, it prepared decisions and advised the Supervisory Board on candidates for appointment. This resulted in the appointment of Herna Verhagen and Sanjay Poonen as members of the Supervisory Board at the 2022 Annual General Meeting of Shareholders.

Under its responsibility for the selection criteria and appointment procedures for Philips' senior management, the Committee reviewed the functioning of the Board of Management and its individual members, the Executive Committee succession plans and emergency candidates for key roles in the company. The conclusions from these reviews were taken into account in the performance evaluation of the Board of Management and Executive Committee members and the selection of succession candidates. Reference is made to 2022 Annual Incentive, setting out the performance review of the Board of Management and the Executive Committee members by the Remuneration Committee.

In 2022, the Committee devoted ample time to the selection and appointment of the new CEO/President of the company as discussed above in the report of the Supervisory Board. This resulted in the appointment of Mr Roy Jakobs as President/CEO and member of the Board of Management at the Extraordinary General Meeting of Shareholders on September 30, 2022. Furthermore, the Committee devoted time in 2022 to the selection and/or appointment of candidates to fill other current and future vacancies on the Board of Management and the Executive Committee. This resulted in: the appointment of Willem Appelo as a member of the Executive Committee in his role as Chief Operations Officer (succeeding Sophie Bechu who stepped down from the Executive Committee), effective September 2022; the appointment of Steve C. de Baca as a member of the Executive Committee in his role as Chief Patient Safety & Quality Officer, effective February 6, 2023; and the appointment of Jeff DiLullo as a member of the Executive Committee in his role as Chief Market Leader of Philips North America (succeeding Vitor Rocha who left the

company), also effective February 6, 2023. As announced on December 8, 2022, Kees Wesdorp left the company on January 1, 2023, with Bert van Meurs (Chief Business Leader for the Image Guided Therapy businesses) temporarily expanding his role to include the leadership of the Precision Diagnosis businesses.

With respect to corporate governance matters, the Committee discussed relevant developments and legislative changes, including the revised Dutch Corporate Governance Code and the regulatory regimes around disclosure requirements related to ESG. Finally, the Committee reviewed the Charter of the Corporate Governance and Nomination and Selection Committee and concluded it remains appropriate.

With respect to the productivity initiatives and other actions to improve the company's performance (including the unfortunate but necessary reduction of roles), the Committee was updated by management on the impact on employees and the phased deployment approach and reviewed the simplification of the organization.

Diversity

The Diversity Policy for the Supervisory Board, Board of Management and Executive Committee was adopted in 2017 and revised in early 2023, and is published on the company website. The Committee periodically assesses the Diversity Policy and the size and composition of the Supervisory Board and makes recommendations, if relevant, relating to the profile for the Supervisory Board.

The criteria in the Diversity Policy aim to ensure that the Supervisory Board, the Board of Management and the Executive Committee have a sufficient diversity of views and the expertise needed for a good understanding of current affairs and longer-term risks and opportunities related to the company's business. The nature and complexity of the company's business is taken into account when assessing optimal diversity, as well as the social and environmental context in which the company operates.

Pursuant to the Diversity Policy, the selection of candidates for appointment to the Supervisory Board, Board of Management and Executive Committee is based on merit. With due regard to the criteria set forth in the Diversity Policy, the company shall seek to fill vacancies by considering candidates that represent a diversity of (among others) ages, gender, identities and educational and professional backgrounds. Please refer to the [Supervisory Board report, starting on page 107](#) for more information on the diversity of the Supervisory Board.

The Diversity Policy includes the Supervisory Board's aim that the Board of Management and the Executive Committee comprise members with different nationalities and (cultural) backgrounds, working experiences or otherwise diverse qualities. Effective 2022, Dutch law requires listed companies to set appropriate and ambitious gender diversity targets for the

Board of Management and for a management level of a seniority to be determined by the company. To this end, the Diversity Policy includes the Supervisory Board's aim that at least one-third of the members of each of the Board of Management and the Executive Committee are women and at least one-third are men. For more information, please refer to [Inclusion & Diversity, starting on page 65](#).

8.2 Report of the Remuneration Committee

8.2.1 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](#) 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, including but not limited to enhanced disclosures, pay-out principles and thresholds and, an evaluation of our claw back conditions, 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](#).

8.2.2 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.	<ol style="list-style-type: none"> 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

8.2.3 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.

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'). Accordingly, the former CEO will receive a partial 2022 AI pay-out and partial vesting of the 2020 LTI grant.

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 Growth¹⁾, Adjusted EBITA¹⁾ and Free Cash Flow¹⁾. The realized performance regrettably did not reach the threshold performance target on any of these three criteria.

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%	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](#).

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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Progress on improving gender balance in leadership positions, leadership hires, whilst employee engagement slightly behind on high-performance norms 	
	Customer results	<ul style="list-style-type: none"> Good progress on customer satisfaction, customer NPS and Ratings & Reviews ahead on target 	
Abhijit Bhattacharya	Strategy execution	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Progress on improving gender balance in leadership positions. Employee engagement slightly behind on high-performance norms 	
Marnix van Ginneken	Strategy execution	<ul style="list-style-type: none"> License income above target Significant order growth intake from large government deals, above target 	17% (fully waived)
	Quality & operational excellence	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Progress on improving gender balance in leadership positions. Employee engagement slightly behind on high-performance norms 	
	Environmental, Social & Governance / Sustainability	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> • Customer Results • Quality & operational excellence • Strategy execution • People & organization • ESG/Sustainability
Abhijit Bhattacharya	<ul style="list-style-type: none"> • Customer Results • Quality & operational excellence • Strategy execution • People & organization • ESG/Sustainability
Marnix van Ginneken	<ul style="list-style-type: none"> • 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](#).

Sustainability category	Underlying objective	Target range	1,810 million	realized performance
Ensure healthy lives and promote well-being for all at all ages (SDG3) <i>Lives Improved</i>	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) <i>Circularity</i>	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) <i>Carbon footprint</i>	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](#).

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 122](#) 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⁾	Accounting 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	
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. Until this time, the former CEO obviously remains available for advisory services. The termination of the agreement with the former CEO is fully in line with the applicable conditions as laid down in the services agreement agreed in 2019.

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 partial 2022 AI pay-out and partial vesting of the 2020 LTI grant will be paid out, respectively vest, pursuant to 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](#).

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.

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 2022	number of stock options exercised in 2022	share price on exercise date	number of stock options expired in 2022	closing balance at December 31, 2022
F.A. van Houten ¹⁾	23/04/2012	23/04/2015	14.82	23/04/2022	75,000	-	75,000	28.35	-	-
	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	-	20,000	28.85	-	-
	23/04/2012	23/04/2015	14.82	23/04/2022	16,500	-	16,500	28.35	-	-
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	-	8,400	28.35	-	-

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

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.

8.3 Report of the Audit Committee

The Audit Committee is chaired by Liz Doherty. Its other members are Peter Löscher, Chua Sock Koong and Sanjay Poonen (who joined in the course of 2022). Feike Sijbesma also regularly attends Audit Committee meetings. The Committee assists the Supervisory Board in fulfilling its supervisory responsibilities, including ensuring the integrity of the company's financial statements, reviewing the company's internal controls and overseeing the enterprise risk management process.

In 2022, the Audit Committee held five regular meetings and two extraordinary meetings, which all Audit Committee members attended.

The CEO, CFO, Chief ESG & Legal Officer, Head of Internal Audit, Chief Accounting Officer and external auditor (Ernst & Young Accountants LLP) were invited to and attended all regular meetings.

The Committee, together with the Chief ESG & Legal Officer, also met separately in private sessions with the CEO, CFO, Head of Internal Audit and external auditor after every regular quarterly meeting of the Committee. Prior to the Committee meetings, the Audit Committee chair met one-on-one with the Group Treasurer as well as with each of the

management who regularly attend the Audit Committee meetings (as set out in the previous paragraph) and with the external auditor (Ernst & Young Accountants LLP).

The following overview highlights matters that were reviewed and/or discussed during Committee meetings in the course of, or in respect of, the financial year 2022:

- The company's 2022 annual and interim financial statements and non-financial information, prior to publication. This review included the increase of EUR 165 million in the field action provision recorded in Q1 2022 in connection with the Philips Respironics voluntary recall notification related to the sound abatement foam in certain sleep and respiratory care products (announced on June 14, 2021), to cater for the higher expected volume of devices eligible for remediation, higher communication costs and potential higher cost of execution and to ensure the speed of the program in a volatile environment. The Committee also reviewed the increase of EUR 85 million in such provision recorded in Q4 2022, resulting from the increased proportion of new replacement devices in order to expedite the completion of the Philips Respironics voluntary recall. In each of the regular quarterly meetings of the Committee, the Committee reviewed the draft of the press release on the company's annual or interim financial statements.
- Matters relating to accounting policies, financial risks, reporting and compliance with accounting standards. Key accounting judgments were discussed in-depth, and treatments were challenged, as were quality of earnings. Compliance with statutory and legal requirements and regulations, particularly in the financial domain, was also reviewed. Important findings, Philips' top and emerging areas of risk (including the internal auditor's reporting thereon, and the Chief ESG & Legal Officer's review of litigation and other claims, as well as material investigations), and follow-up actions and appropriate measures were examined thoroughly.
- The company's cash flow generation, liquidity and financing headroom, and its ability under its capital structure and credit ratings to pay dividends and to fund capital investments, including share repurchases and other corporate finance initiatives. The Committee also monitored ongoing goodwill impairment indicators, in particular in the Sleep & Respiratory Care business, which resulted in a EUR 1.3 billion non-cash charge in Q3 2022 for the impairment of goodwill of this business. The non-cash charge of EUR 168 million that was recorded in Q3 2022 in connection with the initiative to enhance the productivity in Research & Development (among others, by discontinuing certain Research & Development projects) has also been reviewed by the Committee. Furthermore, the Committee reviewed the goodwill impairment tests performed in the fourth quarter, risk management, legal compliance, and developments in regulatory investigations, as well as legal proceedings, including antitrust investigations and related provisions.
- The quarterly Internal Audit reports in which the Head of Internal Audit highlighted key findings of internal audits and fraud investigations by the Internal Audit Function in the

previous quarter. The Committee discussed the adequacy of the remediation actions agreed with management and accountabilities for executing on these actions. In each meeting the Head of Internal Audit also presented the audit schedule for the upcoming quarter.

- Specific finance topics, share repurchases, and in particular the settlement of forward contracts entered into as part of the share repurchase program announced on July 26, 2021, (at the original settlement dates in 2023 and 2024, instead of in 2022 as earlier announced), capital spending and the company's debt financing strategy (including the EUR 1 billion credit facility the company entered into as announced on October 24, 2022).
- A post-investment review of projects in the areas of Information Technology, Research & Development, Real Estate, Operations and Restructuring, and assessment of the actual spend and timing of such projects against the original budget and timing.
- Review and approval of the revised Internal Audit charter, annual audit plan and budget, audit scope, and its coverage in relation to the scope of the external audit, as well as the staffing, independence, performance and organizational structure of the Internal Audit Function.
- The performance of the external auditor in conducting the group and statutory audits as required by the Auditor Policy and the results of the 2021 EY service quality review program for Philips. Taking into account this performance review, the Committee evaluated the proposal for re-appointment of Ernst & Young Accountants LLP. Subsequently, Ernst & Young Accountants LLP was re-appointed at the 2022 Annual General Meeting of Shareholders as external auditor for a term of one year, starting on January 1, 2023.
- Later in the year, the Committee also evaluated the auditor tender process which resulted in the Committee's recommendation to the Supervisory Board to submit to the 2023 Annual General Meeting of Shareholders proposals to re-appoint Ernst & Young Accountants LLP as the company's external auditor for a term of one year, starting on January 1, 2024 and to appoint PricewaterhouseCoopers Accountants N.V. as the company's new external auditor, starting on January 1, 2025 for a term of four years.
- The proposed 2022 external audit scope, including key audit areas, approach and fees, and non-audit services provided by the external auditor in conformity with the Philips Auditor Policy.
- Review and challenge of the independence as well as the professional fitness and good standing of the external auditor and its engagement partners. For information on the fees of the Group auditor, please refer to Audit fees in the note [Income from operations, starting on page 162](#).
- The company's policy on business controls, legal compliance and the General Business Principles (including deployment). The Committee reviewed, discussed and monitored closely the company's internal control certification processes, and in particular, compliance with section 404 of the US Sarbanes-Oxley Act and its requirements regarding assessment, review and monitoring of internal controls. The Committee also reviewed the status of previously reported significant deficiencies and progress made

with respect to the remediation thereof. It also discussed on a regular basis the developments in, and findings relating to, conduct resulting from investigations into alleged violations of the General Business Principles and, if required, any measures taken.

- The company's structure and system on export controls and sanctions for compliance with the international sanctions and export controls.

Furthermore, the Committee received a report from the company's Head of Tax, updating the Committee on several tax aspects, including the company's effective tax rate, tax transparency and tax assets and liabilities.

In February 2023, the Committee reviewed, together with the other members of the Supervisory Board, the key audit matters and the critical audit matters identified by the auditor in relation to the 2022 financial statements included in the Annual Report 2022 and the Annual Report on Form 20-F respectively as well as the draft of the Annual Report 2022. In February 2023, the Committee also reviewed the draft of the company's 2022 Country Activity and Tax Report.

During each regular quarterly Audit Committee meeting, the Committee reviewed the quarterly report from the external auditor, in which the auditor set forth its findings and attention points during the relevant period. Apart from the Audit Committee meetings, the external auditor also attended all private sessions with the Audit Committee, where their observations were, if necessary, further discussed. The Annual Audit Letter was circulated to the full Supervisory Board, and planned actions to address the items raised were discussed with management in the subsequent Audit Committee meetings as well as in private sessions with management.

Finally, the Committee reviewed the Audit Committee Charter and concluded it remains appropriate.

8.4 Report of the Quality & Regulatory Committee

The Quality & Regulatory Committee was established in view of the importance of patient safety and the quality of the company's products, systems, services and solutions. The Committee provides broad oversight of compliance with the regulatory requirements that govern the development, manufacturing, marketing and servicing of the company's products, systems, services and solutions. The Quality & Regulatory Committee assists the Supervisory Board in fulfilling its oversight responsibilities in these areas. It is chaired by David Pyott and its members are Marc Harrison and Peter Löscher.

In 2022, the Quality & Regulatory Committee held six meetings and all Committee members attended these meetings. The Chief Executive Officer, the Chief ESG & Legal Officer, the Chief Operations Officer and the Chief Quality & Regulatory Officer were present during these meetings.

The following overview indicates some of the matters that were discussed during meetings in the course of 2022:

- The company's Quality & Regulatory strategy, focusing on patients and customers to ensure the safety and efficacy of the company's products and solutions and the status and progress of the company's Accelerating Patient Safety and Quality program. For more information, please refer to [Quality & Regulatory and patient safety, starting on page 70](#).
- The Philips Respironics voluntary recall notification related to the sound abatement foam in certain sleep and respiratory care products (announced on June 14, 2021) in the company's Sleep & Respiratory Care business. Management regularly updated the Committee on the trend of the number of devices registered for remediation and on the progress of the repair and replace program for the affected devices, as well as actions taken to accelerate the remediation. The Committee reviewed aspects of this issue, such as the program governance to enable effective execution, ongoing engagements with the FDA and DOJ, among others, with respect to the 518(a) Notification order issued by the FDA on March 10, 2022, the investigation initiated by the DOJ to which Philips Respironics is subject, and the consent decree that is currently under discussion with the US Department of Justice (DOJ), acting on behalf of the FDA and engagements with other regulatory authorities globally. Furthermore, the Committee reviewed and discussed with management the engagement with and communication efforts to patients, physicians, customers and durable medical equipment providers, the testing program and its outcomes, and health hazard evaluations. The Committee also discussed the increases in the field action provision of EUR 165 million and EUR 85 million, respectively, as set out in more detail in the report of the Audit Committee above. Finally, management updated the Committee on two problems detected in corrected Trilogy 100/200 ventilators that had already been repaired, as announced by the company on November 21, 2022; the potential root causes of these issues were discussed between the

Committee and management.

- Management updated the Committee regularly with respect to other quality issues (other than the Philips Respironics voluntary recall notification mentioned in the previous bullet) and the Committee reviewed the progress made with solving and closing such other issues, including but not limited to the quality issue with respect to the pads of the HeartStart 1 devices (for which the company issued a Field Safety Notice on February 21, 2022).
- Review of progress in the transformation of the company's Quality & Regulatory function, aimed at further strengthening expertise and capabilities within the company's Quality & Regulatory function.
- Review of the progress made with global initiatives around the transformation, standardization and simplification of the company's structure and organizational processes relating to Quality Management Systems, Management Systems and regulated manufacturing sites (Legal Manufacturers).
- The status and outcome of Quality & Regulatory-related investigations and inspections by regulatory authorities and Notified Bodies globally across the organization. This in particular covered findings, related matters and follow-up actions taken by the company to address these findings and includes the progress made with respect to closing the open warning letter from the FDA in relation to the company's Hospital Respiratory Care business. Management also regularly provided the Committee with an overview of upcoming scheduled inspections across company sites by the FDA, other regulatory authorities and Notified Bodies, and the actions taken to prepare such inspections.
- Review of the 2022 dashboard of Quality & Regulatory key performance indicators, showing the trend of performance. The Committee also reviewed the Quality & Regulatory key performance indicators for 2023.

9 Corporate governance

9.1 Introduction

Koninklijke Philips N.V. (Royal Philips), a company organized under Dutch law, is the parent company of the Philips group. Its shares have been listed on the Amsterdam stock exchange (Euronext Amsterdam) since 1912. Furthermore, its shares have been traded in the United States since 1962 and have been listed on the New York Stock Exchange since 1987.

Royal Philips has a two-tier board structure consisting of a Board of Management and a Supervisory Board, each of which is accountable to the General Meeting of Shareholders for the fulfillment of its respective duties.

The company is governed by Dutch corporate and securities laws, its Articles of Association, and the Rules of Procedure of the Board of Management and the Executive Committee and of the Supervisory Board respectively. Its corporate governance framework is also based on the Dutch Corporate Governance Code (dated December 8, 2016) and US laws and regulations applicable to Foreign Private Issuers. Additionally, the Board of Management has implemented the Philips General Business Principles (GBP) and underlying policies, as well as separate codes of ethics that apply to employees working in specific areas of our business, i.e., the Financial Code of Ethics and the Procurement Code of Ethics. Many of the documents referred to are published on the company's website and more information can be found in [Our approach to risk management, starting on page 88](#).

In this section of the Annual Report, the company addresses the main elements of its corporate governance structure, reports on how it applies the principles and best practices of the Dutch Corporate Governance Code and provides the information required by the Dutch governmental Decree on Corporate Governance (*Besluit inhoud bestuursverslag*) and governmental Decree on Article 10 Takeover Directive (*Besluit artikel 10 overnamerichtlijn*). When deemed necessary in the interests of the company, the company may deviate from aspects of the company's corporate governance structure, and any such deviations will be disclosed in the company's corporate governance report.

In compliance with the Dutch Corporate Governance Code, other parts of the management report (within the meaning of article 2:391 of the Dutch Civil Code) included in the Annual Report address the strategy and culture of Philips aimed at long-term value creation. Philips' strategy is driven by our purpose to improve people's health and well-being through meaningful innovation, as described in more detail in [Strategy and Businesses, starting on page 9](#). The [Message from the CEO, starting on page 5](#) explains how the company's strategy was executed in 2022; in this regard, please refer also to [Financial performance, starting on page 26](#). Furthermore, reference is made to the Philips Business System, an interdependent,

collaborative operating model that covers all aspects of how we operate – strategy, governance, processes, people, culture and performance management. As set out in [Our culture, starting on page 64](#), we set standards for behaviors, quality and integrity within Philips that will help achieve operational excellence and extend our solutions capability to address our customers' unmet needs. Finally, refer to [Environmental, Social and Governance, starting on page 45](#) for more information on our approach to doing business responsibly and sustainably and our overall societal impact.

9.2 Board of Management and Executive Committee

Introduction

The Board of Management is entrusted with the management of the company. Certain key officers have been appointed to support the Board of Management in the fulfillment of its managerial duties. The members of the Board of Management and these key officers together constitute the Executive Committee. In this Corporate governance report, wherever the Executive Committee is mentioned, this also includes the members of the Board of Management, unless the context requires otherwise. Please refer to [Board of Management and Executive Committee, starting on page 7](#) for an overview of the current members of the Board of Management and the Executive Committee.

Under the chairmanship of the President/Chief Executive Officer (CEO), and supported by the other members of the Executive Committee, the members of the Board of Management drive the company's management agenda and share responsibility for the continuity of the Philips group, focusing on long-term value creation. Please refer to the Rules of Procedure of the Board of Management and the Executive Committee, which are published on the company's website, for a description of further responsibilities and tasks, as well as procedures for meetings, resolutions and minutes.

In fulfilling their duties, the members of the Board of Management and Executive Committee shall be guided by the interests of the company and its affiliated enterprise, taking into account the interests of its stakeholders. The Board of Management and the Executive Committee have adopted a division of responsibilities based on the functional and business areas, each of which is monitored and reviewed by the individual members. The Board of Management is accountable for the actions and decisions of the Executive Committee and has ultimate responsibility for the company's external reporting (including reporting to the shareholders of the company).

The Board of Management and the Executive Committee are supervised by the Supervisory Board. Members of the Board of Management and the Executive Committee will be present in the meetings of the Supervisory Board if so invited. In addition, the CEO and other members of the Board of Management (and if needed, the other members of the Executive Committee) meet on a regular basis with the Chairman and other members of the Supervisory Board. The Board of Management and the Executive Committee are required to keep the Supervisory Board informed of all facts and developments concerning Philips that the Supervisory Board may need to be aware of in order to function as required and to properly carry out its duties.

Certain important decisions of the Board of Management require Supervisory Board approval, including decisions concerning: the operational and financial objectives of the company and the strategy designed to achieve these objectives; the issue, repurchase or cancellation of shares; and major acquisitions or divestments.

Appointment and composition

Members of the Board of Management, including the CEO, are appointed by the General Meeting of Shareholders upon a binding recommendation drawn up by the Supervisory Board after consultation with the CEO. This binding recommendation may be overruled by a resolution of the General Meeting of Shareholders adopted by a simple majority of the votes cast and representing at least one-third of the issued share capital. If a simple majority of the votes cast is in favor of the resolution to overrule the binding recommendation, but such majority does not represent at least one-third of the issued share capital, a new meeting may be convened, at which the resolution may be passed by a simple majority of the votes cast, regardless of the portion of the issued share capital represented by such majority. In the event that a binding recommendation has been overruled, a new binding recommendation shall be submitted to the General Meeting of Shareholders. If such second binding recommendation has been overruled, the General Meeting of Shareholders shall be free to appoint a board member.

The CEO and the other members of the Board of Management are appointed for a term of four years, it being understood that this term expires at the closing of the General Meeting of Shareholders to be held in the fourth calendar year after the year of their appointment or, if applicable, at a later retirement date or other contractual termination date in the fourth year, unless the General Meeting of Shareholders resolves otherwise. The same applies in the case of re-appointment, which is possible for consecutive terms of four years. A (re-)appointment schedule for the Board of Management is published on the company's website.

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

Meeting of Shareholders. In case of termination of the services agreement by the company, severance payment is limited to a maximum of one year's base salary. The services agreements provide no additional termination benefits.

Members of the Board of Management may be suspended by the Supervisory Board and by the General Meeting of Shareholders, and members of the Board of Management may be dismissed by the General Meeting of Shareholders (in each case in accordance with the Articles of Association). The other members of the Executive Committee are appointed, suspended and dismissed by the CEO, subject to approval by the Supervisory Board.

9.3 Supervisory Board

Introduction

The Supervisory Board supervises the policies, management and general affairs of Philips, and assists the Board of Management and the Executive Committee with advice on general policies related to the activities of the company. In fulfilling their duties, the members of the Supervisory Board shall be guided by the interests of the company and its affiliated enterprise, taking into account the interests of its stakeholders.

In the two-tier corporate structure under Dutch law, the Supervisory Board is a separate body that is independent of the Board of Management and the company. Its independent character is also reflected in the requirement that members of the Supervisory Board can be neither a member of the Board of Management nor an employee of the company. The Supervisory Board considers all its members to be independent under the Dutch Corporate Governance Code. Furthermore, the members of its Audit Committee are independent under the rules of the US Securities and Exchange Commission, applicable to the Audit Committee.

The Supervisory Board must approve certain important decisions of the Board of Management, including decisions concerning the operational, business and financial objectives of the company and the strategy designed to achieve these objectives, the issue, repurchase or cancellation of shares and major acquisitions or divestments. The Supervisory Board and its individual members each have a responsibility to request from the Board of Management, the Executive Committee and the external auditor all information that the Supervisory Board needs in order to be able to carry out its duties properly as a supervisory body.

Please refer to the Rules of Procedure of the Supervisory Board, which are published on the company's website, for a description of further responsibilities and tasks, as well as procedures for meetings, resolutions and minutes.

In its report (included in the company's Annual Report), the Supervisory Board describes the composition and functioning of the Supervisory Board and its committees, their activities in the financial year, the number of committee meetings held and the main items discussed. Please refer to [Supervisory Board report, starting on page 107](#). Please also refer to [Supervisory Board, starting on page 105](#) for an overview of the current members of the Supervisory Board.

Appointment and composition

Members of the Supervisory Board are appointed by the General Meeting of Shareholders upon a binding recommendation drawn up by the Supervisory Board. This binding recommendation may be overruled by a resolution of the General Meeting of Shareholders adopted by a simple majority of the votes cast and representing at least one-third of the issued share capital. If a simple majority of the votes cast is in favor of the resolution to overrule the binding recommendation, but such majority does not represent at least one-third of the issued share capital, a new meeting may be convened. At this new meeting the resolution may be passed by a simple majority of the votes cast, regardless of the portion of the issued share capital represented by such majority. In the event that a binding recommendation has been overruled, a new binding recommendation shall be submitted to the General Meeting of Shareholders. If such second binding recommendation has been overruled, the General Meeting of Shareholders shall be free to appoint a board member.

The term of appointment of members of the Supervisory Board expires at the closing of the General Meeting of Shareholders to be held after a period of four years following their appointment. There is no age limit requiring the retirement of board members.

In line with the Dutch Corporate Governance Code, members of the Supervisory Board are eligible for re-appointment for a fixed term of four years once, and may subsequently be re-appointed for a period of two years, which appointment may be extended by at most two years. The report of the Supervisory Board must state the reasons for any re-appointment beyond an eight-year period.

A (re-)appointment schedule for the Supervisory Board is published on the company's website.

Members of the Supervisory Board may be suspended or dismissed by the General Meeting of Shareholders in accordance with the Articles of Association.

Candidates for appointment to the Supervisory Board are selected taking into account the company's Diversity Policy, which is published on the company's website. The Supervisory Board's composition furthermore follows the profile included in the Rules of Procedure of the Supervisory Board, and the size of the board may vary as it considers appropriate to

support its profile. Please refer to [Supervisory Board report, starting on page 107](#) by the [Supervisory Board, starting on page 105](#).

Effective 2022, Dutch law provides a mandatory gender quota, requiring that least one-third of the Supervisory Board members are women and at least one-third men (for calculation purposes, a total number of board members that cannot be divided by three, must be rounded up to the next number that can be divided by three). The quota is applicable to (i) the appointment of new Supervisory Board members, and (ii) the re-appointment of acting board members after eight years following their initial appointment. Except in certain exceptional circumstances, any appointment or re-appointment resulting in a Supervisory Board composition which does not meet (or no longer meets) the quota, will be invalid (null and void).

Supervisory Board committees

The Supervisory Board, while retaining overall responsibility, has assigned certain tasks to four committees: the Corporate Governance and Nomination & Selection Committee, the Remuneration Committee, the Audit Committee, and the Quality & Regulatory Committee. Each committee reports to the full Supervisory Board. Please refer to the charters of the respective committees, which are published on the company's website as part of the Rules of Procedure of the Supervisory Board, for a description of their responsibilities, composition, meetings and working procedures.

The *Corporate Governance and Nomination & Selection Committee* is responsible for preparing selection criteria and appointment procedures for members of the Supervisory Board, the Board of Management and the Executive Committee. The Committee makes proposals to the Supervisory Board for the (re)appointment of such members, and periodically assesses their functioning. The Committee also periodically assesses the Executive Committee succession planning, and the Diversity Policy, and supervises the policy of the Executive Committee on the selection criteria and appointment procedures for Philips executives. At least once a year, the Committee reviews the corporate governance principles applicable to the company, and advises the Supervisory Board on any changes to these principles that it deems appropriate.

The *Remuneration 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. The Committee prepares an annual remuneration report, which is published on the company's website by the Supervisory Board ahead of the Annual General Meeting of Shareholders. In performing its duties and responsibilities, the Remuneration Committee is assisted by an external consultant and an in-house remuneration expert.

The *Audit Committee* assists the Supervisory Board in fulfilling its oversight responsibilities for: the integrity of the company's financial statements; the financial reporting process; the effectiveness (also in respect of the financial reporting process) of the system of internal controls and risk management; the internal and external audit process; the internal and external auditor's qualifications, independence and performance; as well as the company's process for monitoring compliance with laws and regulations and the GBP (including related manuals, training and tools). It reviews the company's annual and interim financial statements, including non-financial information, prior to publication and advises the Supervisory Board on the adequacy and appropriateness of internal control policies and internal audit programs and their findings. The Committee furthermore supervises the internal audit function, maintains contact with and supervises the external auditor and prepares the nomination of the external auditor for appointment by the General Meeting of Shareholders.

The composition of the Audit Committee meets the relevant requirements under Dutch law and the applicable US rules. All of the members are considered to be independent and financially literate, and the Audit Committee as a whole has the competence relevant to the sector in which the company is operating. In addition, Liz Doherty is designated as an Audit Committee financial expert, as defined under the regulations of the US Securities and Exchange Commission. The Supervisory Board considers the expertise and experience available in the Audit Committee, in conjunction with the possibility to take advice from internal and external experts and advisors, to be sufficient for the fulfillment of the tasks and responsibilities of the Audit Committee.

The *Quality & Regulatory Committee* has been established by the Supervisory Board in view of the central importance of the quality and (patient) safety of the company's products, systems, services and software as well as the development, testing, manufacturing, marketing and servicing thereof, and the regulatory requirements relating thereto. The Quality & Regulatory Committee assists the Supervisory Board in fulfilling its oversight responsibilities in this area, whilst recognizing that the Audit Committee assists the Supervisory Board in its oversight of other areas of regulatory, compliance and legal matters.

9.4 Other Board-related matters

Remuneration and share ownership

The remuneration of the individual members of the Board of Management is determined by the Supervisory Board, taking into account the remuneration policy adopted by the General Meeting of Shareholders. The remuneration of the individual members of the Supervisory Board is determined by the General Meeting of Shareholders, also on the basis of a remuneration policy.

The current remuneration policies for the Board of Management and the Supervisory Board, respectively, were adopted in 2020 and are published on the company's website. Pursuant to Dutch law, the shareholders are entitled to vote on the adoption of the separate remuneration policies for the Board of Management and the Supervisory Board at the Annual General Meeting of Shareholders (at least) every four years. The adoption of a remuneration policy will require a special majority of three-quarters of the votes cast (as the Articles of Association do not provide for a lower majority).

A description of the composition of the remuneration paid and owed to the individual members of the Board of Management and the Supervisory Board is included in the annual remuneration report (as prepared by the Remuneration Committee, adopted by the Supervisory Board and published on the company's website). Shareholders have an advisory vote at each Annual General Meeting of Shareholders on the remuneration report relating to the preceding financial year.

Pursuant to Dutch law, the Supervisory Board is authorized to reduce or eliminate unpaid bonuses awarded to members of the Board of Management if payment or delivery of the bonus would be unacceptable according to the principles of reasonableness and fairness. The company, which in this respect may also be represented by the Supervisory Board or a special representative appointed for this purpose by the General Meeting of Shareholders, may also request return of bonuses already paid or delivered insofar as these have been granted on the basis of incorrect information on the fulfillment of the relevant performance criteria or other conditions. Bonuses are broadly defined as 'non-fixed' (variable) remuneration – either in cash or in the form of share-based compensation – that is conditional in whole or in part on the achievement of certain targets or the occurrence of certain circumstances. The explanatory notes to the balance sheet shall report on any moderation and/or claim for repayment of Board of Management remuneration. No such reduction of unpaid bonuses or requests for repayment occurred during the financial year 2022.

In compliance with the Dutch Corporate Governance Code, the company does not grant personal loans to and guarantees on behalf of members of the Board of Management or the Supervisory Board. No such loans were granted and no such guarantees were issued in 2022, nor were any loans or guarantees outstanding as of December 31, 2022.

Also in compliance with the Dutch Corporate Governance Code, the Articles of Association provide that shares or rights to shares shall not be granted to members of the Supervisory Board.

Members of the Board of Management and the Supervisory Board may only hold shares in the company for the purpose of long-term investment and must refrain from short-term transactions in Philips securities. According to Philips' internal rules of conduct with respect

to inside information, members of the Board of Management and the Supervisory Board are only allowed to trade in Philips securities (including the exercise of stock options) during 'windows' of 20 business days following the publication of annual and quarterly results (provided further the person involved has no inside information regarding Philips at that time, unless an exemption is available). Furthermore, members of the Board of Management and the Supervisory Board are prohibited from trading, directly or indirectly, in securities of any of the companies belonging to Philips' peer group (as determined by the Supervisory Board) during one week preceding the disclosure of Philips' annual or quarterly results.

Transactions in Philips shares carried out by members of the Board of Management and the Supervisory Board are reported to the Dutch Authority for the Financial Markets (AFM) in accordance with the EU Market Abuse Regulation and, if necessary, to other relevant authorities.

Indemnification

Unless Dutch law provides otherwise, the members of the Board of Management and of the Supervisory Board shall be reimbursed by the company for various costs and expenses, such as the reasonable costs of defending claims, as formalized in the Articles of Association. Under certain circumstances, described in the Articles of Association, such as an act or failure to act by a member of the Board of Management or a member of the Supervisory Board that can be characterized as intentional (*opzettelijk*), intentionally reckless (*bewust roekeloos*) or seriously culpable (*ernstig verwijtbaar*), there will be no entitlement to this reimbursement unless the law or the principles of reasonableness and fairness require otherwise. The company has also taken out liability insurance (D&O – Directors & Officers) for the persons concerned.

Diversity

Candidates for appointment to the Supervisory Board, the Board of Management and the Executive Committee are selected taking into account the company's Diversity Policy, which is published on the company's website. Effective 2022, Dutch law provides that (re-)appointments of members of the Supervisory Board must be in accordance with a mandatory gender quota, requiring that at least one-third of the supervisory board members are women (and at least one-third are men). There are certain exceptions where the gender quota does not apply, such as the re-appointments within eight years of the initial appointment and (re-)appointments made in exceptional circumstances.

For more details on the Diversity Policy and board diversity, please refer to [Report of the Corporate Governance and Nomination & Selection Committee, starting on page 115](#). For more details on the Diversity Policy, the profile of the Supervisory Board and board diversity please refer to [Supervisory Board report, starting on page 107](#), to [Report of the Corporate Governance and Nomination & Selection Committee, starting on page 115](#) and to [Inclusion & Diversity, starting on page 65](#).

Conflicts of interest

Dutch law on conflicts of interest provides that a member of the Board of Management or Supervisory Board may not participate in the adoption of resolutions if he or she has a direct or indirect personal conflict of interest with the company or related enterprise. If all members of the Board of Management have a conflict of interest, the resolution concerned will be considered by the Supervisory Board. If all members of the Supervisory Board have a conflict of interest, the resolution concerned must be considered by the General Meeting of Shareholders.

In compliance with the Dutch Corporate Governance Code, the company's corporate governance includes rules to specify situations in which a potential or actual conflict may exist, procedures to avoid such conflicts of interest as much as possible, and procedures to deal with such conflicts should they arise. Relevant matters relating to conflicts of interest, if any, must be mentioned in the Annual Report (specifically the management report) for the financial year in question. No decisions to enter into material transactions in which there are conflicts of interest with members of the Board of Management or the Supervisory Board were taken during the financial year 2022.

Outside directorships

In compliance with the Dutch Corporate Governance Code, members of the Board of Management require the approval of the Supervisory Board before they can accept a position as a member of a supervisory board or a position as a non-executive director on a one-tier board (Non-Executive Directorship) at another company. The Supervisory Board must be notified of other important positions (to be) held by a member of the Board of Management.

Dutch law provides for certain limitations on the number of Non-Executive Directorships a member of the Board of Management or Supervisory Board may hold. No member of the Board of Management shall hold more than two Non-Executive Directorships at 'large' companies (*naamloze vennootschappen* or *besloten vennootschappen*) or 'large' foundations (*stichtingen*), as defined under Dutch law, and no member of the Board of Management shall hold the position of chairman of another one-tier board or the position of chairman of another supervisory board. No member of the Supervisory Board shall hold more than five Non-Executive Directorships at such companies or foundations, with a position as chairman counting for two. During the financial year 2022 all members of the Board of Management and the Supervisory Board complied with the limitations described above in this paragraph.

9.5 General Meeting of Shareholders

Meetings

The Annual General Meeting of Shareholders shall be held no later than six months after the end of the financial year. The agenda for the meeting typically includes: an advisory vote on the remuneration report; discussion of the Annual Report; the adoption of the financial statements; policy on additions to reserves and dividends; any proposed dividends or other distributions; discharge of the members of the Board of Management and the Supervisory Board; any other matters proposed by the Supervisory Board, the Board of Management or shareholders in accordance with Dutch law and the Articles of Association.

Shareholders' meetings are convened by public notice via the company's website, and registered shareholders are notified by letter or by electronic means of communication at least 42 days prior to the day of the relevant meeting. Shareholders who wish to exercise the rights attached to their shares in respect of a shareholders' meeting are required to register for such meeting. Shareholders may attend a meeting in person, vote by proxy (via an independent third party) or grant a power of attorney to a third party to attend the meeting and vote on their behalf. Details on registration for meetings, attendance and proxy voting will be included in the notice convening the relevant meeting.

Pursuant to Dutch law, the record date for the exercise of voting rights and rights relating to shareholders' meetings is set at the 28th day prior to the day of the relevant meeting. Shareholders registered on such date are entitled to attend the meeting and to exercise the other shareholder rights (at the relevant meeting) notwithstanding any subsequent sale of their shares after the record date.

In accordance with the Articles of Association and Dutch law, requests from shareholders for items to be included on the agenda will generally be honored, subject to the company's rights to refuse to include the requested agenda item under Dutch law, provided that such requests are made in writing at least 60 days before a General Meeting of Shareholders to the Board of Management and the Supervisory Board by shareholders representing at least 1% of the company's outstanding capital or, according to the official price list of Euronext Amsterdam, representing a value of at least EUR 50 million. Written requests may be submitted electronically and shall comply with the procedure stipulated by the Board of Management, which procedure is posted on the company's website.

Pursuant to Dutch law, shareholders requesting an item to be included on the agenda of a meeting have an obligation to disclose their full economic interest (i.e., long position and short position) to the company. The company has the obligation to publish such disclosures on its website.

Main powers of the General Meeting of Shareholders

The main powers of the General Meeting of Shareholders are:

- to appoint, suspend and dismiss members of the Board of Management and the Supervisory Board;
- to adopt remuneration policies for the Board of Management and the Supervisory Board, to determine the remuneration of the individual members of the Supervisory Board and to approve long-term incentive (equity-based) plans for the Board of Management;
- to adopt the annual accounts, to declare dividends and to discharge the Board of Management and the Supervisory Board from any liability in respect of the performance of their respective duties for the previous financial year;
- to appoint the company's external auditor;
- to adopt amendments to the Articles of Association and proposals to dissolve or liquidate the company;
- to issue shares or rights to shares;
- to restrict or exclude pre-emptive rights of shareholders and to repurchase or cancel outstanding shares; and
- in accordance with Dutch law, to approve decisions of the Board of Management that are so far-reaching that they would greatly change the identity or nature of the company or the business.

The company applies principle 4.1 of the Dutch Corporate Governance Code within the framework of the Articles of Association and Dutch law and in the manner described in this corporate governance report. All issued and outstanding shares carry voting rights and each share confers the right to cast one vote in a shareholders' meeting. Pursuant to Dutch law, no votes may be cast at a General Meeting of Shareholders in respect of shares which are held by the company. There are no special statutory rights attached to the shares of the company and no restrictions on the voting rights of the company's shares exist. Subject to certain exceptions provided by Dutch law and/or the Articles of Association, resolutions of the General Meeting of Shareholders are passed by an absolute majority of votes cast and do not require a quorum.

Share capital; issue and repurchase of (rights to) shares

The authorized share capital of the company amounts to EUR 800 million, divided into 2 billion common shares with a nominal value of 20 eurocents each and 2 billion preference shares also with a nominal value of 20 eurocents each. On December 31, 2022, the issued share capital amounted to EUR 177,863,016.40 divided into 889,315,082 common shares and no preference shares. All shares are fully paid-up. There are currently no limitations, either under Dutch law or the Articles of Association, to the transfer of the common shares.

Only Euroclear shares are traded on Euronext Amsterdam. Only New York Registry Shares are traded on the New York Stock Exchange. Pursuant to article 10:138(2) of the Dutch Civil Code, the laws of the State of New York are applicable to the proprietary regime with respect to the New York Registry Shares, which proprietary regime includes the requirements for a transfer of, or the creation of an in rem right in, such New York Registry Shares. Euroclear shares and New York Registry Shares may be exchanged for each other.

As per December 31, 2022, approximately 89% of the common shares were held through the system of Euroclear Nederland (Euroclear shares) and approximately 11% of the common shares were represented by New York Registry Shares issued in the name of approximately 843 holders of record. The latter include Cede & Co. Cede & Co acts as nominee for The Depository Trust Company, which holds the shares (indirectly) for individual investors as beneficiaries. Deutsche Bank Trust Company Americas is Philips' New York transfer agent, registrar and dividend disbursing agent. Since certain shares are held by brokers and other nominees, these numbers may not be representative of the actual number of United States beneficial holders or the number of New York Registry Shares beneficially held by US residents.

At the 2022 Annual General Meeting of Shareholders, it was resolved to authorize the Board of Management, subject to the approval of the Supervisory Board, to issue shares or to grant rights to acquire shares in the company as well as to restrict or exclude the pre-emption right accruing to shareholders up to and including November 9, 2023. This authorization is limited to a maximum of 10% of the number of shares issued as of May 10, 2022.

In addition, at the 2022 Annual General Meeting of Shareholders, it was resolved to authorize the Board of Management, subject to the approval of the Supervisory Board, to acquire shares in the company within the limits of the Articles of Association and within a certain price range up to and including November 9, 2023. The maximum number of shares the company may hold will not exceed 10% of the issued share capital as of May 10, 2022. The number of shares may be increased by 10% of the issued capital as of that same date in connection with the execution of share repurchase programs for capital reduction programs.

9.6 Risk management approach

Risk management and control forms an integral part of the Philips business planning and performance review cycle. The company's risk management policy and framework are designed to provide reasonable assurance that its strategic and operational objectives are met, that legal requirements are complied with, and that the integrity of the company's financial reporting and its related disclosures is safeguarded. Please refer to [Risk management, starting on page 87](#) for a more detailed description of Philips' approach to risk management (including Internal Control over Financial Reporting), risk categories and factors, and certain specific risks that have been identified.

With respect to financial reporting, a structured self-assessment and monitoring process is used company-wide to assess, document, review and monitor compliance with Internal Control over Financial Reporting. On the basis of the outcome of this process, the Board of Management confirms that: (i) the management report (within the meaning of section 2:391 of the Dutch Civil Code) provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems; (ii) such systems provide a reasonable level of assurance that the financial reporting does not contain any material inaccuracies; (iii) based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis; and (iv) the management report states those material risks and uncertainties that are relevant to the expected continuity of the company for a period of 12 months after the preparation of the report. The financial statements fairly represent the financial condition and result of operations of the company and provide the required disclosures.

In view of the above, the Board of Management believes that it is in compliance with best practice provision 1.4.2 of the Dutch Corporate Governance Code. It should be noted that the above does not imply that the internal risk management and control systems provide certainty as to the realization of operational and financial business objectives, nor can they prevent all misstatements, inaccuracies, errors, fraud or non-compliances with rules and regulations. The above statement on internal control should not be construed as a statement in response to the requirements of section 404 of the US Sarbanes-Oxley Act. The statement as to compliance with section 404 is set forth in [Management's report on internal control, starting on page 143](#).

9.7 Annual financial statements and external audit

The annual financial statements are prepared by the Board of Management and reviewed by the Supervisory Board upon the advice of its Audit Committee, taking into account the report of the external auditor. Upon approval by the Supervisory Board, the accounts are signed by all members of both the Board of Management and the Supervisory Board and are published together with the opinion of the external auditor. The Board of Management is responsible, under the supervision of the Supervisory Board, for the quality and completeness of such publicly disclosed financial reports. The annual financial statements are presented for discussion and adoption at the Annual General Meeting of Shareholders, to be convened subsequently.

The external auditor is appointed by the General Meeting of Shareholders in accordance with the Articles of Association. Philips' current external auditor, Ernst & Young Accountants LLP, was appointed by the General Meeting of Shareholders held on May 7, 2015, for a term of four years starting January 1, 2016, was re-appointed at the Annual General Meeting of Shareholders held on May 9, 2019 for a term of three years starting January 1, 2020 and was

re-appointed at the Annual General Meeting of Shareholders held on May 10, 2022 for a term of one year starting January 1, 2023.

European and Dutch law requires the separation of audit and certain non-audit services. The external auditor may only provide audit and audit-related services and is prohibited from providing any other services. This is reflected in the Auditor Policy, which is published on the company's website. The policy is also in line with (and in some ways stricter than) applicable US rules, under which the appointed external auditor must be independent from the company both in fact and appearance.

The Auditor Policy specifies certain audit services and audit-related services (also known as assurance services) that will or may be provided by the external auditor, and includes rules for the pre-approval by the Audit Committee of such services. Audit services must be pre-approved on the basis of the annual audit services engagement agreed with the external auditor. Proposed audit-related services may be pre-approved at the beginning of the year by the Audit Committee (annual pre-approval) or may be pre-approved during the year by the Audit Committee in respect of a particular engagement (specific pre-approval). The annual pre-approval is based on a detailed, itemized list of services to be provided, which is designed to ensure that there is no management discretion in determining whether a service has been approved, and to ensure that the Audit Committee is informed of each of the services it is pre-approving. Unless pre-approval with respect to a specific service has been given at the beginning of the year, each proposed service requires specific pre-approval during the year. Any annually pre-approved services where the fee for the engagement is expected to exceed pre-approved cost levels or budgeted amounts will also require specific pre-approval. The term of any annual pre-approval is 12 months from the date of the pre-approval unless the Audit Committee states otherwise. During 2022, there were no services provided to the company by the external auditor which were not pre-approved by the Audit Committee.

9.8 Stichting Preferente Aandelen Philips

Stichting Preferente Aandelen Philips, a Foundation (*stichting*) organized under Dutch law, has been granted the right to acquire preference shares in the capital of Royal Philips, as stated in the company's Articles of Association. In addition, the Foundation has the right to file a petition with the Enterprise Chamber of the Amsterdam Court of Appeal to commence an inquiry procedure within the meaning of article 2:344 of the Dutch Civil Code.

The object of the Foundation is to represent the interests of Royal Philips, the enterprises maintained by the company and its affiliated companies within the company's group, in such a way that the interests of the company, these enterprises and all parties involved with them are safeguarded as effectively as possible, and that they are afforded maximum protection against influences which, in conflict with those interests, may undermine the

autonomy and identity of Philips and those enterprises, and also to do anything related to the above ends or conducive to them. This object includes the protection of Philips against (an attempt at) an unsolicited takeover or other attempt to exert (de facto) control of the company. The arrangement will allow Philips to determine its position in relation to the relevant third party (or parties) and its (their) plans, to seek alternatives and to defend the company's interests and those of its stakeholders.

The mere notification that the Foundation exercises its right to acquire preference shares will result in such shares being effectively issued. The Foundation may exercise this right for as many preference shares as there are common shares in the company outstanding at that time. No preference shares have been issued as of December 31, 2022.

The members of the self-electing Board of the Foundation are Messrs J.P. de Kreij, J.V. Timmermans, J. van der Veer and P.N. Wakkie. No Philips Supervisory Board or Board of Management members or Philips officers are represented on the board of the Foundation.

Other than the arrangements made with the Foundation referred to above, the company does not have any measures which exclusively or almost exclusively have the purpose of defending against unsolicited public offers for shares in the capital of the company. It should be noted that the Board of Management and the Supervisory Board remain under all circumstances authorized to exercise all powers vested in them to promote the interests of Philips.

The company has issued certain corporate bonds, the provisions of which contain a 'Change of Control Triggering Event' or a 'Change of Control Put Event'. Upon the occurrence of such events, the company might be required to offer to redeem or purchase any outstanding bonds at certain pre-determined prices. Please also refer to [Debt, starting on page 191](#).

9.9 Investor Relations

Philips is continuously focused on maintaining strong and open relations with its shareholders. In addition to communication with its shareholders at shareholders' meetings, the company may discuss its financial results during conference calls, which are broadly accessible. The company also publishes annual, semi-annual and quarterly reports and press releases, and informs investors via its website.

From time to time the company communicates with investors and analysts via roadshows, broker conferences and a Capital Markets Day, which are announced in advance on the company's website. The purpose of these engagements is to further inform the market of the results, strategy and decisions made, as well as to receive feedback from shareholders. It is the company's policy to post presentations to investors and analysts on its website. Philips applies the best practice provision 4.2.3 of the Dutch Corporate Governance Code, which it

does not view (in line with market practice) as extending to less important analyst meetings and presentations.

Furthermore, Philips engages in bilateral communications with investors and analysts. These communications take place either at the initiative of the company or at the initiative of investors/analysts. The company is generally represented by its Investor Relations department during these interactions, however, on a limited number of occasions the Investor Relations department is accompanied by one or more members of the senior management. The subject matter of the bilateral communications ranges from individual queries from investors/analysts to more elaborate discussions following disclosures that the company has made, such as its annual and quarterly reports. Philips complies with applicable rules and regulations on fair and non-selective disclosure and equal treatment of shareholders.

9.10 Major shareholders

The Dutch Act on Financial Supervision imposes an obligation on persons holding certain interests to disclose (*inter alia*) percentage holdings in the capital and/or voting rights in the company when such holdings reach, exceed or fall below 3, 5, 10, 15, 20, 25, 30, 40, 50, 60, 75 and 95 percent (as a result of an acquisition or disposal by a person, or as a result of a change in the company's total number of voting rights or capital issued). Certain derivatives (settled in kind or in cash) are also taken into account when calculating the capital interest. The statutory obligation to disclose capital interest relates not only to gross long positions, but also to gross short positions. Required disclosures must be made to the Dutch Authority for the Financial Markets (AFM) without delay. The AFM then notifies the company of such disclosures and includes them in a register, which is published on the AFM's website. Furthermore, an obligation to disclose (net) short positions is set out in the EU Regulation on Short Selling.

The AFM register shows the following notifications of substantial holdings and/or voting rights at or above the 3% threshold: BlackRock, Inc.: substantial holding of 5.75% and 7.45% of the voting rights (May 13, 2022); T. Rowe Price Group, Inc.: substantial holding of 4.98% and 4.96% of the voting rights (February 2, 2023); Artisan Investments GP LLC: substantial holding of 5.13% and 5.13% of the voting rights (May 5, 2022).

9.11 Corporate information

The company began as a limited partnership with the name Philips & Co in Eindhoven, the Netherlands, in 1891, and was converted into the company with limited liability N.V. Philips' Gloeilampenfabrieken on September 11, 1912. The company's name was changed to Philips Electronics N.V. on May 6, 1994, to Koninklijke Philips Electronics N.V. on April 1, 1998, and to Koninklijke Philips N.V. on May 15, 2013.

The majority of the shares in Royal Philips are held through the system maintained by the Dutch Central Securities Depository (Euroclear Nederland). In the past, Philips has also issued (physical) bearer share certificates ('Share Certificates'). A limited number of Share Certificates have not been surrendered yet, although the holders of Share Certificates are still entitled to a corresponding number of shares in Royal Philips. It is noted that, as a result of Dutch legislation that became effective per July 2019, the relevant shares were registered in the name of Royal Philips by operation of law per January 1, 2021. Owners of Share Certificates will continue to be entitled to a corresponding number of shares, but may not exercise the rights attached to such shares until they surrender their Share Certificates. Owners of Share Certificates may come forward to do so and to receive a corresponding number of shares until January 1, 2026, at the latest. As per January 2, 2026, entitlements attached to the Share Certificates not surrendered, will expire by operation of law. For more information, please contact the Investor Relations department by email (investor.relations@philips.com) or telephone (+31-20-59 77222).

The statutory seat of the company is Eindhoven, the Netherlands, and the statutory list of all subsidiaries and affiliated companies, prepared in accordance with the relevant legal requirements (Dutch Civil Code, Book 2, articles 379 and 414), forms part of the notes to the consolidated financial statements and is deposited at the office of the Commercial Register in Eindhoven, the Netherlands (file no. 17001910). The executive offices of the company are located at the Philips Center, Amstelplein 2, 1096 BC Amsterdam, the Netherlands, telephone +31-20-59 77777.

The Board of Management and the Supervisory Board are of the opinion that the principles and best practice provisions of the Dutch Corporate Governance Code that are addressed to the boards are being applied. The full text of the Dutch Corporate Governance Code can be found on the website of the Monitoring Commission Corporate Governance Code (www.mccg.nl).

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10 Group financial statements

Introduction

Statutory financial statements

This section 'Group financial statements' and the section 'Company Financial Statements' together contain the statutory financial statements of the company. These statements are subject to adoption by the company's shareholders at the upcoming 2023 Annual General Meeting of Shareholders.

Management report and statement

The following sections and chapters form the management report within the meaning of article 2:391 of the Dutch Civil Code:

- [Message from the CEO, starting on page 5](#)
- [Board of Management and Executive Committee, starting on page 7](#)
- [Strategy and Businesses, starting on page 9](#)
- [Financial performance, starting on page 26](#)
- [Environment, Social and Governance, starting on page 45](#)
- [Risk management, starting on page 87](#)
- Sub-section 'Diversity' in [Report of the Corporate Governance and Nomination & Selection Committee, starting on page 115](#)
- [Corporate governance, starting on page 132](#)
- [Forward-looking statements and other information, starting on page 259](#)
- [ESG statements, starting on page 266](#) but excluding 13.6 Assurance report of the independent auditor

The sections Strategy and Businesses, Financial performance and Environment, Social and Governance provide an extensive analysis of the developments during the financial year 2022 and the results. These sections also provide information on the business outlook, investments, financing, personnel and research and development.

For 'Additional information' within the meaning of article 2:392 of the Dutch Civil Code, please refer to [Independent auditor's report, starting on page 237](#) and the [Appropriation of profits, starting on page 237](#).

Please refer to [Forward-looking statements and other information, starting on page 259](#) for more information about forward-looking statements, third-party market share data, fair value information, and revisions and reclassifications.

The Board of Management of Royal Philips hereby declares that, to the best of our knowledge, the Group financial statements and Company financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole and that the management report referred to above gives a true and fair view concerning the position as per the balance sheet date, the development and performance of the business during the financial year of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks that they face.

Board of Management

Roy Jakobs

Abhijit Bhattacharya

Marnix van Ginneken

February 21, 2023

10.1 Management's report on internal control

Management's annual report on internal control over financial reporting pursuant to section 404 of the US Sarbanes-Oxley Act

The Board of Management of Koninklijke Philips N.V. (Royal Philips) is responsible for establishing and maintaining an adequate system of internal control over financial reporting (as such term is defined in Rule 13a-15 (f) under the US Securities Exchange Act). Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with IFRS as issued by the IASB.

Internal control over financial reporting includes maintaining records that, in reasonable detail, accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements; providing reasonable assurance that receipts and expenditures of company assets are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Board of Management conducted an assessment of Royal Philips' internal control over financial reporting based on the "Internal Control Integrated Framework (2013)" established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on the Board of Management's assessment of the effectiveness of Royal Philips' internal control over financial reporting as of December 31, 2022, it has concluded that, as of December 31, 2022, Royal Philips' internal control over Group financial reporting is considered effective.

The effectiveness of the Royal Philips' internal control over financial reporting as of December 31, 2022, as included in this section Group financial statements, has been audited by Ernst & Young Accountants LLP, an independent registered public accounting firm, as stated in their report which follows hereafter.

Board of Management

Roy Jakobs
Abhijit Bhattacharya
Marnix van Ginneken

February 21, 2023

10.1.1 Changes in internal control over financial reporting

There were no changes in our internal control over financial reporting during 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

10.2 Report of the independent auditor

Management's report on internal control over financial reporting is set out in [Management's report on internal control, starting on page 143](#). The report set out in section [Independent auditor's report on internal control over financial reporting, starting on page 144](#), is provided in compliance with standards of the Public Company Accounting Oversight Board in the US and includes an opinion on the effectiveness of internal control over financial reporting as of December 31, 2022, based on COSO criteria.

Ernst & Young Accountants LLP has also issued a report on the 2022 consolidated financial statements and the company financial statements, in accordance with Dutch law, including the Dutch standards on Auditing, of Koninklijke Philips N.V., which is set out in [Independent auditor's report, starting on page 237](#).

Ernst & Young Accountants LLP has also issued a report on the consolidated financial statements 2022 and 2021 in accordance with the standards of the Public Company Accounting Oversight Board in the US, which will be included in the Annual Report on Form 20-F expected to be filed with the US Securities and Exchange Commission on February 21, 2023.

10.3 Independent auditor's report on internal control over financial reporting

Report of Independent Registered Public Accounting Firm

To: The Supervisory Board and Shareholders of Koninklijke Philips N.V.

Opinion on Internal Control over Financial Reporting

We have audited Koninklijke Philips N.V.'s internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Koninklijke Philips N.V. (the company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the company as of December 31, 2022 and 2021, the related consolidated statements of income, comprehensive income, cash flows and changes in equity for each of the three years in the period ended December 31, 2022, and the related notes and our report dated February 21, 2023 expressed an unqualified opinion thereon.

Basis for Opinion

The company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying section 'Management's report on internal control', of this Annual Report. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Ernst & Young Accountants LLP

Amsterdam, the Netherlands
February 21, 2023

10.4 Consolidated statements of income

Philips Group

Consolidated statements of income in millions of EUR
 For the year ended December 31

	2020	2021	2022
6 Sales	17,313	17,156	17,827
Cost of sales	(9,493)	(9,988)	(10,633)
Gross margin	7,820	7,168	7,194
Selling expenses	(4,054)	(4,258)	(4,609)
General and administrative expenses	(630)	(599)	(671)
Research and development expenses	(1,822)	(1,806)	(2,103)
11 Impairment of goodwill	(144)	(15)	(1,357)
6 Other business income	122	186	127
6 Other business expenses	(29)	(123)	(109)
6 Income from operations	1,264	553	(1,529)
7 Financial income	158	149	58
7 Financial expenses	(202)	(188)	(258)
Investments in associates, net of income taxes	(9)	(4)	(2)
Income before taxes	1,211	509	(1,731)
8 Income tax expenses	(212)	103	113
Income from continuing operations	999	612	(1,618)
3 Discontinued operations, net of income taxes	196	2,711	13
Net income	1,195	3,323	(1,605)
Attribution of net income:			
Net income attributable to shareholders of Koninklijke Philips N.V.	1,187	3,319	(1,608)
Net income attributable to non-controlling interests	8	4	3

Philips Group

Earnings per common share attributable to shareholders of Koninklijke Philips N.V. in EUR

	2020	2021	2022
Basic earnings per common share attributable to shareholders of Koninklijke Philips N.V.			
Income from continuing operations	1.09	0.67	(1.84)
Net income	1.31	3.67	(1.82)
Diluted earnings per common share attributable to shareholders of Koninklijke Philips N.V.			
Income from continuing operations	1.08	0.67	(1.84)
Net income	1.29	3.65	(1.82)

Amounts may not add up due to rounding.

10.5 Consolidated statements of comprehensive income

Philips Group

Consolidated statements of comprehensive income in millions of EUR

For the year ended December 31

	2020	2021	2022
Net income for the period	1,195	3,323	(1,605)
20 Pensions and other-post employment plans:			
Remeasurement, before tax	51	134	101
8 Income tax effect on remeasurements	(12)	(21)	(20)
Financial assets fair value through OCI:			
Net current-period change, before tax	-	(39)	(32)
Income tax effect on net current-period change	-	1	1
Total of items that will not be reclassified to Income Statement	39	74	49
Currency translation differences:			
Net current period change, before tax	(1,040)	1,078	748
8 Income tax effect on net current-period change	1	(5)	2
Reclassification adjustment for (gain) loss realized		36	-
Reclassification adjustment for (gain) loss realized, in discontinued operations		69	
Cash flow hedges:			
Net current-period change, before tax	69	(52)	(29)
8 Income tax effect on net current-period change	(17)	18	(10)
Reclassification adjustment for (gain) loss realized	(6)	(14)	63
Total of items that are or may be reclassified to Income Statement	(992)	1,129	774
Other comprehensive income for the period	(953)	1,203	823
Total comprehensive income for the period	242	4,527	(782)
Total comprehensive income attributable to:			
Shareholders of Koninklijke Philips N.V.	235	4,520	(786)
Non-controlling interests	6	7	4

Amounts may not add up due to rounding.

10.6 Consolidated balance sheets

Philips Group
Consolidated balance sheets in millions of EUR unless otherwise stated
As of December 31

	2021	2022
Non-current assets		
2 10 Property, plant and equipment	2,699	2,638
2 11 Goodwill	10,637	10,238
2 12 Intangible assets excluding goodwill	3,650	3,526
16 Non-current receivables	224	279
5 Investments in associates	426	537
13 Other non-current financial assets	630	660
28 Non-current derivative financial assets	2	4
8 Deferred tax assets	2,216	2,449
14 Other non-current assets	129	98
Total non-current assets	20,613	20,429
Current assets		
15 Inventories	3,450	4,049
13 Other current financial assets	2	11
14 Other current assets	493	490
28 Current derivative financial assets	61	123
Income tax receivable	180	222
16 25 Current receivables	3,787	4,115
3 Assets classified as held for sale	71	77
29 Cash and cash equivalents	2,303	1,172
Total current assets	10,347	10,259
Total assets	30,961	30,688

	2021	2022
17 Equity		
Shareholders' equity	14,438	13,249
<i>Common shares</i>	177	178
<i>Capital in excess of par value</i>	4,646	5,025
<i>Reserves</i>	748	1,488
<i>Other</i>	8,868	6,558
17 Non-controlling interests	36	34
Group equity	14,475	13,283
Non-current liabilities		
18 Long-term debt	6,473	7,270
28 Non-current derivative financial liabilities	119	4
19 20 Long-term provisions	1,315	1,097
8 Deferred tax liabilities	83	91
22 Non-current contract liabilities	446	515
8 Non-current tax liabilities	544	435
22 Other non-current liabilities	56	60
Total non-current liabilities	9,037	9,471
Current liabilities		
18 Short-term debt	506	931
28 Current derivative financial liabilities	83	207
Income tax payable	128	40
25 Accounts payable	1,872	1,968
21 Accrued liabilities	1,784	1,626
22 Current contract liabilities	1,491	1,696
19 20 Short-term provisions	998	1,018
Liabilities directly associated with assets held for sale	1	-
22 Other current liabilities	587	448
Total current liabilities	7,450	7,934
Total liabilities and group equity	30,961	30,688

Amounts may not add up due to rounding.

10.7 Consolidated statements of cash flows

Philips Group

Consolidated statements of cash flows in millions of EUR
For the year ended December 31

	2020	2021	2022		2020	2021	2022
Cash flows from operating activities				Cash flows from investing activities			
Net income (loss)	1,195	3,323	(1,605)	Net capital expenditures	(876)	(729)	(788)
Results of discontinued operations, net of income tax	(196)	(2,711)	(13)	Purchase of intangible assets	(114)	(107)	(105)
Adjustments to reconcile net income to net cash provided by (used for) operating activities:				Expenditures on development assets	(296)	(259)	(257)
Depreciation, amortization, and impairment of assets	1,462	1,323	1,602	Capital expenditures on property, plant and equipment	(485)	(397)	(444)
Impairment of goodwill	144	15	1,357	Proceeds from sales of property, plant and equipment	19	33	18
Share-based compensation	112	108	95	23 Net proceeds from (cash used for) derivatives and current financial assets	(13)	48	(72)
Net loss (gain) on sale of assets	(1)	55	(115)	23 Purchase of other non-current financial assets	(131)	(124)	(116)
Interest income	(13)	(18)	(25)	23 Proceeds from other non-current financial assets	65	124	78
Interest expense on debt, borrowings, and other liabilities	159	152	226	5 4 Purchase of businesses, net of cash acquired	(317)	(3,098)	(712)
Investments in associates, net of income taxes	9	4	112	Net proceeds from sale of interests in businesses, net of cash disposed	4	107	124
Income taxes	212	(103)	(113)	Net cash provided by (used for) for investing activities	(1,267)	(3,672)	(1,487)
Decrease (increase) in working capital	(98)	(401)	(862)	Cash flows from financing activities			
Decrease (increase) in receivables and other current assets	92	(39)	(342)	18 Proceeds from issuance (payments on) short-term debt	16	(25)	47
Decrease (increase) in inventories	(578)	(581)	(572)	18 Principal payments on current portion of long-term debt	(298)	(302)	(1,472)
Increase (decrease) in accounts payable, accrued and other current liabilities	387	219	52	18 Proceeds from issuance of long-term debt	1,065	76	2,516
Decrease (increase) in non-current receivables and other assets	(9)	(46)	1	Re-issuance of treasury shares	46	23	12
Increase (decrease) in other liabilities	50	33	(84)	Purchase of treasury shares	(343)	(1,636)	(187)
19 Increase (decrease) in provisions	(91)	427	(199)	Dividends paid to shareholders of Koninklijke Philips N.V.	(1)	(482)	(412)
Other items	96	(164)	(39)	Dividends paid to shareholders of non-controlling interests	(2)	(2)	(6)
Interest received	13	17	15	Net cash provided by (used for) financing activities	483	(2,347)	500
Interest paid	(148)	(151)	(205)	Net cash provided by (used for) continuing operations	1,727	(4,390)	(1,160)
Dividends received from investments in associates	4	14	12	3 Net cash provided by (used for) discontinued operations	129	3,403	(12)
Income taxes paid	(390)	(249)	(333)	Net cash provided by (used for) continuing and discontinued operations	1,856	(986)	(1,172)
Net cash provided by (used for) operating activities	2,511	1,629	(173)	Effect of changes in exchange rates on cash and cash equivalents	(55)	65	41
				Cash and cash equivalents at the beginning of the period	1,425	3,226	2,303
				Cash and cash equivalents at the end of the period	3,226	2,303	1,172

Amounts may not add up due to rounding.

10.8 Consolidated statements of changes in equity

Philips Group

Consolidated statements of changes in equity in millions of EUR

For the year ended December 31

	Common shares	Capital in excess of par value	Fair value through OCI	Cash flow hedges	Currency translation differences	Retained earnings	Treasury shares	Total shareholders' equity	Non-controlling interests	Group equity
			Reserves			Other				
Balance as of January 1, 2020	179	3,671	(303)	(24)	978	8,296	(201)	12,597	28	12,625
Total comprehensive income (loss)			-	46	(1,036)	1,225		235	6	242
Dividend distributed	4	754				(782)		(25)	(2)	(26)
Minority Buy-out									(1)	(1)
Transfer of gain on disposal of equity investments at FVTOCI to retained earnings			(2)			2		-		-
Purchase of treasury shares						-	(130)	(130)		(130)
Re-issuance of treasury shares	-	(146)				7	161	23		23
Forward contracts						(793)	(126)	(920)		(920)
Share call options						24	(55)	(31)		(31)
Cancellation of treasury shares	(1)					(151)	152			
Share-based compensation plans		116						116		116
Income tax share-based compensation plans		4						4		4
Balance as of December 31, 2020	182	4,400	(305)	23	(58)	7,828	(199)	11,870	31	11,901
Total comprehensive income (loss)			(39)	(48)	1,175	3,432		4,520	7	4,527
Dividend distributed	1	290				(773)		(482)	(2)	(484)
Minority Buy-out									-	-
Transfer of gain on disposal of equity investments at FVTOCI to retained earnings						-		-		-
Purchase of treasury shares						-	(758)	(757)		(757)
Re-issuance of treasury shares		(150)				18	143	11		11
Forward contracts						48	(869)	(821)		(821)
Share call options						12	(21)	(9)		(9)
Cancellation of treasury shares	(7)					(1,221)	1,228			
Share-based compensation plans		110						110		110
Income tax share-based compensation plans		(4)						(4)		(4)
Balance as of December 31, 2021	177	4,646	(344)	(25)	1,117	9,344	(476)	14,438	36	14,475

10.8 Consolidated statements of changes in equity (continued)

Philips Group
Consolidated statements of changes in equity in millions of EUR
For the year ended December 31

	Common shares	Capital in excess of par value	Fair value through OCI	Cash flow hedges	Currency translation differences	Retained earnings	Treasury shares	Total shareholders' equity	Non-controlling interests	Group equity
			Reserves			Other				
Balance as of December 31, 2021	177	4,646	(344)	(25)	1,117	9,344	(476)	14,438	36	14,475
Total comprehensive income (loss)			(32)	23	749	(1,527)		(786)	4	(782)
Dividend distributed	3	326				(741)		(412)	(6)	(418)
Transfer of gain on disposal of equity investments at FVTOCI to retained earnings			(1)			1		-		-
Purchase of treasury shares						-	(24)	(24)		(24)
Re-issuance of treasury shares		(43)				(28)	77	7		7
Forward contracts						76	(140)	(64)		(64)
Share call options						5	(12)	(6)		(6)
Cancellation of treasury shares	(2)					(298)	299			
Share-based compensation plans		95						95		95
Income tax share-based compensation plans		1						1		1
Balance as of December 31, 2022	178	5,025	(376)	(2)	1,866	6,832	(275)	13,249	34	13,283

Amounts may not add up due to rounding.

10.9 Notes to the Consolidated financial statements

1 General information to the Consolidated financial statements

Reporting entity and its operations

Koninklijke Philips N.V. ('Royal Philips'), incorporated and domiciled in the Netherlands, is a public limited liability company organized under Dutch Law. Philips is headquartered in Amsterdam, the Netherlands and has its registered address at High Tech Campus 52, 5656 AG Eindhoven, the Netherlands. The consolidated financial statements of Royal Philips as of December 31, 2022 comprise Royal Philips and its subsidiaries (together referred to as the 'company' or 'Philips' or the 'Group'). Philips is a leading health technology company primarily involved in diagnostic imaging, image-guided therapy, patient monitoring and health informatics, as well as in consumer health and home care.

Basis of preparation

The Consolidated financial statements are:

- prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and comply with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code;
- authorized for issue by the Board of Management of Royal Philips on February 21, 2023;
- prepared under the historical cost convention, unless otherwise indicated;
- prepared on a going concern basis;
- presented in euro, which is the presentation currency;
- rounded to the nearest million euro unless stated otherwise;
- subject to rounding, whereby amounts may not add up precisely to the totals provided.

Accounting estimates and judgments

The preparation of financial statements requires management to make a number of estimates and judgments that affect the application of accounting policies and the reporting amounts of assets and liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Amounts recognized are based on factors that are by default associated with uncertainty. Actual results may therefore differ from estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to estimates are recognized prospectively. Where applicable, the estimates and judgments of specific financial statement items are described in the respective note to the consolidated financial statements.

The areas involving a higher degree of judgment and complexity in applying accounting principles and for which changes in the assumptions and estimates could result in significantly different results than those recorded in the consolidated financial statements are the following:

- Assessment of control (below paragraph Basis of consolidation and [Interests in entities, starting on page 161](#))
- Revenue recognition ([Income from operations, starting on page 162](#))
- For acquisitions, the identification and valuation of acquired assets and liabilities including contingent considerations provisions ([Acquisitions and divestments, starting on page 158](#), [Provisions, starting on page 193](#))
- Determination of deferred tax assets for losses carried forward and uncertain tax positions ([Income taxes, starting on page 168](#))
- Assumptions used for impairment testing ([Property, plant and equipment, starting on page 173](#), [Goodwill, starting on page 176](#), [Intangible assets excluding goodwill, starting on page 181](#))
- Assessments of exposure to credit risk of financial instruments (Note [Other financial assets, starting on page 184](#), [Receivables, starting on page 186](#), [Debt, starting on page 191](#), [Fair value of financial assets and liabilities, starting on page 214](#), [Details of treasury and other financial risks, starting on page 218](#))
- Assumptions used to determine the net realizable value of inventories ([Inventories, starting on page 186](#))
- Actuarial assumptions of future events that are used in calculating post-employment benefit expenses and liabilities ([Post-employment benefits, starting on page 198](#))
- Estimating the likelihood of a potential outflow of resources, as well as the ability to make a reliable estimate of the obligation relating to provisions and contingent liabilities ([Provisions, starting on page 193](#), [Contingencies, starting on page 204](#))

The company regularly updates its significant assumptions and estimates to support the reported amounts of assets, liabilities, income and expenses. In relation to areas of judgment and estimates as disclosed in the accounting policies, those which are primarily impacted by the macroeconomic environment include impairment testing, valuation of inventories, valuation of deferred tax balances, measurement of financial instruments and the determination of fair values (for example fair values of acquired identifiable intangible assets, contingent considerations and certain investments).

In preparing the consolidated financial statements management has considered the impact of climate change, specifically the financial impact of Philips meeting its internal and external climate related aims, the potential impact of climate related risks and the costs incurred to pro-actively manage such risks. These considerations did not have a material impact on the financial reporting judgments, estimates or assumptions. The specific financial impacts considered include, for example: specific climate mitigation measures, such as the

use of lower carbon energy sources, the costs of developing more sustainable product offerings and expenses incurred to mitigate against the impact of extreme weather conditions.

Accounting policies

The general accounting policies as applied throughout the financial statements are described below. Accounting policies relating to specific financial statement items are included in the respective notes to the financial statements.

Basis of consolidation

The Consolidated financial statements comprise the financial statements of Koninklijke Philips N.V. and all subsidiaries that the company controls on a consolidated basis. Control exists when the company is exposed or has rights to variable returns from its involvement with the investee and the company has the ability to affect those returns through its power over the investee. Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and in cases where Philips has less than a majority of the voting or similar rights of an investee, Philips considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement(s) with the other vote holders of the investee, rights arising from other contractual arrangements and the company's voting rights and potential voting rights. Subsidiaries are fully consolidated from the date that control commences until the date that control ceases. All intercompany balances and transactions have been eliminated in the Consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Foreign currency transactions

The financial statements of all group entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The euro (EUR) is the functional currency of the company and the presentation currency of the consolidated financial statements. Foreign currency transactions are converted into the functional currency using the exchange rates prevailing at transaction date or the valuation date in cases where items are remeasured. Gains and losses resulting from the settlement of foreign currency transactions and those resulting from the conversion of foreign currency denominated monetary assets and liabilities at period-end exchange rates are recognized in the Consolidated statements of income, except for qualifying cash flow hedges, qualifying net investment hedges and equity investments measured at fair value through OCI which are recognized in other comprehensive income.

All foreign exchange differences are presented as part of Cost of sales, apart from tax items and financial income and expense, which are recognized in the same line item as they relate to in the Consolidated statements of income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency using the exchange rate at the date the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the transaction date.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euros at the exchange rates prevailing at the reporting date. The income and expenses of foreign operations are translated to euros at the exchange rates prevailing at the dates of the transactions.

Foreign currency differences arising upon translation of foreign operations into euros are recognized in Other comprehensive income and presented as part of Currency translation differences in Equity. However, if the operation is not a wholly-owned subsidiary, the proportionate share of the translation difference is allocated to Non-controlling interests.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the Currency translation differences related to the foreign operation is reclassified to the Consolidated statements of income as part of the gain or loss on disposal. When the company disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the respective proportion of the cumulative amount is reattributed to Non-controlling interests. When the company disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to the Consolidated statements of income.

Philips operates in two economies that are considered hyperinflationary, Argentina and Turkey. The impact of the application of IAS 29, Financial Reporting in Hyperinflationary Economies, is not material for the consolidated financial statements.

New accounting policies effective in 2022

No new IFRS accounting standards or amendments to existing standards, effective in 2022, had a significant impact on the consolidated financial statements. The company has not early adopted any standards or amendments to existing standards.

New accounting policies effective after 2022

The IASB has issued several IFRS accounting standards, or amendments to standards, with an effective date after 2022. The company does not anticipate that the application of these standards, or amendments to standards, will have a significant effect on the consolidated financial statements upon adoption.

Changes in presentation from the prior year

Accounting policies have been applied consistently for all periods presented in these consolidated financial statements. Certain prior-year amounts have been reclassified to conform to the current year presentation due to immaterial organizational changes.

2 Information by segment and main country

Accounting policies

Segment accounting policies are the same as the accounting policies applied by the company. Operating segments are components of the company's business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker (the Executive Committee of the company). The Executive Committee decides how to allocate resources and assesses performance. Reportable segments comprise the operating segments Diagnosis & Treatment businesses, Connected Care businesses and Personal Health businesses. Additionally, besides these reportable segments, segment Other contains the items Innovation & Strategy, IP Royalties, Central costs, and other small items.

The Philips operating segments are Diagnosis & Treatment businesses, Connected Care businesses and Personal Health businesses, each being responsible for the management of its business worldwide. As of the first quarter of 2021 the Domestic Appliances business was presented as a discontinued operation and therefore no longer part of the Personal Health segment. The comparative results prior to that were restated to reflect the treatment of the Domestic Appliances business as a discontinued operation. Refer to [Discontinued operations and assets classified as held for sale, starting on page 156](#).

Philips focuses on improving people's lives through meaningful innovation. The Diagnosis & Treatment segment unites the businesses related to the goal of precision diagnosis and disease pathway selection, and the businesses related to image-guided, minimally invasive treatment. The Connected Care segment focuses on patient care solutions, advanced informatics and analytics, and patient and workflow optimization inside and outside the hospital, and aims to unlock synergies from integrating and optimizing patient care pathways, and leveraging provider-payer-patient business models. The Personal Health segment focuses on healthy living and preventative care.

The Executive Committee of Philips is deemed to be the chief operating decision maker (CODM) for segment reporting purposes pursuant to IFRS 8 'Operating Segments'. The key segmental performance measure is Adjusted EBITA, which Management believes is the most relevant measure to evaluate the results of the segments.

Philips Group

Information on income statements in millions of EUR

	sales	sales including intercompany	depreciation and amortization ¹⁾	Adjusted EBITA
2022				
Diagnosis & Treatment	9,168	9,471	(559)	774
Connected Care	4,403	4,441	(514)	95
Personal Health	3,626	3,684	(132)	538
Other	629	596	(397)	(89)
Inter-segment eliminations		(366)		
Philips Group	17,827	17,827	(1,602)	1,318
2021				
Diagnosis & Treatment	8,635	8,846	(459)	1,071
Connected Care	4,573	4,617	(382)	497
Personal Health	3,429	3,462	(131)	590
Other	519	531	(350)	(105)
Inter-segment eliminations		(299)		
Philips Group	17,156	17,156	(1,323)	2,054
2020				
Diagnosis & Treatment	8,175	8,289	(536)	818
Connected Care	5,543	5,620	(414)	1,191
Personal Health	3,199	3,198	(145)	433
Other	396	481	(368)	(165)
Inter-segment eliminations		(275)		
Philips Group	17,313	17,313	(1,462)	2,277

¹⁾ Includes impairments (excluding goodwill impairment); for impairment values please refer to [Property, plant and equipment, starting on page 173](#) and [Intangible assets excluding goodwill, starting on page 181](#)

The term Adjusted EBITA is used to evaluate the performance of Philips and its segments. EBITA represents Income from operations excluding amortization and impairment of acquired intangible assets and impairment of goodwill. Adjusted EBITA represents EBITA excluding gains or losses from restructuring costs, acquisition-related charges and other items.

Adjusted EBITA is not a recognized measure of financial performance under IFRS. Presented in the following table is a reconciliation of Adjusted EBITA to the most directly comparable IFRS measure, Net income, for the years indicated. Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis, resulting in them being shown on a Philips Group level only.

Philips Group

Reconciliation from net income to Adjusted EBITA In millions of EUR

	Philips Group	Diagnosis & Treatment	Connected Care	Personal Health	Other
2022					
Net Income	(1,605)				
Discontinued operations, net of income taxes	(13)				
Income tax expense	(113)				
Investments in associates, net of income taxes	2				
Financial expenses	258				
Financial income	(58)				
Income from operations	(1,529)	404	(2,246)	515	(202)
Amortization and impairment of acquired intangible assets	363	143	199	15	7
Impairment of goodwill	1,357	27	1,331		
EBITA	192	573	(716)	531	(196)
Restructuring and acquisition-related charges	202	21	108	11	61
Other items:	925	180	703	(4)	46
<i>Respironics field-action provision</i>	250		250		
<i>Respironics field-action running remediation costs</i>	210		210		
<i>R&D project impairments</i>	134	120	12	3	
<i>Portfolio realignment charges</i>	109		109		
<i>Impairment of assets in S&RC</i>	39		39		
<i>Provision for public investigations tender irregularities</i>	60	60			
<i>Provisions for quality actions in Connected Care</i>	59		59		
Remaining items	63	-	24	(6)	46
Adjusted EBITA	1,318	774	95	538	(89)

Philips Group

Reconciliation from net income to Adjusted EBITA In millions of EUR

	Philips Group	Diagnosis & Treatment	Connected Care	Personal Health	Other
2021					
Net Income	3,323				
Discontinued operations, net of income taxes	(2,711)				
Income tax expense	(103)				
Investments in associates, net of income taxes	4				
Financial expenses	188				
Financial income	(149)				
Income from operations	553	941	(722)	576	(242)
Amortization and impairment of acquired intangible assets	322	153	148	15	6
Impairment of goodwill	15	2	13		
EBITA	890	1,097	(562)	591	(236)
Restructuring and acquisition-related charges	95	7	93	(1)	(5)
Other items:	1,069	(32)	965	-	136
<i>Respironics field-action provision</i>	719	-	719		-
<i>Respironics field-action running remediation costs</i>	94		94		
<i>Provisions for quality actions in Connected Care</i>	94		94		
<i>Loss on divestment of business</i>	76				76
<i>Remaining items</i>	87	(32)	58	-	61
Adjusted EBITA	2,054	1,071	497	590	(105)

Philips Group

Reconciliation from net income to Adjusted EBITA In millions of EUR

	Philips Group	Diagnosis & Treatment	Connected Care	Personal Health	Other
2020					
Net Income	1,195				
Discontinued operations, net of income taxes	(196)				
Income tax expense	212				
Investments in associates, net of income taxes	9				
Financial expenses	202				
Financial income	(158)				
Income from operations	1,264	497	704	362	(300)
Amortization and impairment of intangible assets	377	209	134	16	18
Impairment of goodwill	144	-	144		
EBITA	1,784	706	982	378	(282)
Restructuring and acquisition-related charges	195	29	97	31	37
Other items	299	83	112	24	81
Adjusted EBITA	2,277	818	1,191	433	(165)

Transactions between the segments are mainly related to components and parts included in the product portfolio of the other segments. The pricing of such transactions was at cost or determined on an arm's length basis. Philips has no single external customer that represents 10% or more of sales.

Philips Group
Main countries in millions of EUR

	sales ¹⁾	tangible and intangible assets ²⁾
2022		
Netherlands	540	1,746
United States	7,246	12,087
China	2,193	290
Japan	1,077	436
Germany	821	323
United Kingdom	463	527
France	400	249
Other countries	5,085	744
Total main countries	17,827	16,402
2021		
Netherlands	570	1,934
United States	6,420	12,615
China	2,335	283
Japan	1,073	480
Germany	839	305
United Kingdom	481	567
France	397	49
Other countries	5,040	753
Total main countries	17,156	16,986
2020		
Netherlands	404	1,926
United States	6,580	9,080
China	2,319	313
Japan	1,113	511
Germany	980	302
United Kingdom	509	545
Italy	383	111
Other countries	5,024	906
Total main countries	17,313	13,694

¹⁾ The sales are reported based on country of destination.

²⁾ Consists of Property plant and equipment, Intangible assets excluding goodwill and Goodwill

3 Discontinued operations and assets classified as held for sale

Accounting policies

Assets classified as held-for-sale

Non-current assets (or disposal groups) are classified as held-for-sale if their carrying amounts are expected to be recovered through a sale transaction rather than through continuing use. Non-current assets (or disposal groups) classified as held-for-sale are measured at the lower of their carrying amount or the fair value less costs of disposal. Depreciation or amortization of an asset ceases when it is classified as held-for-sale. When non-current assets (or disposal groups) are classified as held-for-sale, comparative balances prior to such date are not represented in the Consolidated balance sheets.

Discontinued operations

A discontinued operation is a component of the company that has either been disposed of or is classified as held-for-sale and represents a separate major line of business or geographical area of operations or is a part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations. Any gain or loss from disposal, together with the results of these operations until the date of disposal, are reported separately as discontinued operations in the Consolidated statements of income.

The financial information of discontinued operations is excluded from the respective captions in the Consolidated financial statements and related notes for all periods presented. Comparatives are re-presented for presentation of discontinued operations in the Consolidated statements of income and Consolidated statements of cash flows.

Accounting estimates and judgments

The determination of the fair value less costs of disposal involves the use of estimates and assumptions that tend to be uncertain. Circumstances to which these adjustments may relate include resolution of uncertainties that arise from the terms of the disposal transaction, such as the resolution of purchase price adjustments and indemnifications, resolution of uncertainties that arise from and are directly related to the operations of the component before its disposal, such as environmental and assurance-type product warranty obligations retained by the company, and the settlement of employee benefit plan obligations provided that the settlement is directly related to the disposal transaction.

In 2020, 2021 and 2022 Discontinued operations consist primarily of the Domestic Appliances business. The following table summarizes the results of discontinued operations, net of income taxes, reported in the consolidated statements of income.

Philips Group

Discontinued operations, net of income taxes in millions of EUR

	2020	2021	2022
Domestic Appliances	206	2,698	3
Other	(10)	13	10
Discontinued operations, net of income taxes	196	2,711	13

Discontinued operations: Domestic Appliances

In 2022, net results from discontinued operations for Domestic Appliances was EUR 3 million.

On March 25, 2021, Philips signed an agreement to sell its Domestic Appliances business to global investment firm Hillhouse Investment. Since the first quarter of 2021, the Domestic Appliances business is presented as a discontinued operation, and comparative results have been restated to reflect the treatment of the Domestic Appliances business as a discontinued operation, because the sale of the Domestic Appliances business constitutes the discontinuance of a major line of business from the Personal Health segment.

The following table summarizes the results of Domestic Appliances included in the Consolidated statements of income as a discontinued operation.

Philips Group

Results of Domestic Appliances in millions of EUR

	2020	2021	2022
Sales	2,222	1,516	6
Costs and expenses	(1,944)	(1,322)	(2)
Income from operations	279	194	4
Result on the sale of discontinued operations		3,241	1
Income before tax	279	3,435	5
Income tax expense ¹⁾	(72)	6	(2)
Income tax related the sale of discontinued operations		(743)	
Results from discontinued operations	206	2,698	3

¹⁾ The income tax expense from discontinued operations is calculated based on the separate return method, as if Domestic Appliances was filing its own separate tax returns.

Costs of EUR 64 million incurred in relation to the separation of the Domestic Appliances business in 2021 have been accounted for in continuing operations, because these costs reflect expenses incurred by Royal Philips in the divestment process and are not considered representative of the core business results of the Domestic Appliances business.

On September 1, 2021, the company completed the sale of the Domestic Appliances business and recognized a transaction gain before tax of EUR 3,241 million. Philips received consideration of EUR 4,041 million, which is based on an enterprise value of EUR 3,850 million, increased by an amount of EUR 191 million for closing adjustments related to working capital and net indebtedness. The transaction gain before tax is the net effect of (i) the EUR 4,041 million consideration (ii) less the derecognition of net assets employed of EUR 715 million (iii) less transaction related costs of EUR 16 million, (iv) less the release of cumulative translation losses of EUR 69 million included in Other comprehensive income. The income tax charges related to the divestment process was EUR 743 million, resulting in an after-tax transaction gain of EUR 2,499 million. The income tax charge represents the consolidated tax expense resulting from asset transactions completed as part of the disentanglement of the business in anticipation of its sale, a significant portion of which relates to taxes payable in the Netherlands. In addition, Philips and the buyer entered into a 15-year brand license agreement with future annual payments that represents an estimated net present value of approximately EUR 0.7 billion, which will be received and recognized over time.

Discontinued operations: Other

Certain costs related to other divestments, which were previously reported as discontinued operations, resulted in a net gain of EUR 10 million in 2022, a net gain of EUR 13 million in 2021 and a net loss of EUR 10 million in 2020.

Discontinued operations cash flows

The following table presents the net cash provided by (used for) discontinued operations reported in the Consolidated statements of cash flows.

Net cash provided by (used for) discontinued operations in millions of EUR

	2020	2021	2022
Net cash provided by (used for) operating activities	129	85	(27)
Net cash provided by (used for) investing activities		3,319	15
Net cash provided by (used for) discontinued operations	129	3,403	(12)

In 2022, net cash used for discontinued operations was EUR (12) million and consisted primarily of cash flows related to the tax claims from the previously divested business.

In 2021, net cash provided for discontinued operations was EUR 3,403 million and consisted primarily of the net cash inflow of EUR 3,319 million from the sale of the Domestic Appliances business on September 1, 2021.

In 2020, net cash provided for discontinued operations was EUR 129 million and consisted primarily of cash flows provided by operating activities of the Domestic Appliances business, partly offset by advance income tax payments amounting to EUR 78 million

Assets classified as held for sale

As of December 31, 2022, assets held for sale consists of property, plant and equipment mainly related to the APAC Center Singapore building. The sale was finalized in January 2023.

As of December 31, 2021, assets held for sale consists of property, plant and equipment mainly related to the APAC Center Singapore building.

4 Acquisitions and divestments

Accounting policies

Acquisitions

The company accounts for business combinations using the acquisition method when control is transferred to the group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired and the liabilities assumed. Transaction costs are expensed as incurred. Any contingent consideration is measured at fair value at the acquisition date and is initially presented in Long-term provisions. When the timing and amount of the consideration become more certain, it is reclassified to Accrued liabilities. If the contingent consideration that meets the definition of a financial instrument is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in the Consolidated statements of income.

Changes to the initial fair value of the acquired assets and liabilities, based on new information about the circumstances at the acquisition date, can be made up to twelve months after the acquisition date.

Divestments

Upon loss of control, the company derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising from the loss of control is recognized in the Consolidated statements of income. If the company retains any interest in the previous subsidiary, such interest is measured at fair value at the date the control is lost. Subsequently it is accounted for as either an equity-accounted investee (associate) or as a financial asset, depending on the level of influence retained. Further information on loss of control can be found in

[Discontinued operations and assets classified as held for sale, starting on page 156.](#)

Accounting estimates and judgments

Intangible assets acquired in a business acquisition and the financial liability related to non-controlling interest are measured at fair value at the date of the acquisition.

To determine the fair value of intangible assets at the acquisition date, estimates and assumptions are required. The valuation of the identifiable intangible assets involves estimates of expected sales, earnings and/or future cash flows and require use of key assumptions such as discount rate, royalty rate and growth rates.

Estimates are also applied when determining the fair value of legal cases and tax positions in the acquired entity. The fair value is based on estimates of the likelihood, the expected timing and the amount of the potential cash outflow. Provisions for legal cases and non-income tax positions are recognized at fair value even if it is not probable that an outflow will be required to settle the obligation. After initial recognition and until the liability is settled, cancelled or expired, the liability is measured at the higher of the amount that would be recognized in accordance with IAS 37 'Provisions, contingent liabilities and contingent assets' and the initial liability amount. For income tax positions, the company applies IAS 12 'Income Taxes', which requires recognition of provisions only when the likelihood of cash outflow is considered probable.

2022

Acquisitions

In 2022 Philips completed three acquisitions. The acquisitions involved aggregated net cash outflow of EUR 359 million and contingent consideration of EUR 96 million measured at fair value. Upon acquisition, the company recognized aggregated Goodwill of EUR 307 million, Other intangible assets of EUR 179 million, Deferred tax assets of EUR 20 million and Deferred tax liabilities generated from the intangible assets of EUR 43 million.

Vesper Medical Inc. (Vesper) was the most notable acquisition and is discussed below. The remaining two acquisitions involved aggregated net cash outflow of EUR 139 million and contingent consideration of EUR 61 million measured at fair value. The two acquisitions resulted in aggregated Goodwill of EUR 130 million, Other intangible assets of EUR 95 million and Deferred tax liabilities of EUR 23 million.

The opening balance sheet positions reflect the preliminary determination of the fair value of identifiable assets acquired and liabilities assumed with the acquisitions. The final determination of the fair values will be completed in 2023. As of December 31, 2022, the valuation studies necessary to determine the fair value of the intangible assets and the valuation of goodwill are preliminary.

Since the respective acquisition dates through December 31, 2022, the contribution to sales to third parties and net income of the three acquired entities was not material. The sales and net income of the combined entities would not differ materially from these amounts if the acquisition date had been January 1, 2022. Acquisition-related costs were not material.

Vesper

On January 11, 2022, Philips acquired all shares of Vesper for an amount of EUR 227 million in cash and EUR 34 million contingent consideration at fair value. Vesper, headquartered in Wayne, Pennsylvania, US, is a medical technology company that develops minimally-invasive peripheral vascular devices. The company is developing the Vesper DUO Venous Stent System®, commercialization of which is estimated to start after approval by the US Food and Drug Administration (FDA), expected in 2024. The Vesper DUO Venous Stent System® consists of venous stents intended to treat deep venous obstruction. It provides physicians with a modular portfolio to customize therapy, restore venous flow, and resolve the painful symptoms of deep venous disease for the broad range of patients suffering from chronic venous insufficiency. As of the acquisition date, Vesper forms part of the Image-Guided Therapy business portfolio of the Diagnosis & Treatment segment.

The condensed opening balance sheet of Vesper was as follows:

Opening balance sheet in millions of EUR

	At acquisition date
	Vesper Medical Inc,
Assets	
Intangible assets excluding goodwill	84
Deferred tax assets	15
Cash	7
Total Assets	106
Liabilities	
Accounts payable and other payables	(1)
Deferred tax liabilities	(20)
Total Liabilities	(21)
Total identifiable net assets at fair value	85
Goodwill arising on acquisition	177
Total purchase consideration	262
Of which:	
Purchase consideration transferred	227
Contingent consideration	34

Goodwill recognized in the amount of EUR 177 million mainly represents revenue synergies expected from the combination of Philips' peripheral vascular portfolio and Vesper's venous stenting solution to address the root cause of chronic deep venous disease (DVD). Strong clinical synergies between Vesper's innovative stenting solution and Philips' existing peripheral vascular offering will help to better support clinicians to decide, guide, treat and confirm during the procedure, thereby enhancing patient care. Vesper Goodwill is not tax-deductible.

The majority of the Intangible assets balance relates to capitalized development costs, the fair value of which is determined using the multi-period excess earnings method, which is a valuation technique that estimates the fair value of an asset based on market participants' expectations of the cash flows associated with that asset over its remaining useful life. The fair value of capitalized development costs is based on an estimate of positive future cash flows associated with incremental profits related to excess earnings, discounted at a rate of 12.0%. Capitalized development costs are tested for impairment on an annual basis until FDA approval is obtained and the asset is reclassified to an intangible asset that is depreciated over its economical useful life.

The contingent consideration arrangement requires Philips to pay the former owners of Vesper up to a maximum undiscounted amount of EUR 44 million contingent upon FDA approval of the Vesper DUO Venous Stent System. The fair value of the contingent consideration arrangement of EUR 34 million has been estimated by calculating the present value of the future expected cash flows. The estimate is based on a discount rate of 12% and assumed probability adjusted likelihood of FDA approval at a certain point in time.

Divestments

During 2022 Philips completed two divestments that were not material.

2021

Acquisitions

In 2021 Philips completed two acquisitions, BioTelemetry, Inc. and Capsule Technologies, Inc., that involved aggregated net cash outflow of EUR 2,824 million. Including final purchase price adjustment processed in the course of 2022, the company recognized aggregated Goodwill of EUR 2,113 million, Other intangible assets of EUR 840 million and related Deferred tax liabilities of EUR 206 million.

The condensed opening balance sheets of BioTelemetry and Capsule Technologies were as follows:

Opening balance sheet in millions of EUR

	At acquisition date	
	BioTelemetry	Capsule Technologies
Assets		
Intangible assets excluding goodwill	623	217
Property, plant and equipment	42	11
Other non-current assets	48	-
Deferred tax assets	77	17
Inventories	11	11
Receivables and other current assets	75	97
Cash	205	19
Total Assets	1,082	371
Liabilities		
Accounts payable and other payables	(278)	(98)
Deferred tax liabilities	(160)	(46)
Long-term liabilities	(82)	(11)
Acquired provision for contingent considerations	(16)	
Total Liabilities	(536)	(155)
Total identifiable net assets at fair value	547	217
Goodwill arising on acquisition	1,790	322
Purchase consideration transferred	2,337	539

BioTelemetry

On February 9, 2021, Philips successfully completed a tender offer to acquire all issued and outstanding shares of BioTelemetry, Inc. for USD 72 per share. As a result, BioTelemetry shares were delisted from NASDAQ. The total equity purchase price and the settlement of stock option rights, including BioTelemetry's cash and debt, involved an amount of EUR 2,132 million and EUR 172 million equity awards consideration paid to employees after the acquisition day.

BioTelemetry, headquartered in Malvern, Pennsylvania, is a leading US-based provider of remote cardiac diagnostics and monitoring solutions. BioTelemetry offers a complete range of clinically validated ambulatory cardiac diagnostics and monitoring services: Short term Holter monitoring services, Long-term Holter monitoring services, Event recorder services, and Mobile Cardiac Outpatient Telemetry (MCOT) services. The acquisition of BioTelemetry is a strong fit with Philips' cardiac care portfolio, and its strategy to transform the delivery of care along the health continuum with integrated solutions. BioTelemetry, forms part of the Connected Care segment.

Goodwill recognized in the amount of EUR 1,790 million mainly represents revenue synergies expected from the combination of Philips' cardiac care portfolio and its strategy to transform the delivery of care along the health continuum with integrated solutions, and BioTelemetry complete range of clinically validated ambulatory cardiac diagnostics and monitoring services. BioTelemetry Goodwill is not tax-deductible.

The majority of the Intangible assets balance relates to the Customer relationships asset, the fair value of which is determined using the multi-period excess earnings method, which is a valuation technique that estimates the fair value of an asset based on market participants' expectations of the cash flows associated with that asset over its remaining useful life. The fair value of the Customer relationships asset is based on an estimate of positive future cash flows associated with incremental profits related to excess earnings, discounted at a rate of 10.0%. The amortization period of the Customer relationships asset is 14 years. Receivables and other current assets reflect the best estimate at the acquisition date of the contractual cash flows expected to be received.

Since the acquisition date through December 31, 2021, the contribution to sales to third parties and net income of BioTelemetry was EUR 387 million and EUR 32 million loss, respectively. The sales and net income would not differ materially from these amounts if the acquisition date had been on January 1, 2021.

In 2021, acquisition-related costs of EUR 40 million were mainly recognized in General and administrative expenses.

Capsule Technologies

On March 4, 2021, Philips acquired all shares of Capsule Technologies, Inc. for an amount of EUR 520 million in cash. Capsule Technologies, headquartered in Andover, Massachusetts, is a leading provider of medical device integration and data technologies for hospitals and healthcare organizations. Capsule Technologies offers a leading vendor-neutral Medical Device Information Platform with a software-as-a-service business model. The acquisition of Capsule Technologies is a strong fit with Philips' strategy to transform the delivery of care along the health continuum with integrated solutions. Capsule Technologies, forms part of the Connected Care segment.

Goodwill recognized in the amount of EUR 322 million mainly represents revenue synergies expected from the combination of Philips' industry-leading portfolio of real-time patient monitoring, therapeutic devices, telehealth, informatics and interoperability solutions and Capsule's leading Medical Device Information Platform, connected through Philips' secure vendor-neutral cloud-based HealthSuite digital platform. Capsule Technologies Goodwill is not tax-deductible.

The majority of the Intangible assets balance relates to the Customer relationships asset, the fair value of which is determined using the multi-period excess earnings method, which is a valuation technique that estimates the fair value of an asset based on market participants' expectations of the cash flows associated with that asset over its remaining useful life. The fair value of the Customer relationships asset is based on an estimate of positive future cash flows associated with incremental profits related to excess earnings, discounted at a rate of 12.0%. The amortization period of the Customer relationships asset is 17 years.

Receivables and other current assets reflect the best estimate at the acquisition date of the contractual cash flows expected to be received.

Since the acquisition date through December 31, 2021, the contribution to sales to third parties and net income of Capsule was EUR 75 million and EUR 10 million loss, respectively. The sales and net income would not differ materially from these amounts if the acquisition date had been on January 1, 2021.

In 2021, acquisition-related costs of EUR 11 million were mainly recognized in General and administrative expenses.

Divestments

During 2021 Philips completed three divestments. On September 1, 2021, Philips sold its Domestic Appliances business to global investment firm Hillhouse Investment. For further details on this transaction, refer to note [Discontinued operations and assets classified as held for sale, starting on page 156](#).

In addition, the company completed the divestment of the PERS business on June 30, 2021 and completed the divestment of a small business of segment Other on September 17, 2021. As part of PERS divestment, Philips acquired shares in the buyer Connect America Investment Holdings, LLC with a value of EUR 40 million. The investment is classified as a financial asset measured at Fair Value through Other Comprehensive Income (FVTOCI) and is reported as part of Other non-current financial assets. The divestment resulted in a loss of EUR 75 million, which is included in Other Business Expenses in the Statement of Income.

5 Interests in entities

Accounting policies

Associates are all entities over which the company has significant influence, but not control or joint control. Significant influence is presumed with a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The carrying amount of an investment in associate includes the carrying amount of goodwill identified on acquisition. An impairment loss on such investment is allocated to the investment as a whole.

The company's share of the net income of these associates is included in Investments in associates, net of income taxes, in the Consolidated statements of income, after adjustments to align the accounting policies with those of the company. Dilution gains and losses arising from investments in associates are recognized in the Consolidated statements of income as part of Investments in associates, net of income taxes. Impairment losses and gains or losses on sale of investments are recorded in the Consolidated statements of income, more specifically on the line item 'Investments in associates, net of income taxes'.

When the company's share of losses exceeds its interest in an associate, the carrying amount of that interest is reduced to zero and recognition of further losses is discontinued except to the extent that the company has an obligation or made payments on behalf of the associate.

The nature of the company's interests in its consolidated entities and associates, and the effects of those interests on the company's financial position and financial performance are discussed below.

Group companies

Below is a list of material subsidiaries as of December 31, 2022 representing greater than 5% of either the consolidated group Sales, Income from operations or Income from continuing operations (before any intra-group eliminations) of Group legal entities. All of the entities are fully consolidated in the group financial statements.

Philips Group

Interests in group companies in alphabetical order by country
 2022

Legal entity name	Principal country of business
Philips (China) Investment Company, Ltd.	China
Philips Medizin Systeme Böblingen GmbH	Germany ¹⁾
Philips Japan, Ltd.	Japan
Philips Consumer Lifestyle B.V.	Netherlands
Philips Oral Healthcare B.V.	Netherlands
Philips Ultrasound LLC	United States
Philips North America LLC	United States
Philips USA Export Corporation	United States

¹⁾ Application of Sec. 264 (3) and Sec. 264b HGB (German Commercial Code) for fully consolidated legal entities: Philips GmbH, Hamburg; Philips Medical Systems DMC GmbH, Hamburg; Respirationics Deutschland GmbH & Co. KG, München; Philips Medizin Systeme Hofheim-Wallau GmbH, Hamburg; Philips Medizin Systeme Böblingen GmbH, Böblingen; TomTec Imaging Systems GmbH, Unterschleißheim; Forecare GmbH, Ratingen.

Information related to non-controlling interests

As of December 31, 2022, four consolidated subsidiaries are not wholly owned by Philips (December 31, 2021: four). In 2022, Sales to third parties and Net income for these subsidiaries in aggregate are EUR 472 million (December 31, 2021: EUR 522 million) and EUR 28 million (December 31, 2021: EUR 39 million), respectively.

Investments in associates

Philips has investments in a number of associates. During 2022, Philips purchased eight investments in associates for a total amount of EUR 256 million. The most notable investment was a EUR 172 million investment in B-SOFT Co, Ltd, a China-based IT supplier for the medical and health sectors, listed on the stock exchange in Shenzhen. Philips acquired only a 10% interest, but determined that it is able to exercise significant influence amongst others due to its representation on B-SOFT's Board of Directors. None of these investments are regarded as individually material from the point of view of the consolidated financial statements.

In 2022, Philips recorded an impairment of EUR 66 million in relation to its interest in Candid Care Co. As part of the acquisition of Affera, Inc. by Medtronic plc in August 2022, the company sold its investment in Affera to Medtronic and recorded a gain of EUR 84 million on the sale.

Cumulative translation adjustments related to investments in associates were EUR 22 million as of December 31, 2022 (2021: EUR 32 million).

Involvement with unconsolidated structured entities

Philips founded three Philips Medical Capital (PMC) entities, in the United States, France and Germany, in which Philips holds a minority interest. Philips Medical Capital, LLC in the United States is the most significant entity. PMC entities provide healthcare equipment financing and leasing services to Philips customers for diagnostic imaging equipment, patient monitoring equipment, and clinical IT systems.

The company concluded that it does not control, and therefore should not consolidate the PMC entities. In the United States, PMC operates as a subsidiary of De Lage Landen Financial Services, Inc. The same structure and treatment is applied to the PMC entities in the other countries, with other majority shareholders. Operating agreements are in place for all PMC entities, whereby acceptance of sales and financing transactions resides with the respective majority shareholder. After acceptance of a transaction by PMC, Philips transfers control and does not retain any obligations towards PMC or its customers, from the sales contracts.

As of December 31, 2022, Philips' shareholding in Philips Medical Capital, LLC had a carrying value of EUR 29 million (December 31, 2021: EUR 27 million).

The company does not have any material exposures to losses from interests in unconsolidated structured entities other than the invested amounts.

6 Income from operations

Accounting policies

Revenue recognition

The company recognizes revenue when it transfers control over a good or service to a customer, in an amount that reflects the consideration (i.e., transaction price) to which the company expects to be entitled to in exchange for the good or service. The consideration expected by the company may include fixed and/or variable amounts which can be impacted by sales returns, trade discounts and volume rebates. The company adjusts the consideration for the time value of money if the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds six months.

Transfer of control varies depending on the individual terms of the contract of sale. For consumer-type products in the segment Personal Health businesses, control is transferred when the product is shipped and delivered to the customer and title and risk have passed to the customer (depending on the delivery conditions) and acceptance of the product has been obtained.

Revenues from transactions relating to distinct goods or services are accounted for separately based on their relative stand-alone selling prices. The stand-alone selling price is the price that would be charged for the goods or service in a separate transaction under similar conditions to similar customers. The transaction price is determined (considering variable considerations) and allocated to performance obligations based on their relative stand-alone selling prices. These transactions mainly occur in the segments Diagnosis & Treatment businesses and Connected Care businesses and include arrangements that require subsequent installation and training activities to make distinct goods operable for the customer. As such, the related installation and training activities are part of equipment sales rather than separate performance obligations. Revenue is recognized when the performance obligation is satisfied, i.e., when the installation has been completed and the equipment is ready to be used by the customer in the way contractually agreed.

Variable consideration is included in the transaction price to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur once associated uncertainties are resolved. Such assessment is performed on each reporting date to check whether it is constrained. For products for which a right of return exists during a defined period, revenue recognition is determined based on the historical pattern of actual returns, or in cases where such information is not available, revenue recognition is postponed until the return period has lapsed. Return policies are typically based on customary return arrangements in local markets. A provision is recognized for assurance-type product warranty at the time of revenue recognition and reflects the estimated costs of replacement and free-of-charge services that will be incurred by the company with respect to the products sold. For certain products, the customer has the option to purchase the warranty separately, which is considered a separate performance obligation on top of the assurance-type product warranty. For such warranties which provide distinct service, revenue recognition occurs on a straight-line basis over the extended warranty contract period.

In the case of loss under a sales agreement, the loss is recognized immediately.

Sale of goods

Revenues are recognized at a point in time when control of the goods passes to the buyer, based on the allocation of the transaction price to the performance obligation.

Revenue from services

Revenues are recognized over time as the company transfers control of the services to the customer which is demonstrated by the customer simultaneously receiving and consuming the benefits provided by the company. The amount of revenues is measured by reference to the progress made towards complete satisfaction of the performance obligation, which in general is evenly over time. Service revenue related to repair and maintenance activities for goods sold is recognized ratably over the service period or as services are rendered.

Income from royalties

Royalty income from brand license arrangements and from intellectual property rights, such as technology licenses or patents, is recognized on an accrual basis in accordance with the substance of the relevant agreement.

Shipping and handling

Expenses incurred for shipping and handling are mainly recorded as cost of sales. When shipping and handling are part of a project and billed to the customer, then the related expenses are recorded as cost of sales. Shipping and handling related to sales to third parties are partly recorded as selling expenses. When shipping and handling billed to customers are considered a distinct and separate performance obligation, the fees are recognized as revenue and costs included in cost of sales.

Other business income (expenses)

Other business income (expenses) includes gains and losses on the sale of property, plant and equipment, gains and losses on the sale of businesses as well as other gains and losses not related to the company's operating activities.

Government grants

Grants from governments are recognized at their fair value when there is a reasonable assurance that the grant will be received and the company will comply with the conditions. Grants related to costs are deferred in the consolidated balance sheet and recognized in the consolidated statement of income as a reduction of the related costs that they are intended to compensate. Grants related to assets are deducted from the cost of the asset and presented net in the consolidated balance sheets.

Accounting estimates and judgments

Sales-related accruals

The company has sales promotions-related agreements with distributors and retailers designed to promote the sale of products. Among the programs are arrangements under which rebates and discounts can be earned by the distributors and retailers by attaining agreed upon sales levels, or for participating in specific marketing programs. Management estimates the sales-related accruals associated with these arrangements based on a combination of historical patterns and future expectations regarding which promotional targets are expected to be met by distributors and retailers. Accrued customer rebates are presented as other current liabilities, unless there is a right to offset against the respective accounts receivable.

A breakdown by nature of the income (loss) from operations is as follows:

Philips Group

Sales and costs by nature in millions of EUR

	2020	2021	2022
Sales	17,313	17,156	17,827
Costs of materials used	(4,221)	(4,142)	(4,320)
Employee benefit expenses	(6,289)	(6,246)	(6,952)
Depreciation and amortization ¹⁾	(1,462)	(1,323)	(1,602)
Impairment of goodwill	(144)	(15)	(1,357)
Shipping and handling	(554)	(645)	(756)
Advertising and promotion	(696)	(752)	(739)
Lease expenses	(34)	(19)	(39)
Other operational costs	(2,741)	(3,524)	(3,609)
Other business income (expenses)	92	63	18
Income from operations	1,264	553	(1,529)

¹⁾ Includes impairments; for impairment values please refer to [Property, plant and equipment, starting on page 173](#) and [Intangible assets excluding goodwill, starting on page 181](#)

Sales composition and disaggregation

For information related to sales on a segment and geographical basis, refer to [Information by segment and main country, starting on page 153](#).

Philips Group

Sales composition in millions of EUR

	2020	2021	2022
Goods	12,491	11,981	12,139
Services	4,058	4,374	4,878
Royalties	301	383	419
Total sales from contracts with customers	16,851	16,738	17,435
Sales from other sources	462	418	391
Total sales	17,313	17,156	17,827

Total sales from other sources mainly relates to leases, including sublease income from right-of-use assets and related services of EUR 258 million (2021: EUR 293 million 2020: EUR 325 million). Sales represent revenue from external customers.

As of December 31, 2022, the aggregate amount of the transaction price allocated to remaining performance obligations from a sale of goods and services was EUR 16.57 million. The company expects to recognize approximately 50% of the remaining performance obligations within 1 year. Revenue expected to be recognized beyond 1 year is mostly related to longer term customer service and software contracts.

Sales over time represent services and Other also includes royalties over time (2022: EUR 292 million 2021: EUR 220 million 2020: EUR 211 million).

Philips Group

Disaggregation of Sales per segment in millions of EUR

	2022				
	Sales at a point in time	Sales over time	Total sales from contracts with customers	Sales from other sources	Total sales
Diagnosis & Treatment	5,565	3,547	9,112	56	9,168
Connected Care	2,803	1,266	4,068	335	4,403
Personal Health	3,615	11	3,626	-	3,626
<i>Other</i>	279	348	629	-	629
Philips Group	12,263	5,172	17,435	391	17,827

Philips Group

Disaggregation of Sales per segment in millions of EUR

	2021				
	Sales at a point in time	Sales over time	Total sales from contracts with customers	Sales from other sources	Total sales
Diagnosis & Treatment	5,408	3,177	8,583	52	8,635
Connected Care	3,116	1,090	4,207	366	4,573
Personal Health	3,423	6	3,429	-	3,429
<i>Other</i>	194	323	518	-	519
Philips Group	12,142	4,596	16,738	418	17,156

Philips Group

Disaggregation of Sales per segment in millions of EUR

	2020				
	Sales at a point in time	Sales over time	Total sales from contracts with customers	Sales from other sources	Total sales
Diagnosis & Treatment	5,133	2,997	8,129	46	8,175
Connected Care	4,183	943	5,126	417	5,543
Personal Health	3,195	4	3,199	-	3,199
<i>Other</i>	69	327	396	-	396
Philips Group	12,580	4,271	16,851	462	17,313

Philips Group

Disaggregation of Sales per geographical cluster in millions of EUR

	2022				
	Sales at a point in time	Sales over time	Total sales from contracts with customers	Sales from other sources	Total sales
Western Europe	2,387	1,183	3,572	31	3,603
North America	4,889	2,612	7,502	86	7,588
Other mature geographies	972	399	1,369	274	1,643
Total mature geographies	8,248	4,194	12,443	390	12,833
Growth geographies	4,015	978	4,992	1	4,993
Sales	12,263	5,172	17,435	391	17,827

Philips Group

Disaggregation of Sales per geographical cluster in millions of EUR

	2021				
	Sales at a point in time	Sales over time	Total sales from contracts with customers	Sales from other sources	Total sales
Western Europe	2,537	1,087	3,624	21	3,645
North America	4,427	2,268	6,695	86	6,781
Other mature geographies	1,000	386	1,386	309	1,694
Total mature geographies	7,964	3,741	11,705	415	12,120
Growth geographies	4,178	856	5,033	3	5,036
Sales	12,142	4,596	16,738	418	17,156

Philips Group

Disaggregation of Sales per geographical cluster in millions of EUR

	2020				
	Sales at a point in time	Sales over time	Total sales from contracts with customers	Sales from other sources	Total sales
Western Europe	2,747	936	3,682	19	3,702
North America	4,654	2,135	6,789	95	6,884
Other mature geographies	1,035	373	1,408	342	1,750
Total mature geographies	8,435	3,444	11,879	457	12,336
Growth geographies	4,145	828	4,972	5	4,977
Sales	12,580	4,271	16,851	462	17,313

Costs of materials used

Cost of materials used represents the inventory recognized in cost of sales.

Employee benefit expenses

Philips Group

Employee benefit expenses in millions of EUR

	2020	2021	2022
Salaries and wages excluding share-based compensation	5,085	5,014	5,594
Share-based compensation	119	115	104
Post-employment benefit costs	418	396	439
Other social security and similar charges:			
Required by law	556	529	590
Voluntary	111	192	225
Employee benefit expenses	6,289	6,246	6,952

The employee benefit expenses relate to employees who are working on the payroll of Philips, both with permanent and temporary contracts.

For further information on post-employment benefit costs, refer to [Post-employment benefits, starting on page 198](#).

For details on the remuneration of the members of the Board of Management and the Supervisory Board, refer to [Information on remuneration, starting on page 211](#).

Employees

The average number (full-time equivalents, or FTEs) of employees by category is summarized as follows:

Philips Group

Employees by category in FTEs

	2020	2021	2022
Production	35,482	38,618	39,742
Research & development	10,812	10,751	11,690
Other	22,474	22,543	23,019
Employees	68,769	71,912	74,451
Third party workers	4,998	4,533	4,086
Philips Group	73,767	76,445	78,538

Employees consist of those persons working on the payroll of Philips and whose costs are reflected in employee benefit expenses. Other consists of employees in commercial, general and administrative functions. Third party workers consist of personnel hired on a per-period basis, via external companies.

Philips Group
Employees by geographical location in FTEs

	2020	2021	2022
Netherlands	11,146	11,142	11,180
Other countries	62,621	65,303	67,357
Philips Group	73,767	76,445	78,538

Depreciation and amortization

Depreciation of property, plant and equipment and amortization of intangible assets, including impairments, are as follows:

Philips Group
Depreciation and amortization ¹⁾ in millions of EUR

	2020	2021	2022
Depreciation of property, plant and equipment	691	630	711
Amortization of software	76	88	117
Amortization of other intangible assets	377	322	363
Amortization of development costs	319	284	411
Depreciation and amortization	1,462	1,323	1,602

¹⁾ Includes impairments; for impairment values please refer to [Property, plant and equipment, starting on page 173](#) and [Intangible assets excluding goodwill, starting on page 181](#)

Depreciation of property, plant and equipment is mainly included in cost of sales. Amortization of software is mainly included in general and administration expenses. Amortization of other intangible assets is included in selling expenses for brand names and customer relationships and is included in cost of sales for technology based and other intangible assets. Amortization of development costs is included in research and development expenses.

Impairment of goodwill

During 2022, EUR 1,331 million of goodwill impairment charges were recorded in the Sleep & Respiratory Care business, due to revisions to the expected future cash flows. In addition, a EUR 27 million goodwill impairment was recognized in the Precision Diagnosis Solutions business. For further information refer to note [Goodwill, starting on page 176](#).

Shipping and handling

Shipping and handling costs are included in cost of sales and selling expenses in the [Consolidated statements of income, starting on page 145](#).

Advertising and promotion

Advertising and promotion costs are included in selling expenses in the [Consolidated statements of income, starting on page 145](#).

Lease expense

Lease expense relates to short-term and low value leases.

Other operational costs

Other operational costs contain items which are dissimilar in nature and individually insignificant in amount to disclose separately. These costs contain among others expenses for outsourcing services, mainly in Information Technology and Human Resources, third party workers, consultants, warranty, patents, costs for travelling and external legal service. Government grants of EUR 103 million were recognized as cost reduction in 2022 (2021: EUR 104 million 2020: EUR 98 million). The grants mainly relate to research and development activities and business development. The increase in other operational costs 2021 versus 2020 is mainly due to the Respiroics field action provision. For more details refer to [Provisions, starting on page 193](#).

Audit and audit-related fees

The following table shows the fees attributable to the fiscal years 2020, 2021 and 2022 for services rendered by the external auditors.

Philips Group

Audit and audit-related fees in millions of EUR

	2020			2021			2022		
	EY NL ¹⁾	EY Network	Total	EY NL ¹⁾	EY Network	Total	EY NL ¹⁾	EY Network	Total
Audit fees	9.0	5.6	14.6	10.3	5.4	15.7	8.9	5.5	14.4
consolidated financial statements	9.0	2.9	11.9	10.3	2.7	13.0	8.9	3.0	11.9
statutory financial statements		2.7	2.7		2.7	2.7		2.5	2.5
Audit-related fees²⁾	2.2	0.5	2.7	0.6	0.3	0.9	0.7	0.2	0.9
divestment	1.5	0.2	1.7						
sustainability assurance	0.5		0.5	0.5		0.5	0.6		0.6
other	0.2	0.3	0.5	0.1	0.3	0.4	0.1	0.2	0.3
Tax fees									
All other fees									
Fees	11.2	6.1	17.3	10.9	5.7	16.6	9.6	5.7	15.3

¹⁾ Ernst & Young Accountants LLP

²⁾ Also known as Assurance fees

Other business income (expenses)

Other business income (expenses) consists of the following:

Philips Group

Other business income (expenses) in millions of EUR

	2020	2021	2022
Result on disposal of businesses:			
income	-	-	4
expenses	-	(75)	-
Result on disposal of fixed assets:			
income	2	24	3
expenses	-	(5)	(1)
Result on other remaining businesses:			
income	120	161	121
expenses	(30)	(43)	(109)
Other business income (expenses)	92	63	18
Total other business income	122	186	127
Total other business expenses	(29)	(123)	(109)

The result on disposal of businesses mainly relates to divestment of non-strategic businesses. For more information refer to [Acquisitions and divestments, starting on page 158](#).

The result on disposal of fixed assets mainly relates to the sale of real estate assets.

The result on other remaining businesses mainly relates to the revaluation of contingent consideration and various legal matters. For information on contingent consideration, refer to [Provisions, starting on page 193](#).

7 Financial income and expenses

Accounting policies

Financial income and expenses are recognized on the accrual basis in the consolidated statements of income. Interest income and expense are measured using the effective interest method. Dividend income is recognized in the consolidated statements of income on the date that the company's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Philips Group

Financial income and expenses in millions of EUR

	2020	2021	2022
Interest income	13	18	25
<i>Interest income from loans and receivables</i>	8	7	7
<i>Interest income from cash and cash equivalents</i>	5	11	18
Dividend income from financial assets	3	2	3
Net gains from disposal of financial assets	2	-	-
Net change in fair value of financial assets through profit or loss	129	95	9
Other financial income	12	33	20
Financial income	158	149	58
Interest expense	(173)	(159)	(235)
<i>Interest expense on debt and borrowings</i>	(130)	(126)	(200)
<i>Finance charges under lease contract</i>	(29)	(25)	(25)
<i>Interest expense on pensions</i>	(13)	(8)	(10)
Provision-related accretion expenses	(10)	(5)	(9)
Net foreign exchange gains (losses)	4	-	9
Other financial expenses	(23)	(24)	(24)
Financial expenses	(202)	(188)	(258)
Financial income and expenses	(44)	(39)	(200)

In 2022, Financial income and expenses increased by EUR 161 million year-on-year, mainly due to higher interest expense and lower fair value gains. The lower fair value gains are mainly from investments in limited-life funds (mainly Gilde Healthcare) and other investments recognized at fair value through profit or loss compared with in 2021. Net interest expense in 2022 was EUR 69 million higher than in 2021, mainly due to the financial

charges related to early redemption of EUR and USD bonds and issuance of new EUR bonds issued in 2022. The decrease in other financial income is mainly due to higher interest income on tax in 2021.

In 2021, Financial income and expenses decreased by EUR 5 million year-on-year, mainly due to higher other financial income and lower interest expense, offset by lower fair value gain. Fair value gains of EUR 95 million are from investments in limited-life funds (mainly Gilde Healthcare) and other investments recognized at fair value through profit or loss. Net interest expense in 2021 was EUR 19 million lower than in 2020, mainly due to lower interest expense on borrowings and provisions, and interest expense on pensions. The increase in other financial income is mainly due to higher interest income on tax.

8 Income taxes

Accounting policies

Income taxes comprise current, non-current and deferred tax. Income tax is recognized in the Consolidated statements of income except to the extent that it relates to items recognized directly within equity or in other comprehensive income. Current tax is the expected taxes payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

In cases where it is concluded it is not probable that tax authorities will accept a tax treatment, the effect of the uncertainty is reflected in the recognition and measurement of tax assets and liabilities or, alternatively, a provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the company to change its judgment regarding the adequacy of existing tax assets and liabilities. Such changes to tax assets and liabilities will impact the income tax expense in the period during which such a determination is made.

Deferred tax assets and liabilities are recognized, using the consolidated balance sheets method, for the expected tax consequences of temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill; the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and differences relating to investments in subsidiaries, joint ventures and associates where the reversal of the respective temporary difference can be controlled by the company and it is probable that it will not reverse in the foreseeable future. Deferred taxes are measured at the tax rates that

are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity or on different taxable entities, but the company intends to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that there will be future taxable profits against which they can be utilized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the countries where the deferred tax assets originated and during the periods when the deferred tax assets become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

Deferred tax liabilities for withholding taxes are recognized for subsidiaries in situations where the income is to be paid out as dividend in the foreseeable future and for undistributed earnings of unconsolidated companies to the extent that these withholding taxes are not expected to be refundable or deductible. Changes in tax rates and tax laws are reflected in the period when the change was enacted or substantively enacted by the reporting date.

Any subsequent adjustment to a tax asset or liability that originated in discontinued operations and for which no specific arrangements were made at the time of divestment, due to a change in the tax base or its measurement, is allocated to discontinued operations (i.e. backwards tracing). Examples are a tax rate change or change in retained assets or liabilities directly relating to the discontinued operation. Any subsequent change to the recognition of deferred tax assets is allocated to the component in which the taxable gain is or will be recognized. The above principles are applied to the extent the 'discontinued operations' are sufficiently separable from continuing operations.

Accounting estimates and judgments

Deferred tax recoverability

Deferred tax assets are recognized to the extent that it is probable that there will be future taxable profits against which these can be utilized. Significant judgment is involved in determining whether such profits are probable. Management determines this on the basis of expected taxable profits arising from the reversal of recognized deferred tax liabilities, appropriate tax planning opportunities to support business goals and on the basis of forecasts.

Uncertain tax positions

Uncertain tax positions are recognized as liabilities if and to the extent it is probable that additional tax will be due and the amount can be reliably measured. Significant judgment is involved in determining these positions.

The income tax benefit of continuing operations amounts to EUR 113 million (2021: EUR 103 million tax benefit, 2020: EUR 212 million tax expense).

The components of income before taxes and income tax expense are as follows:

Philips Group Income tax expense in millions of EUR

	2020	2021	2022
Income before taxes	1,211	509	(1,731)
Investments in associates, net of income taxes	(9)	(4)	(2)
Income before taxes and investment in associates	1,220	513	(1,729)
Current tax (expense) benefit	(380)	(298)	(97)
Deferred tax (expense) benefit	167	401	210
Income tax (expense) of continuing operations	(212)	103	113

Income tax benefit of continuing operations excludes the tax benefit of the discontinued operations of EUR 18 million (2021: EUR 737 million expense, 2020: EUR 81 million expense), mainly related to the release of provisions.

The components of income tax expense of continuing operations are as follows:

Philips Group Current income tax expense in millions of EUR

	2020	2021	2022
Current year tax (expense) benefit	(390)	(291)	(111)
Prior year tax (expense) benefit	10	(7)	14
Current tax (expense) benefit	(380)	(298)	(97)

Philips Group

Deferred income tax expense In millions of EUR

	2020	2021	2022
Recognition of previously unrecognized tax loss and credit carryforwards	6	138	2
Unrecognized tax loss and credit carryforwards		(10)	(13)
Changes to recognition of temporary differences	19	(1)	(4)
Prior year tax (expense) benefit	(8)	20	(1)
Tax rate changes	12	10	(18)
Origination and reversal of temporary differences, tax losses and tax credits	137	245	244
Deferred tax (expense) benefit	167	401	210

Philips' operations are subject to income taxes in various foreign jurisdictions. The statutory income tax rate varies per country, which results in a difference between the weighted average statutory income tax rate and the Netherlands' statutory income tax rate of 25.8% (2021: 25.0% 2020: 25.0%).

A reconciliation of the weighted average statutory income tax rate to the effective income tax rate of continuing operations is as follows:

Philips Group Effective income tax rate in %

	2020	2021	2022
Weighted average statutory income tax rate in %	25.2	22.7	23.6
Recognition of previously unrecognized tax loss and credit carryforwards	(0.5)	(26.9)	0.1
Unrecognized tax loss and credit carryforwards	0.0	1.9	(0.7)
Changes to recognition of temporary differences	(1.6)	0.3	(0.2)
Non-taxable income and tax incentives	(12.9)	(40.6)	5.8
Non-deductible expenses	7.0	19.3	(22.9)
Withholding and other taxes	0.6	7.2	(1.4)
Tax rate changes	(1.0)	(1.9)	(1.0)
Prior year tax	(0.2)	(2.4)	0.7
Tax expense (benefit) due to change in uncertain tax treatments	1.2	4.4	2.8
Others, net	(0.2)	(4.0)	(0.2)
Effective income tax rate	17.6	(20.0)	6.5

The effective income tax rate is lower than the weighted average statutory income tax rate in 2022 mainly due to a non-deductible goodwill impairment in the Sleep & Respiratory Care business and other non-deductible expenses such as share based compensation expenses, partly offset by recurring favorable tax incentives related to R&D investments, the innovation box regime in the Netherlands and export activities.

Due to the loss position in 2022, items such as non-deductible expense lead to a decrease of the effective income tax rate and items such as tax incentives lead to an increase in the effective income tax rate.

Deferred tax assets and liabilities

Deferred tax assets are recognized for temporary differences, unused tax losses, and unused tax credits to the extent that realization of the related tax benefits is probable. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the countries where the deferred tax assets originated and during the periods when the deferred tax assets become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Net deferred tax assets relate to the following underlying assets and liabilities and tax loss carryforwards (including tax credit carryforwards) and their movements during the years 2022 and 2021 respectively are presented in the following tables.

The net deferred tax assets of EUR 2,358 million (2021: EUR 2,134 million) consist of deferred tax assets of EUR 2,449 million (2021: EUR 2,216 million) and deferred tax liabilities of EUR 91 million (2021: EUR 83 million). Of the total deferred tax assets of EUR 2,449 million as of December 31, 2022 (2021: EUR 2,216 million), EUR 1,453 million (2021: EUR 12 million) is recognized in respect of entities in various countries where there have been tax losses in the current or preceding period. The increase is mainly related to the United States where there has been a tax loss in 2022, among others due to the consequences of the Respiroics field action. Management's projections support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilize the tax losses as well the deductible temporary differences. The projections include forward-looking assumptions whereby the most recent available information was used to determine the expected period of recovery of the deferred tax assets. Relevant developments potentially impacting the period and probability of recovery will be monitored closely.

As of December 31, 2022 the temporary differences associated with investments, including potential income tax consequences on dividends, for which no deferred tax liabilities are recognized, aggregate to EUR 355 million (2021: EUR 298 million).

Philips Group

Deferred tax assets and liabilities in millions of EUR

	Balance as of January 1, 2022	recognized in income statement	other ¹⁾	Balance as of December 31, 2022	Assets	Liabilities
Intangible assets	587	63	(20)	630	783	(152)
Property, plant and equipment	29	(33)	2	(2)	49	(52)
Inventories	372	75	17	464	473	(8)
Other assets	68	(16)	(8)	44	98	(55)
Pensions and other employee benefits	180	6	(32)	153	175	(22)
Other liabilities	499	(34)	17	483	560	(77)
Deferred tax assets on tax loss carryforwards	398	149	38	586	586	
Set-off deferred tax positions					(275)	275
Net deferred tax assets	2,134	210	14	2,358	2,449	(91)

¹⁾ Other includes the movements of assets and liabilities recognized in equity and OCI, which includes foreign currency translation differences, acquisitions and divestments.

Philips Group

Deferred tax assets and liabilities in millions of EUR

	Balance as of January 1, 2021	recognized in income statement	other ¹⁾	Balance as of December 31, 2021	Assets	Liabilities
Intangible assets	240	535	(188)	587	716	(130)
Property, plant and equipment	32	13	(16)	29	55	(26)
Inventories	313	31	28	372	381	(9)
Other assets	97	(30)	1	68	112	(43)
Pensions and other employee benefits	245	(45)	(21)	180	182	(2)
Other liabilities	384	91	25	499	584	(84)
Deferred tax assets on tax loss carryforwards	449	(194)	143	398	398	
Set-off deferred tax positions					(211)	211
Net deferred tax assets	1,761	401	(28)	2,134	2,216	(83)

¹⁾ Other includes the movements of assets and liabilities recognized in equity and OCI, which includes foreign currency translation differences, acquisitions and divestments.

The company has available tax loss and credit carryforwards, which expire as follows:

Philips Group

Expiry years of net operating loss and credit carryforwards in millions of EUR

	Total Balance as of December 31, 2021	Unrecognized balance as of December 31, 2021	Total Balance as of December 31, 2022	Unrecognized balance as of December 31, 2022
Within 1 year	1,593	1,592	4	3
1 to 2 years	6	-	10	5
2 to 3 years	9	-	9	3
3 to 4 years	7	-	13	4
4 to 5 years	18	-	38	3
Later	751	21	812	93
Unlimited	1,567	934	2,301	920
Total	3,951	2,547	3,187	1,032

As of December 31, 2022, the amount of deductible temporary differences for which no deferred tax asset has been recognized in the balance sheet was EUR 45 million (2021: EUR 33 million). The unrecognized balance as of December 31, 2021 (expiring within 1 year, EUR 1,592 million) which were partly utilized and the remainder expired unutilized.

Tax risks

Philips is exposed to tax risks and uncertainty over tax treatments. For particular tax treatments that are not expected to be accepted by tax authorities, Philips either recognizes a liability or reflects the uncertainty in the recognition and measurement of its current and deferred tax assets and tax attributes. For the measurement of the uncertainty, Philips uses the most likely amount or the expected value of the tax treatment. The expected liabilities resulting from the uncertain tax treatments are included in non-current tax liabilities (2022: EUR 435 million, 2021: EUR 544 million, decrease due to release of liabilities, in combination with higher tax losses or similar tax carryforwards that can be used if uncertain tax treatments were settled for the presumed amount at balance sheet date). The positions include, among others, the following:

Transfer pricing risks

Philips has issued transfer pricing directives, which are in accordance with international guidelines such as those of the Organization of Economic Co-operation and Development. In order to reduce the transfer pricing uncertainties, monitoring procedures are carried out by Group Tax to safeguard the correct implementation of the transfer pricing directives. However, tax disputes can arise due to inconsistent transfer pricing regimes and different views on "at arm's length" pricing.

Tax risks on general and specific service agreements and licensing agreements

Due to the centralization of certain activities (such as research and development, IT and group functions), costs are also centralized. As a consequence, these costs and/or revenues must be allocated to the beneficiaries, i.e. the various Philips entities. For that purpose, service contracts such as intra-group service agreements and licensing agreements are signed with a large number of group entities. Tax authorities review these intra-group service and licensing agreements, and may reject the implemented intra-group charges. Furthermore, buy in/out situations in the case of (de)mergers could affect the cost allocation resulting from the intragroup service agreements between countries. The same applies to the specific service agreements.

Tax risks due to disentanglements and acquisitions

When a subsidiary of Philips is disentangled, or a new company is acquired, tax risks may arise. Philips creates merger and acquisition (M&A) teams for these disentanglements or acquisitions. In addition to representatives from the involved business, these teams consist of specialists from various group functions and are formed, among other things, to identify tax risks and to reduce potential tax claims.

Tax risks due to permanent establishments

A permanent establishment may arise when a Philips entity has activities in another country, tax claims could arise in both countries on the same income.

9 Earnings per share

Accounting policies

The company presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the Net income (loss) attributable to shareholders by the weighted average number of common shares outstanding (after deduction of treasury shares) during the period. Diluted EPS is determined by adjusting the Net income (loss) attributable to shareholders and the weighted average number of common shares outstanding (after deduction of treasury shares) during the period, for the effects of all dilutive potential common shares, which comprise performance shares, restricted shares and share options granted under share-based compensation plans as well as forward contracts to repurchase shares.

Philips Group

Earnings per share in millions of EUR unless otherwise stated ¹⁾

	2020	2021	2022
Income from continuing operations	999	612	(1,618)
Income from continuing operations attributable to shareholders	991	608	(1,622)
Income from continuing operations attributable to non-controlling interests	8	4	3
Income from discontinued operations	196	2,711	13
Income from discontinued operations attributable to shareholders	196	2,711	13
Net income	1,195	3,323	(1,605)
Net income attributable to shareholders	1,187	3,319	(1,608)
Net income attributable to non-controlling interests	8	4	3
Weighted average number of common shares outstanding (after deduction of treasury shares) during the period	907,721,150	904,271,675	881,615,862
Plus incremental shares from assumed conversions of:			
Share options	757,622	387,125	25,506
Performance shares	5,561,501	2,548,891	1,147,790
Restricted shares	2,584,728	2,376,736	1,986,538
Forward contracts to repurchase shares		70,329	17,611,920
Dilutive potential common shares ²⁾	8,903,851	5,383,080	20,771,753
Diluted weighted average number of shares outstanding (after deduction of treasury shares) during the period	916,625,001	909,654,754	881,615,862
Basic earnings per common share in EUR			
Income from continuing operations attributable to shareholders	1.09	0.67	(1.84)
Income from discontinued operations attributable to shareholders	0.22	3.00	0.02
Net income attributable to shareholders	1.31	3.67	(1.82)
Diluted earnings per common share in EUR ²⁾			
Income from continuing operations attributable to shareholders	1.08	0.67	(1.84)
Income from discontinued operations attributable to shareholders	0.21	2.98	0.02
Net income attributable to shareholders	1.29	3.65	(1.82)
Dividend distributed per common share in EUR	0.85	0.85	0.85

¹⁾ Shareholders in this table refers to shareholders of Koninklijke Philips N.V.

²⁾ The dilutive potential common shares are not taken into account in the periods for which there is a loss, as the effect would be antidilutive

10 Property, plant and equipment

Accounting policies

Owned assets

The cost of property, plant and equipment comprise all directly attributable costs (including the cost of material and direct labor).

Depreciation is generally calculated using the straight-line method over the useful life of the asset. Land and assets under construction are not depreciated. When assets under construction are ready for their intended use, they are transferred to the relevant asset category and depreciation starts. All other property, plant and equipment items are depreciated over their estimated useful lives to their estimated residual values.

The estimated useful lives of property, plant and equipment are as follows:

Philips Group

Useful lives of property, plant and equipment

Buildings	from 5 to 50 years
Machinery and installations	from 3 to 20 years
Other equipment	from 1 to 10 years

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the book value of the assets concerned may not be recoverable. An impairment loss is recognized for the amount by which the asset's book value exceeds their recoverable amount. Impairments are reversed if and to the extent that the impairment no longer exists. The recoverable amount is defined as the higher of the asset's fair value less costs of disposal and its value in use.

Gains and losses on the sale of property, plant and equipment are included in other business income. Costs related to repair and maintenance activities are expensed in the period in which they are incurred unless they extend the asset's original lifetime or capacity.

Right-of-use assets

The company leases various items of real estate, vehicles and other equipment. The company determines whether an arrangement constitutes or contains a lease based on the substance of the arrangement at the lease inception. The arrangement constitutes or contains a lease if fulfillment is dependent on the use of a specific asset and the arrangement conveys a right to use the asset, even if that asset is not explicitly specified in the arrangement.

Company as a lessee

The company recognizes right-of-use assets and lease liabilities for leases with a term of more than twelve months if the underlying asset is not of low value. Payments for short-term and low-value leases are expensed over the lease term. Extension options are included in the lease term if their exercise is reasonably certain. Right-of-use assets are measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurements. Right-of-use assets are depreciated using the straight-line method over the shorter of the lease term and the useful life of the underlying assets.

Company as a lessor

When the company acts as a lessor, it determines at lease inception whether a lease is a finance lease or an operating lease. Leases in which the company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. The company recognizes lease payments received under operating leases as income on a straight-line basis over the lease term in the Consolidated statement of income.

Accounting estimates and judgments

Impairment of owned and right-of-use assets

Judgments are required, not only to determine whether there is an indication that an asset may be impaired, but also whether indications exist that impairment losses previously recognized may no longer exist or may have decreased (impairment reversal). After indications of impairment have been identified, estimates and assumptions are used in the determination of the recoverable amount of a fixed asset. These involve estimates of expected future cash flows (based on future growth rates and remaining useful life) and residual value assumptions, as well as discount rates to calculate the present value of the future cash flows.

Owned assets

Estimates are required to determine the (remaining) useful lives of fixed assets. Useful lives are determined based on an asset's age, the frequency of its use, repair and maintenance policy, technology changes in production and expected restructuring. The company estimates the expected residual value per asset item. The residual value is the higher of the asset's expected sales price (based on recent market transactions of similar sold items) and its material scrap value.

Right-of-use assets

Significant judgment is required to determine the lease term. The assessment of whether the company is reasonably certain to exercise extension options impacts the lease term, which could affect the amount of lease liabilities and right-of-use assets recognized.

Property, plant and equipment are fixed assets that are owned or right-of-use assets under a lease agreement.

Owned and right-of-use assets are held for use in Philips' operating activities.

Philips Group
Property, plant and equipment in millions of EUR

	2021	2022
Owned assets	1,641	1,718
Right-of-use assets	1,058	919
Total	2,699	2,638

Philips Group
Property, plant and equipment - owned assets in millions of EUR

	Land and buildings	Machinery and installations	Other equipment	Assets under construction	Total
Balance as of January 1, 2022					
Cost	1,097	1,585	1,382	208	4,273
Accumulated depreciation	(591)	(1,074)	(967)		(2,632)
Book value	506	511	415	208	1,641
Additions	1	102	77	314	494
Assets available for use	34	69	111	(220)	(6)
Depreciation	(56)	(215)	(176)	-	(447)
Impairments	(3)	(20)	(18)	(1)	(42)
Transfer (to) from AHFS	(3)		-		(3)
Reclassifications	18	14	(5)	2	29
Translation differences and other	16	26	2	5	50
Total change	8	(23)	(8)	100	78
Balance as of December 31, 2022					
Cost	1,135	1,779	1,454	309	4,676
Accumulated depreciation	(621)	(1,291)	(1,046)		(2,958)
Book value	514	488	408	309	1,718

Philips Group
Property, plant and equipment - right-of-use assets in millions of EUR

	Land and buildings	Machinery and installations	Other equipment	Total
Balance as of January 1, 2022				
Cost	1,332	176	216	1,724
Accumulated depreciation	(418)	(139)	(109)	(666)
Book value	914	37	107	1,058
Additions	52	-	54	106
Assets available for use	5		1	6
Depreciation	(155)	(2)	(58)	(214)
Impairments	(8)	-	-	(9)
Transfer (to) from AHFS	3			3
Reclassifications	(19)	(13)	-	(32)
Translation differences and other	31	(23)	(6)	1
Total change	(92)	(37)	(9)	(139)
Balance as of December 31, 2022				
Cost	1,365	-	206	1,571
Accumulated depreciation	(543)		(108)	(651)
Book value	822	-	98	919

Philips Group

Property, plant and equipment - owned assets in millions of EUR

	Land and buildings	Machinery and installations	Other equipment	Assets under construction	Total
Balance as of January 1, 2021					
Cost	1,076	1,506	1,572	261	4,415
Accumulated depreciation	(539)	(1,028)	(1,185)		(2,752)
Book value	537	478	387	261	1,663
Additions	9	62	77	261	409
Assets available for use	72	110	117	(305)	(5)
Acquisitions	-	9	43		53
Depreciation	(53)	(144)	(158)		(355)
Impairments	(1)	(6)	(11)	-	(18)
Transfer (to) from AHFS	(87)	(16)	(46)	(20)	(170)
Reclassifications	6	2	(10)	1	-
Translation differences and other	23	14	16	10	65
Total change	(31)	33	29	(53)	(22)
Balance as of December 31, 2021					
Cost	1,097	1,585	1,382	208	4,273
Accumulated depreciation	(591)	(1,074)	(967)		(2,632)
Book value	506	511	415	208	1,641

Philips Group

Property, plant and equipment - right-of-use assets in millions of EUR

	Land and buildings	Machinery and installations	Other equipment	Assets under construction	Total
Balance as of January 1, 2021					
Cost	1,147	199	213	1	1,560
Accumulated depreciation	(310)	(144)	(86)		(540)
Book value	837	55	126	1	1,020
Additions	150	21	44		215
Assets available for use	2		3		5
Acquisitions	43				43
Depreciation	(157)	(32)	(63)		(252)
Impairments	1	(5)	-		(4)
Transfer (to) from AHFS	(7)		(1)		(8)
Reclassifications			2	(1)	1
Translation differences and other	44	(2)	(4)		39
Total change	77	(18)	(20)	(1)	38
Balance as of December 31, 2021					
Cost	1,332	176	216		1,724
Accumulated depreciation	(418)	(139)	(109)		(666)
Book value	914	37	107		1,058

Lease related notes

Below are the references with respect to year-end disclosures as lessee:

- Short-term and low-value leases, are disclosed in [Income from operations, starting on page 162](#);
- Disclosures regarding interest expenses on lease liabilities, are disclosed in [Financial income and expenses, starting on page 167](#);
- For disclosure on leasing related cash outflow and the split between interest and principal payments, refer to [Cash flow statement supplementary information, starting on page 203](#);
- For disclosure on sale and leaseback transactions, refer to [Details of treasury and other financial risks, starting on page 218](#);
- For disclosure on lease liabilities and maturity analysis, refer to [Debt, starting on page 191](#);
- Other qualitative and quantitative disclosures regarding the nature of lessee's leasing activities and future lease obligations, refer to [Debt, starting on page 191](#).

Below are the references with respect to year-end disclosures as lessor:

- For disclosures on lease income and sublease income, refer to [Details of treasury and other financial risks, starting on page 218](#);
- Other qualitative disclosures regarding the nature of lessors leasing activities and risk management, refer to [Details of treasury and other financial risks, starting on page 218](#).

11 Goodwill

Accounting policies

The measurement of goodwill at initial recognition is described in the Acquisitions and divestments note. Goodwill is subsequently measured at cost less accumulated impairment losses.

Goodwill is not amortized but tested for impairment annually and whenever impairment indicators require. Internal or external sources of information are considered to assess if there are indicators that an asset or a CGU may be impaired. In most cases the company identifies its cash-generating units for goodwill at one level below that of an operating segment. Cash flows at this level are substantially independent from other cash flows and this is the lowest level at which goodwill is monitored by the Executive Committee. An impairment loss is recognized in the Consolidated statements of income whenever and to the extent that the carrying amount of a cash-generating unit exceeds the unit's recoverable amount, whichever is the greater, its value in use or its fair value less cost of disposal. Value in use is measured as the present value of future cash flows expected to be generated by the asset. Fair value less cost of disposal is measured as the amount obtained from the sale of an asset in an arm's length transaction, less costs of disposal.

Accounting estimates and judgments

The cash flow projections used in the value in use calculations for goodwill impairment testing contain various judgments and estimations as described in the key assumptions sections below.

The changes in 2021 and 2022 were as follows:

Philips Group
Goodwill in millions of EUR

	2021	2022
Balance as of January 1		
Cost	9,094	11,793
Impairments	(1,080)	(1,156)
Book value	8,014	10,637
Acquisitions	2,095	317
Impairments	(15)	(1,357)
Divestments and transfers to assets classified as held for sale	(189)	
Translation differences and other	732	641
Total change	2,622	(399)
Balance as of December 31		
Cost	11,793	12,747
Impairments	(1,156)	(2,509)
Book value	10,637	10,238

In 2022, goodwill decreased by EUR 399 million, primarily as a result of goodwill impairments of EUR 1,357 million partially offset by translation differences of EUR 641 million and acquisitions of EUR 317 million (which includes changes in the provisional opening balance sheet position for certain 2021 acquisitions, refer to [Acquisitions and divestments, starting on page 158](#)).

In 2021, goodwill increased by EUR 2,622 million, primarily as a result of provisional goodwill recognized on new acquisitions of BioTelemetry (EUR 1,776 million) and Capsule Technologies of (EUR 325 million), and translation differences of EUR 732 million. This was partially offset by EUR 15 million of impairment losses primarily related to the PERS CGU and EUR 189 million divested in the period, mostly relating to the Domestic Appliances business. For details on the impact of new acquisitions and the divestment of the Domestic Appliances business, refer to [Acquisitions and divestments, starting on page 158](#).

Goodwill reallocations in 2022 and 2021

In 2022 and 2021 there were changes to the CGU structure following internal reorganizations. These resulted in a goodwill reallocation across certain CGUs, none of which had a significant impact on headroom or led to goodwill impairments. These reallocations were performed using a relative value approach. In addition there were also certain CGU movements and/or combinations within businesses that did not result in a reallocation of goodwill, but resulted in changes to the business structure. This did not have a significant impact on headroom or lead to goodwill impairments.

Impairments

During 2022 goodwill impairment charges of EUR 1,357 million were recognized. This relates to the third quarter impairment charge of EUR 1,331 million in the Sleep & Respiratory Care (S&RC) CGU of the Connected Care segment. In addition, as a result of the annual impairment testing a goodwill impairment charge of EUR 27 million was recognized in relation to the Precision Diagnosis Solutions (PDS) CGU which is part of the Diagnosis & Treatment segment. The value in use methodology was used to estimate the recoverable amount for the PDS CGU.

During 2021 an impairment charge of EUR 15 million was recognized. The majority of this related to the PERS CGU which was classified as an asset held for sale as of Q4 2020. The PERS CGU was divested as of June 30, 2021. Prior to the divestment a goodwill impairment of EUR 13 million was recorded to reflect a decrease in the recoverable amount of the CGU, this reduced the goodwill balance of the CGU to zero. The fair value less cost of disposal methodology was used to estimate the recoverable amount for the PERS CGU, this was based on Level 3 inputs. Key assumptions and inputs used in the calculation included the signed purchase agreement for the PERS divestment. The impairment of EUR 13 million was recorded in the Connected Care segment.

Interim goodwill impairment testing

As explained in the accounting policy above, goodwill is tested for impairment annually and whenever impairment indicators require. In the third quarter of 2022, an impairment indicator was noted in relation to the S&RC CGU as a consequence of revisions to the expected future cashflows of the CGU. The drivers of the revised forecast (which form the basis for the future cashflow assumptions) were current assumptions regarding the estimated impact of a consent decree that is currently under discussion with the US Department of Justice (DoJ), acting on behalf of the FDA, along with updates to expected business performance and changes to the pre-tax discount rate. An impairment test was performed in order to determine if the carrying amount of the cash-generating unit exceeded the unit's recoverable amount, which was determined on a value in use basis. As a result of this test a goodwill impairment charge of EUR 1,331 million was recognized. Following the impairment charge, the estimated recoverable amount, based on the CGU's value in use, for the S&RC CGU was EUR 1,001 million and equal to its carrying value.

The assumptions used to determine the recoverable amount of the CGU at the interim testing date are presented below:

Philips Group
Key assumptions - Interim impairment testing

	compound sales growth rate ¹⁾		used to calculate terminal value ³⁾	pre-tax discount rates
	initial forecast period	extrapolation period ²⁾		
Sleep & Respiratory Care	1.5%	4.3%	2.5%	9.5%

- ¹⁾ Compound sales growth rate is the annualized steady nominal growth rate over the forecast period
- ²⁾ Also referred to later in the text as compound long-term sales growth rate
- ³⁾ The historical long-term growth rate is only applied to the first year after the extrapolation period, after which no further growth is assumed for the terminal value calculation

In addition to the above assumptions, assumptions were made regarding the estimated impact of a consent decree on the business. These assumptions included the expected financial impact of the scope and duration of a consent decree, as well as expected additional costs. These assumptions were determined by management based on discussions held in relation to the consent decree and other available sources of information.

Annual goodwill impairment testing

For impairment testing, goodwill is allocated to cash generating units (typically one level below segment level, i.e. at the business level), which represent the lowest level at which the goodwill is monitored internally for management purposes.

Goodwill allocated to the cash generating units Ambulatory Monitoring & Diagnostics, Hospital Patient Monitoring and Image-Guided Therapy is considered to be significant in comparison to the total book value of goodwill for the Group as of December 31, 2022. The amounts associated as of December 31, 2022 are presented in the following table:

Philips Group
Goodwill allocated to the cash-generating units in millions of EUR

	2021	2022
Ambulatory Monitoring & Diagnostics	1,897	2,215
Hospital Patient Monitoring	1,663	1,806
Image-Guided Therapy	2,802	3,154
Sleep & Respiratory Care	2,031	731
Other (units carrying a non-significant goodwill balance)	2,245	2,332
Book value	10,637	10,238

Unless otherwise noted, the basis of the recoverable amount used in the annual impairment tests for the units disclosed further in this note is the value in use. The fair value less cost of disposal methodology was used as a basis for the recoverable amount in the annual impairment test when greater than the value-in-use test. Refer to the 'key assumptions-general' section for further detail on the methodology.

Key assumptions - general

Key assumptions used in the value-in-use impairment tests for the units were sales growth rates, EBITA^{*)} in the terminal value and the rates used for discounting the projected cash flows. These cash flow projections were determined using Royal Philips managements' internal forecasts that cover an initial forecast period from 2023 to 2025. Projections were extrapolated with stable or declining growth rates for an extrapolation period of 4 years (2026-2029), after which a terminal value was calculated per 2030. For the terminal value calculation, growth rates were capped at a historical long-term average growth rate. In the case of the Ambulatory Monitoring & Diagnostics CGU management's internal forecasts were used in the value in use test for a period of 5 years (2023-2027).

The sales growth rates and EBITA^{*)} used to estimate cash flows are based on past performance, external market growth assumptions and industry long-term growth averages. EBITA^{*)} in all units mentioned in this note is expected to increase over the projection period as a result of volume growth and cost efficiencies.

In 2022 there continued to be uncertainty and volatility related to global, industry-wide macroeconomic challenges including global supply chain constraints, COVID lockdown measures in China, inflationary pressures and the Russia-Ukraine war. Where relevant, and to the extent possible, the estimated impact of these factors and the resulting uncertainties have been reflected in the forecasts used for the value-in-use calculations. As was the case in 2021, the company uses scenarios in the business forecasting process and the most reasonable and supportable assumptions which represent management's best estimate are used as the basis for the value-in-use tests.

The rates used for discounting the projected cash flows in goodwill impairment testing is based on a business weighted cost of capital (WACC), which in turn is based on business-specific inputs along with other inputs as mentioned below. The WACC is based on post-tax cost of equity and cost of debt, and is further calculated based on market data and inputs to accurately capture changes to the time value of money, such as the risk-free interest rate, the beta factor and country risk premium. In order to properly reflect the different risk-profiles of different businesses, a WACC is determined for each business. As such, the beta factor is determined based on a selection of peer companies, which can differ per business. Different businesses have different geographical footprints, resulting in business-specific inputs for variables like country risk. Philips performs the value in use calculation using post-tax cashflows and discount rate, the implicit pre-tax rate discount rate is derived from an iterative calculation for disclosure purposes.

In 2022 the pre-tax discount rates increased for all CGUs primarily due to the impact on the WACC of higher interest rates. As explained above, for S&RC this increased pre-tax discount rate contributed to the impairment charge recognized in the third quarter of 2022.

Key assumptions and sensitivity analysis relating to cash-generating units to which a significant amount of goodwill is allocated

In 2022 cash flow projections of Ambulatory Monitoring & Diagnostics, Hospital Patient Monitoring, Image-Guided Therapy and Sleep & Respiratory Care are based on the key assumptions included in the following table, which were used in the annual impairment test performed in the fourth quarter.

Philips Group Key assumptions 2022

	compound sales growth rate ¹⁾			used to calculate terminal value ³⁾	pre-tax discount rates
	initial forecast period	extrapolation period ²⁾			
Ambulatory Monitoring & Diagnostics	15.4%	9.5%	2.5%	8.5%	
Hospital Patient Monitoring	4.8%	3.4%	2.5%	8.5%	
Image-Guided Therapy	8.7%	5.0%	2.5%	10.6%	
Sleep & Respiratory Care	10.0%	5.0%	2.5%	9.9%	

¹⁾ Compound sales growth rate is the annualized steady nominal growth rate over the forecast period

²⁾ Also referred to later in the text as compound long-term sales growth rate

³⁾ The historical long-term growth rate is only applied to the first year after the extrapolation period, after which no further growth is assumed for the terminal value calculation

The assumptions used for the 2021 cash flow projections were as follows:

Philips Group Key assumptions 2021

	compound sales growth rate ¹⁾			used to calculate terminal value ³⁾	pre-tax discount rates
	initial forecast period	extrapolation period ²⁾			
Ambulatory Monitoring & Diagnostics	24.5%	11.9%	2.5%	7.3%	
Hospital Patient Monitoring	5.4%	3.4%	2.5%	7.8%	
Image-Guided Therapy	10.2%	5.4%	2.5%	8.9%	
Sleep & Respiratory Care	9.2%	5.0%	2.5%	9.2%	

¹⁾ Compound sales growth rate is the annualized steady nominal growth rate over the forecast period

²⁾ Also referred to later in the text as compound long-term sales growth rate

³⁾ The historical long-term growth rate is only applied to the first year after the extrapolation period, after which no further growth is assumed for the terminal value calculation

Impairment tests are performed based on forward looking assumptions, using the most recent available information. By their nature, these assumptions involve risk and uncertainty because they relate to future events and circumstances and there are many factors that could cause actual results and developments to differ materially from the plans, goals and expectations set forth in these assumptions.

In performing the value-in-use test for the S&RC CGU it was necessary for management to make assumptions regarding the estimated impact of a consent decree on the business. These assumptions included the expected financial impact of the scope and duration of a consent decree, as well as expected additional costs. These assumptions were determined by management based on discussions held in relation to the consent decree and other available sources of information. There have been no significant changes to these assumptions since the interim goodwill testing in the third quarter of 2022 (see Interim Goodwill impairment testing section above).

For the Sleep & Respiratory Care CGU, based on the annual goodwill impairment testing performed by management during the fourth quarter of 2022 in accordance with the methodology discussed above, no additional impairment charge was warranted. However, following the interim impairment charge, the annual impairment test indicates that the value in use of the CGU remains sensitive to the assumptions set out above. This means that there is a higher risk that deviations in the mentioned key assumptions could cause the recoverable amount to fall below the level of its carrying value. There continues to be significant uncertainty associated with the initiated voluntary recall notification in the United States and field safety notice outside the United States for certain sleep and respiratory care products, the associated legal matters and the outcome of a consent decree. The legal matters are described in further detail in [Contingencies, starting on page 204](#).

Based on the annual impairment test of Sleep & Respiratory Care, it was noted that an increase of 40 basis points in the pre-tax discount rate, a 160 basis points decline in the compound long-term sales growth rate or a 7% decrease in terminal value would, individually, cause its recoverable amount to fall to the level of its carrying value. Additionally, any significant adverse changes to the assumptions related to the expected financial impact of a consent decree could cause the recoverable amount of the CGU to fall below its carrying value, resulting in impairment.

The results of the annual impairment tests of the Ambulatory Monitoring & Diagnostics CGU indicate that the value in use of the CGUs is sensitive to the assumptions set out above. This means that there is a higher risk that deviations in the mentioned key assumptions could cause the recoverable amount to fall below the level of its carrying value. Based on the annual impairment test of Ambulatory Monitoring & Diagnostics, it was noted that an increase of 40 basis points in the pre-tax discount rate, a 210 basis points decline in the compound long-term sales growth rate or a 8% decrease in terminal value would, individually, cause its recoverable amount to fall to the level of its carrying value.

The results of the annual impairment test of Hospital Patient Monitoring and Image-Guided Therapy indicate that a reasonably possible change in key assumptions would not cause the value in use to fall to the level of the carrying value.

Additional information relating to cash-generating units to which a non-significant amount relative to the total goodwill is allocated

The results of the annual impairment tests of the Emergency Care CGU indicate that the value in use of the CGU is sensitive to the assumptions set out above. This means that there is a higher risk that deviations in the mentioned key assumptions could cause the recoverable amount to fall below the level of its carrying value. Based on the annual impairment test of Emergency Care, it was noted that an increase of 190 basis points in the pre-tax discount rate, a 900 basis points decline in the compound long-term sales growth rate or a 26% decrease in terminal value would, individually, cause its recoverable amount to fall to the level of its carrying value.

With the exception of those described above, for the cash generating units to which a non-significant amount relative to the total goodwill is allocated, any reasonable change in assumptions would not cause the value in use to fall to the level of the carrying value.

^{*)} The definition of this non-IFRS measure and a reconciliation to the IFRS measure is included in [Information by segment and main country, starting on page 153](#)

12 Intangible assets excluding goodwill

Accounting policies

Acquired finite-lived intangible assets are amortized using the straight-line method over their estimated useful life. The useful lives are evaluated annually. Intangible assets are initially capitalized at cost, with the exception of intangible assets acquired as part of a business combination, which are capitalized at their acquisition date fair value.

The company expenses all research costs as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized as an intangible asset if the product or process is technically and commercially feasible, the company has sufficient resources and the intention to complete development and can measure the attributable expenditure reliably.

The capitalized development expenditure comprises of all directly attributable costs (including the cost of materials and direct labor). Other development expenditures and expenditures on research activities are recognized in the Consolidated statements of income. Capitalized development expenditure is stated at cost less accumulated amortization and impairment losses. Amortization of capitalized development expenditure is charged to the Consolidated statements of income on a straight-line basis over the estimated useful lives of the intangible assets.

The expected useful lives of the intangible assets excluding goodwill are as follows:

Philips Group

Expected useful lives of intangible assets excluding goodwill in years

Brand names	2-20
Customer relationships	2-25
Technology	3-20
Other	1-10
Software	1-10
Product development	3-10

The weighted average expected remaining life of brand names, customer relationships, technology and other intangible assets is 9.4 years as of December 31, 2022 (2021: 9.6 years).

Impairment of intangible assets not yet ready for use

Intangible assets not yet ready for use are not amortized but are tested for impairment annually and whenever impairment indicators require. In the case of intangible assets not yet ready for use, either internal or external sources of information are considered to assess if there are indicators that an asset or a CGU may be impaired.

Impairment of non-financial assets other than goodwill, intangible assets not yet ready for use, inventories and deferred tax assets

Non-financial assets other than goodwill, intangible assets not yet ready for use, inventories and deferred tax assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is assessed by a comparison of the carrying amount of an asset with the greater of its value in use and fair value less cost of disposal. Value in use is measured as the present value of future cash flows expected to be generated by the asset. Fair value less cost of disposal is measured as the amount obtained from a sale of an asset in an arm's length transaction, less costs of disposal. If the carrying amount of an asset is deemed not recoverable, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the recoverable amount. The review for impairment is carried out at the level where cash flows occur that are independent of other cash flows.

Impairment losses recognized in prior periods for Intangible assets other than goodwill are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if and to the extent that there has been a change in the estimates used to determine the recoverable amount. The loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in the Consolidated statements of income.

Accounting estimates and judgments

The cash flow projections used in the value in use calculations for intangible assets excluding goodwill contain various judgments and estimations. For intangible assets excluding goodwill, estimates are required to determine the (remaining) useful lives.

Philips Group

Intangible assets excluding goodwill in millions of EUR

	brand names	customer relationships	technology	product development	product development construction in progress	software	other	total
Balance as of January 1, 2022								
Cost	644	2,590	2,605	2,701	505	754	146	9,944
Amortization / impairments	(481)	(1,447)	(1,605)	(2,102)	(91)	(467)	(101)	(6,294)
Book value	162	1,143	1,000	599	414	287	44	3,650
Balance as of December 31, 2022								
Cost	647	2,735	2,947	2,605	648	869	152	10,602
Amortization / impairments	(507)	(1,665)	(1,845)	(2,212)	(146)	(589)	(113)	(7,077)
Book Value	140	1,070	1,102	393	502	280	39	3,526

Philips Group

Intangible assets excluding goodwill in millions of EUR

	brand names	customer relationships	technology	product development	product development construction in progress	software	other	total
Balance as of January 1, 2021								
Cost	556	2,036	2,434	2,519	480	723	135	8,883
Amortization / impairments	(437)	(1,385)	(1,565)	(1,897)	(83)	(427)	(91)	(5,886)
Book value	120	651	869	622	398	295	44	2,997
Additions								
			9	1	261	117	2	392
Assets available for use								
				247	(247)	-	-	-
Acquisitions								
	62	544	235			-	-	841
Amortization								
	(21)	(126)	(114)	(219)	-	(85)	(3)	(568)
Impairments								
		(3)	(57)	(51)	(15)	-	-	(126)
Transfers to assets classified as held for sale								
	(10)	(3)	(11)	(17)	(6)	(34)		(82)
Translation differences and other								
	12	80	69	17	23	(7)	1	195
Total change	42	492	131	(22)	17	(8)	1	653
Balance as of December 31, 2021								
Cost	644	2,590	2,605	2,701	505	754	146	9,944
Amortization / impairments	(481)	(1,447)	(1,605)	(2,102)	(91)	(467)	(101)	(6,294)
Book Value	162	1,143	1,000	599	414	287	44	3,650

Acquisitions in 2022 involved Intangible assets of EUR 180 million in aggregate (2021: EUR 841 million). For more information, refer to [Acquisitions and divestments, starting on page 158](#).

Impairments in 2022 were EUR 276 million (2021: EUR 126 million) and mainly relate to technology (EUR 46 million) and product development (EUR 204 million), including product development construction in progress. In the third quarter of 2022 an initiative was undertaken to enhance productivity in R&D, specifically to shift the focus to fewer, high-impact projects in the innovation pipeline. As a result of this initiative EUR 132 million of product development (including product development construction in progress) asset impairments were recognized.

The most notable impairments in 2022, recognized as part of the above productivity initiative, were in the Diagnosis & Treatment segment, for product development assets in Precision Diagnosis (PD) of EUR 36 million and Image Guided Therapy-Systems (IGT Systems) of EUR 41 million (EUR 16 million of which was product development construction in progress). The basis of the recoverable amount used in these tests was the value-in-use. After the impairment charge the recoverable amount of the related intangible assets is EUR 0 million.

In 2022 there continued to be uncertainty and volatility related to by global, industry-wide macroeconomic challenges including global supply chain constraints, COVID lockdown measures in China, inflationary pressures and the Russia-Ukraine war. Where relevant, and to the extent possible, the estimated impact of these factors and the resulting uncertainties have been reflected in the forecasts used for the VIU calculations. As was the case in 2021, the company uses scenarios in the business forecasting process and the most reasonable and supportable assumptions which represent management's best estimate are used as the basis for the value-in-use tests

The amortization of intangible assets is specified in [Income from operations, starting on page 162](#).

The most notable intangible assets as of December 31, 2022 relate to the BioTelemetry customer relationships and technology with a carrying value of EUR 385 million and EUR 150 million and a remaining amortization period of 14 years and 10 years, respectively and Spectranetics customer relationships and technology with a carrying value of EUR 291 million and EUR 203 million and a remaining amortization period of 15 years and 10 years, respectively. The most notable intangible assets as of December 31, 2021 relate to the BioTelemetry customer relationships and technology with value of EUR 391 million and EUR

162 million and a remaining amortization period of 15 years and 11 years, respectively and Spectranetics customer relationships and technology with a carrying value of EUR 292 million and EUR 210 million and a remaining amortization period of 16 years and 11 years, respectively.

13 Other financial assets

Accounting policies

Classification and measurement of financial assets

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the company's business model for managing them.

The company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

For the purposes of subsequent measurement, financial assets are classified into four categories:

- Financial assets at amortized cost (debt instruments).
- Financial assets at fair value through other comprehensive income (OCI) with recycling of cumulative gains and losses (debt instruments).
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).
- Financial assets at fair value through profit or loss (debt instruments and equity instruments).

Impairment of financial assets

The company recognizes a loss allowance for expected credit losses for trade receivables, contract assets, lease receivables, debt investments carried at amortized cost and fair value through other comprehensive income (FVTOCI).

At each balance sheet date, the company assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognizes a loss allowance for expected credit losses for financial assets measured at either amortized costs or at fair value through other comprehensive income. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the company measures the loss allowance for the financial instrument at an amount equal to 12 months of expected credit losses. If, at the reporting date, the credit risk on a financial instrument has increased significantly since initial recognition, the company measures the loss allowance for the financial instrument at an amount equal to the lifetime-expected credit

losses. For all trade receivables, contract assets and lease receivables the company measures the loss allowance at an amount equal to lifetime-expected credit losses.

Accounting estimates and judgments

The determination of fair value is subject to estimates for investments that are not publicly traded. Refer to [Fair value of financial assets and liabilities, starting on page 214](#)

Financial assets classified at amortized cost and at fair value through OCI are subject to impairment assessment. The calculation of expected credit losses requires the company to apply significant judgment and make estimates and assumptions that involve significant uncertainty at the time they are made. Changes to these estimates and assumptions can result in significant changes to the timing and amount of expected credit losses to be recognized.

Other current financial assets

In 2022, Other current financial assets increased from EUR 2 million to EUR 11 million (2021: increased from EUR nil million to EUR 2 million).

Other non-current financial assets

The company's investments in Other non-current financial assets mainly consist of investments in common shares of companies in various industries and investments in limited life funds. The changes during 2022 and 2021 were as follows:

Philips Group

Other non-current financial assets in millions of EUR

	Non-current financial assets at FVTP&L	Non-current financial assets at FVTOCI	Non-current financial assets at Amortized cost	Total
Balance as of January 1, 2022	283	300	47	630
Changes:				
Acquisitions/additions	114	18	18	150
Sales/redemptions/reductions	(75)	(3)	(8)	(86)
Impairments	(3)		(1)	(5)
Value adjustment through OCI	-	(35)		(35)
Value adjustment through P&L	5		-	5
Translation differences and other	(2)	5	(1)	2
Reclassifications	1	(2)	(1)	(2)
Balance as of December 31, 2022	322	284	54	660

Philips Group

Other non-current financial assets in millions of EUR

	Non-current financial assets at FVTP&L	Non-current financial assets at FVTOCI	Non-current financial assets at Amortized cost	Total
Balance as of January 1, 2021	248	146	37	430
Changes:				
Acquisitions/additions	54	59	10	123
Sales/redemptions/reductions	(122)	-	(3)	(126)
Value adjustment through OCI		(43)	-	(43)
Value adjustment through P&L	95		-	95
Translation differences and other	8	19	2	29
Reclassifications	(1)	120	2	122
Balance as of December 31, 2021	283	300	47	630

As of December 31, 2022, equity investments of EUR 259 million (2021: EUR 273 million) are accounted under the FVTOCI category based on the company's election at initial recognition mainly because such investments are neither held for trading purposes nor primarily for their increase in value and the elected presentation is considered to reflect the nature and purpose of the investment.

14 Other assets

Accounting policies

The company recognizes contract assets for revenue earned from installation services because the receipt of consideration is conditional on successful completion of the installation. Upon completion of the installation and acceptance by the customer, the amount recognized as contract assets is reclassified to trade receivables.

Other assets are measured at amortized cost minus any impairment losses.

Other non-current assets

Other non-current assets as of December 31, 2022 were EUR 98 million (2021: EUR 129 million). These are mainly related to prepaid expenses.

Other current assets

Other current assets as of December 31, 2022 of EUR 490 million (2021: EUR 493 million) included contract assets of EUR 292 million (2021: EUR 290 million), accrued income of EUR 24 million (2021: EUR 31 million) and prepaid expenses of EUR 174 million (2021: EUR 172 million) mainly related to Diagnosis & Treatment businesses and Connected Care businesses.

15 Inventories

Accounting policies

Inventories are stated at the lower of cost or net realizable value. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The costs of conversion of inventories include direct labor and fixed and variable production overheads, considering the stage of completion and the normal capacity of production facilities. Costs of idle facility and abnormal waste are expensed. The cost of inventories is determined using the first-in, first-out (FIFO) method.

Accounting estimates and judgments

Inventory is reduced for the estimated losses due to obsolescence. This reduction is determined for groups of products based on sales in the recent past and/or expected future demand.

Inventories are summarized as follows:

Philips Group
Inventories in millions of EUR

	2021	2022
Raw materials and supplies	1,143	1,541
Work in process	646	648
Finished goods	1,660	1,860
Inventories	3,450	4,049

The write-down of inventories to net realizable value was EUR 215 million in 2022 (2021: EUR 177 million). The write-down is included in cost of sales.

In 2022, the limited availability and delays in the supply of certain components and products internationally, resulted in an increase in inventories compared to December 31, 2021, as work in process inventories could not be translated to finished goods available for sale due to the scarcity of certain components. While there was an increase in inventories, this has not resulted in a significant write-down of inventories, as the expectation is that such components will become available in the near future.

16 Receivables

Accounting policies

Receivables are held by the company to collect the related cash flows. These receivables are measured at fair value and subsequently measured at amortized cost minus any impairment losses.

Receivables are derecognized when the company has transferred substantially all risks and rewards, which includes transactions in which the company enters into factoring transactions, or if the company does not retain control over the receivables.

Accounting estimates

Receivables are subject to impairment assessment, which involves estimating expected credit losses. Refer to [Other financial assets, starting on page 184](#) for accounting policies on impairment of financial assets.

Non-current receivables

Non-current receivables are associated mainly with customer financing in the Diagnosis & Treatment businesses amounting to EUR 70 million (2021: EUR 44 million), for Signify indemnification amounting to EUR 26 million (2021: EUR 46 million), an income tax receivable amounting to EUR 126 million (which includes an interest receivable of EUR 10 million) for which Philips expects to get a refund (2021: EUR 78 million) and insurance receivables in Other in the US amounting to EUR 30 million (2021: EUR 37 million).

Current receivables

Current receivables of EUR 4,115 million (2021: EUR 3,787 million) as of December 31, 2022 included trade accounts receivable (net of allowance) of EUR 3,832 million (2021: EUR 3,559 million), accounts receivable other of EUR 228 million (2021: EUR 188 million) and accounts receivable from investments in associates of EUR 55 million (2021: EUR 40 million).

The trade accounts receivable, net, per segment are as follows:

Philips Group

Trade accounts receivable, net in millions of EUR

	2021	2022
Diagnosis & Treatment	1,759	2,013
Connected Care	980	1,114
Personal Health	575	479
Other	245	226
Trade accounts receivable, net	3,559	3,832

The aging analysis of trade accounts receivable, net, representing current and overdue but not fully impaired receivables, is as follows:

Philips Group

Aging analysis in millions of EUR

	2021	2022
Current	3,075	3,280
Overdue 1-30 days	160	169
Overdue 31-180 days	245	282
Overdue more than 180 days	79	101
Trade accounts receivable, net	3,559	3,832

The changes in the allowance for doubtful accounts receivable are as follows:

Philips Group

Allowance for accounts receivable in millions of EUR

	2021	2022
Balance as of January 1	195	190
Additions charged to expense	4	66
Deductions from allowance ¹⁾	(17)	(51)
Transfer to assets held for sale	(8)	
Other movements	16	21
Balance as of December 31	190	226

¹⁾ Write-offs for which an allowance was previously provided.

The allowance for doubtful accounts receivable has been primarily established for receivables that are past due.

Included in the above balances as of December 31, 2022 are allowances for individually impaired receivables of EUR 222 million (2021: EUR 188 million).

17 Equity

Accounting policies

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. Where the company repurchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental transaction costs (net of income taxes), is deducted from shareholders' equity until such treasury shares are cancelled or reissued.

Where such treasury shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in shareholders' equity.

Call options on own shares are treated as equity instruments.

Dividends are recognized as a liability in the period in which they are declared and approved by shareholders. The income tax consequences of dividends are recognized when a liability to pay the dividend is recognized.

Common shares

As of December 31, 2022, authorized common shares consist of 2 billion shares (December 31, 2021: 2 billion; December 31, 2020: 2 billion) and the issued and fully paid share capital consists of 889,315,082 common shares, each share having a par value of EUR 0.20 (December 31, 2021: 883,898,969; December 31, 2020: 911,053,001).

Preference shares

As a means to protect the company against (an attempt at) an unsolicited takeover or other attempt to exert (de facto) control of the company, the 'Stichting Preferente Aandelen Philips' has been granted the right to acquire preference shares in the company. As of December 31, 2022, no such right has been exercised and no preference shares have been issued. Authorized preference shares consist of 2 billion shares as of December 31, 2022 (December 31, 2021: 2 billion; December 31, 2020: 2 billion).

Options, restricted and performance shares

Under its share-based compensation plans, the company granted stock options on its common shares up to 2013 and other conditional rights to receive common shares in the future such as restricted shares and performance shares (refer to [Share-based compensation, starting on page 207](#)).

Treasury shares

In connection with the company's share repurchase programs, shares which have been repurchased and are held in Treasury for the purpose of (i) delivery under share-based compensation plans upon exercise of options, or vesting of restricted or performance shares, and (ii) capital reduction, are accounted for as a reduction of shareholders' equity. Treasury shares are recorded at cost, representing the market price on the acquisition date. When treasury shares are delivered by the company under its share-based compensation plans, such shares are removed from treasury shares on a first-in, first-out (FIFO) basis.

When treasury shares are delivered by the company upon exercise of options (granted to employees up to 2013), the difference between the cost and the cash received is recorded in retained earnings. When treasury shares are delivered by the company upon vesting of restricted shares or performance shares (granted under the company's share-based compensation plans), the difference between the market price of the shares and the cost is recorded in retained earnings, and the market price is recorded in capital in excess of par value.

The following table shows the movements in the outstanding number of shares over the last three years:

Philips Group

Outstanding number of shares

	2020	2021	2022
Balance as of January 1	890,973,790	905,128,293	870,182,445
Dividend distributed	18,080,198	6,345,968	14,174,568
Purchase of treasury shares	(8,669,622)	(45,486,392)	(5,080,693)
Delivery of treasury shares	4,695,170	4,194,577	2,204,207
Issuance of new shares	48,757		
Balance as of December 31	905,128,293	870,182,445	881,480,527

The following table reflects transactions that took place in relation to former and current share-based compensation plans:

Philips Group

Transactions related to share-based compensation plans

	2020	2021	2022
Shares acquired	5,351,411	3,996,576	2,142,445
Average market price	EUR 33.81	EUR 36.15	EUR 31.76
Amount paid	EUR 181 million	EUR 144 million	EUR 68 million
Shares delivered	4,695,170	4,194,577	2,204,207
Average price (FIFO)	EUR 34.35	EUR 34.14	EUR 35.16
Cost of delivered shares	EUR 161 million	EUR 143 million	EUR 77 million
Total shares in treasury at year-end	5,924,708	5,726,708	5,664,946
Total cost	EUR 199 million	EUR 201 million	EUR 191 million

The following transactions took place for capital reduction purposes:

Philips Group

Transactions related to capital reduction

	2020	2021	2022
Shares acquired	3,318,211	41,489,816	2,938,248
Average market price	EUR 39.21	EUR 36.22	EUR 36.61
Amount paid	EUR 130 million	EUR 1,503 million	EUR 108 million
Cancellation of treasury shares (shares)	3,809,675	33,500,000	8,758,455
Cancellation of treasury shares (EUR)	EUR 152 million	EUR 1,216 million	EUR 299 million
Total shares in treasury at year-end		7,989,816	2,169,609
Total cost		EUR 287 million	EUR 83 million

Share purchase transactions related to employee option and share plans, as well as transactions related to the reduction of share capital, involved a cash outflow of EUR 187 million. A cash inflow of EUR 12 million from treasury shares mainly relates to the exercise of employee stock options (granted until 2013).

Share repurchase methods for share-based remuneration plans and capital reduction purposes

Philips uses different methods to repurchase shares in its own capital: (i) share buyback repurchases in the open market via an intermediary; (ii) repurchase of shares via forward contracts for future delivery of shares; and (iii) the unwinding of call options on own shares.

During 2022, Philips used methods (i) to repurchase shares for capital reduction purposes and methods (ii) and (iii) to repurchase shares for share-based compensation plans.

Forward contracts to repurchase shares

For share-based compensation plans

On June 13, 2022, Royal Philips announced that it will repurchase up to 3.2 million shares to cover certain of its obligations arising from its long-term incentive and employee stock purchase plans. Under this program, Philips entered into one forward contract for an amount of EUR 63 million to acquire 3.2 million shares with settlement dates in November 2024 and December 2024 and a weighted average forward price of EUR 19.75.

On May 19, 2021, Royal Philips announced that it will repurchase up to 2 million shares to cover certain of its obligations arising from its long-term incentive and employee stock purchase plans. Under this program, Philips entered into one forward contract for an amount of EUR 90 million to acquire 2 million shares with settlement dates in October 2023 and November 2023 and a weighted average forward price of EUR 44.85.

On January 29, 2020, Philips announced that it will repurchase up to 6 million shares to cover certain of its obligations arising from its long-term incentive and employee stock purchase plans. Under this program, Philips entered into three forward contracts to acquire in total 5 million for an amount of EUR 174 million to acquire with settlement dates varying between October 2021 and November 2022 and a weighted average forward price of EUR 34.85. On October 26, 2022, the original settlement date of two tranches entered into under this program (in total 1.75 million shares) has been extended from November 23, 2022 to November 2023, and November 2024, respectively. As of December 31, 2022, a total of 3.3 million shares (December 31, 2021: 1.5 million) under this program were acquired (settled in the fourth quarter of 2021 and 2022, respectively). This resulted in a EUR 57 million (December 31, 2021: EUR 61 million) increase in retained earnings against treasury shares.

As of December 31, 2022, the remaining forward contracts to cover obligations under share-based remuneration plans related to 7.0 million shares (December 31, 2021: 5.5 million) and amounted to EUR 211 million (December 31, 2021: EUR 203 million).

For capital reduction

On July 26, 2021, Philips announced a share buyback program for share cancellation purposes for an amount of up to EUR 1.5 billion. Consequently, in the third quarter of 2021 Philips entered into three forward contracts for an amount of EUR 731 million to acquire 20 million shares with settlement dates in 2022, 2023 and 2024 and a weighted average forward price of EUR 37.36. Philips executed the remainder of the program through open market purchases by an intermediary in the fourth quarter of 2021 (acquiring 21 million shares) and January 2022 (acquiring 0.8 million shares). This resulted in a EUR 781 million

increase in retained earnings against treasury shares. As of December 31, 2022, a total of 2.2 million shares under this program were acquired (in the fourth quarter of 2022). This resulted in EUR 83 million increase in retained earnings against treasury shares.

As of December 31, 2022, the remaining forward contracts entered into for capital reduction purposes relate to 17.4 million shares (December 31, 2021: 19.6 million) and amounted to EUR 648 million (December 31, 2021: EUR 731 million).

Share call options

In 2016, Philips purchased EUR-denominated and USD-denominated call options on its own shares to hedge options granted to employees up to 2013.

In 2022, the company unwound 239,880 EUR-denominated and 152,565 USD-denominated call options against the transfer of the same number of its own shares (392,445 shares) and an additional EUR 6 million cash payment to the buyer of the call options.

As of December 31, 2022, the remaining EUR-denominated call options related to 55,750 shares while there are no remaining USD-denominated call options.

Shares cancellation

In June 2022, Philips completed the cancellation of 8.8 million of its common shares (with a cost price of EUR 299 million). The cancelled shares were acquired as part of the Philips' EUR 1.5 billion share repurchase programs announced on July 26, 2021.

Dividend distribution

2022

In May 2022, Philips distributed a dividend of EUR 0.85 per common share, representing a total value of EUR 741 million (including costs). Shareholders could elect for a cash dividend or a share dividend. Approximately 45% of the shareholders elected for a share dividend, resulting in the issuance of 14,174,568 new common shares. The settlement of the cash dividend involved an amount of EUR 411 million (including costs).

A proposal will be submitted to the 2023 Annual General Meeting of Shareholders to pay a dividend of EUR 0.85 per common share, in common shares only, against retained earnings for 2022.

2021

In June 2021, Philips distributed a dividend of EUR 0.85 per common share, representing a total value of EUR 773 million (including costs). Shareholders could elect for a cash dividend or a share dividend. Approximately 38% of the shareholders elected for a share dividend,

resulting in the issuance of 6,345,968 new common shares. The settlement of the cash dividend involved an amount of EUR 482 million (including costs).

2020

In July 2020, Philips distributed a dividend of EUR 0.85 per common share, representing a total value of EUR 758 million (including costs). The dividend was distributed in the form of shares only resulting in the issuance of 18,080,198 new common shares.

Limitations in the distribution of shareholders' equity

As of December 31, 2022, pursuant to Dutch law, certain limitations exist relating to the distribution of shareholders' equity of EUR 3,054 million. Such limitations relate to common shares of EUR 178 million, as well as to legal reserves required by Dutch law included under retained earnings of EUR 1,010 million and unrealized currency translation differences of EUR 1,866 million. The unrealized loss related to cash flow hedges of EUR 2 million and unrealized loss related to fair value through OCI financial assets of EUR 376 million qualify as revaluation reserves and reduce the distributable amount due to the fact that these reserves are negative.

The legal reserves required by Dutch law of EUR 1,010 million included under retained earnings relates to any legal or economic restrictions on the ability of affiliated companies to transfer funds to the parent company in the form of dividends.

As of December 31, 2021, these limitations in distributable amounts were EUR 1,947 million and related to common shares of EUR 177 million, as well as to legal reserves required by Dutch law included under retained earnings of EUR 654 million and unrealized currency translation differences of EUR 1,117 million. The unrealized losses related to fair value through OCI financial assets of EUR 344 million and unrealized loss related to cash flow hedges of EUR 25 million qualify as a revaluation reserve and reduce the distributable amount due to the fact that this reserve is negative.

Non-controlling interests

Non-controlling interests relate to minority stakes held by third parties in consolidated group companies.

Capital management

Philips manages capital based upon the IFRS measures, net cash provided by operating activities and net cash used for investing activities as well as the non-IFRS measure net debt. The definition of this non-IFRS measure and a reconciliation to the IFRS measure is included below.

Net debt is defined as the sum of long and short-term debt minus cash and cash equivalents. Group equity is defined as the sum of shareholders' equity and non-controlling interests. This measure is used by Philips Treasury management and investment analysts to evaluate financial strength and funding requirements. The Philips net debt position is managed with the intention of retaining the current strong investment grade credit rating. Furthermore, Philips' aim when managing the net debt position is dividend stability and a pay-out ratio of 40% to 50% of Adjusted income from continuing operations attributable to shareholders (reconciliation to the most directly comparable IFRS measure, Net income, is provided at the end of this note).

Philips Group

Composition of net debt and group equity in millions of EUR unless otherwise stated

	2020	2021	2022
Long-term debt	5,705	6,473	7,270
Short-term debt	1,229	506	931
Total debt	6,934	6,980	8,201
Cash and cash equivalents	3,226	2,303	1,172
Net debt	3,708	4,676	7,028
Shareholders' equity	11,870	14,438	13,249
Non-controlling interests	31	36	34
Group equity	11,901	14,475	13,283
Net debt and group equity ratio	24:76	24:76	35:65

Adjusted income from continuing operations attributable to shareholders is not a recognized measure of financial performance under IFRS. The reconciliation of Adjusted income from continuing operations attributable to shareholders to the most directly comparable IFRS measure, Net income for 2022 is included in the following table.

Philips Group

Adjusted income from continuing operations attributable to shareholders ¹⁾ in millions of EUR

	2020	2021	2022
Net income	1,195	3,323	(1,605)
Discontinued operations, net of income taxes	(196)	(2,711)	(13)
Income from continuing operations	999	612	(1,618)
Income from continuing operations attributable to non-controlling interests	(8)	(4)	(3)
Income from continuing operations attributable to shareholders ¹⁾	991	608	(1,622)
Adjustments for:			
Amortization and impairment of acquired intangible assets	377	322	363
Impairment of goodwill	144	15	1,357
Restructuring costs and acquisition-related charges	195	95	202
Other items:	299	1,069	925
<i>Respironics field-action provision</i>		719	250
<i>Respironics field-action running remediation cost</i>		94	210
<i>R&D project impairments</i>			134
<i>Portfolio realignment charges</i>			109
<i>Impairment of assets in S&RC</i>			39
<i>Provision for public investigations tender irregularities</i>			60
<i>Provisions for quality actions in Connected Care</i>		94	59
<i>Loss on divestment of business</i>		76	
<i>Remaining items</i>	299	87	63
Net finance income/expenses	(125)	(84)	(4)
Tax impact of adjusted items and tax only adjusting items	(285)	(527)	(376)
Adjusted income from continuing operations attributable to shareholders ¹⁾	1,594	1,497	845

¹⁾ Shareholders in this table refers to shareholders of Koninklijke Philips N.V.

18 Debt

Accounting policies

Debt

Debt is initially measured at fair value net of directly attributable transaction costs. Subsequently, debt is measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Debt is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Lease liabilities

Lease liabilities are measured at the present value of the lease payments due over the lease term, generally discounted using the incremental borrowing rate. Lease liabilities are subsequently measured at amortized cost using the effective interest method. Lease liabilities are remeasured in case of modifications or reassessments of the lease.

Philips has a USD 2.5 billion Commercial Paper Program and a EUR 1 billion committed standby revolving credit facility that can be used for general group purposes, such as a backstop of its Commercial Paper Program. As of December 31, 2022, Philips did not have any loans outstanding under either facility. These facilities do not have a material adverse change clause, have no financial covenants and no credit-rating-related acceleration possibilities. Philips issued commercial paper of EUR 200 million in September 2022 and EUR 101 million in October 2022, that was repaid throughout the fourth quarter of 2022. In addition, Philips secured a EUR 1 billion credit facility in the fourth quarter of 2022 that can be used for general corporate purposes. As of December 31, 2022, Philips had EUR 500 million outstanding under the credit facility. The facility does not have a material adverse change clause, has no financial covenants and no credit-rating-related acceleration possibilities. As per March 9, 2020, Philips established a Euro Medium-Term Note (EMTN) program, a framework that facilitates the issuance of notes for a total amount up to EUR 10 billion. In 2022 Philips issued three new tranches under the program for a total of EUR 2 billion, while also redeeming its outstanding 2023 and 2024 Notes and issuing a tender offer on the outstanding 2025 and 2026 Notes.

The provisions applicable to all USD-denominated corporate bonds issued by the company in March 2008 and March 2012 (due 2038 and 2042) contain a 'Change of Control Triggering Event'. If the company would experience such an event with respect to a series of corporate bonds the company might be required to offer to purchase the bonds that are still outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any. Furthermore, the conditions applicable to the EUR-denominated corporate bonds issued in 2018, 2019, 2020 and 2022 (due 2025, 2026, 2027, 2028, 2029, 2030 and 2033) contain a similar provision ('Change of Control Put Event'). Upon the occurrence

of such an event, the company might be required to redeem or purchase any of such bonds at their principal amount together with interest accrued. Philips' outstanding long-term debt do not contain financial covenants.

In April 2022, Philips announced a series of Liability Management transactions to optimize its debt maturity profile. The transactions included the issuance of three series of Notes under its EMTN program for a total of EUR 2 billion with maturities in 2027, 2029 and 2033. Part of the proceeds were used to tender certain of Philips' outstanding US Dollar denominated bonds due 2025 and 2026 and Euro-denominated bonds due 2023, 2024 and 2025, as well as make-whole and fully redeem the Euro-denominated bonds due 2023 and 2024 that were not purchased as part of the Euro tender offer. Philips issued Commercial Paper of EUR 200 million in September 2022 and EUR 101 million in October 2022. These tranches were repaid throughout the fourth quarter of 2022. In addition, in October 2022 Philips entered into a EUR 1 billion credit facility that can be used for general corporate purposes. The credit facility matures in October 2023 and has a 12-month extension option at Philips discretion. Per year-end 2022, EUR 500 million was utilized and outstanding under the credit facility. In 2022, Philips entered into a total amount of EUR 63 million forward contracts relating to the company's long-term incentive and employee stock purchase plans. A total of EUR 57 million forward contracts relating to the long-term incentive and employee stock purchase plans as announced in 2020 and EUR 83 million of forwards related to the share buyback program announced in 2021 matured throughout 2022.

In February 2021, Philips entered into two new bilateral loans amounting to a total of EUR 500 million (EUR 250 million each) with a tenor of up to one year, that were repaid in September 2021. In 2021, Philips also entered into a total amount of EUR 731 million of forward contracts relating to the EUR 1.5 billion share buyback program announced on July 26, 2021, with maturity dates in 2022, 2023 and 2024. A total amount of EUR 745 million of forward contracts matured in 2021, which completed the settlement of the EUR 1.5 billion share buyback program announced on January 29, 2019. In addition, Philips entered into a total amount of EUR 90 million of forward contracts in 2021 relating to the long-term incentive and employee stock purchase plans announced on May 19, 2021, with maturity dates in 2023, and a total amount of EUR 123 million of forward contracts matured in 2021 relating to the company's long-term incentive and employee stock purchase plans announced on October 22, 2018 and January 29, 2020.

Long-term debt

The following tables present information about the long-term debt outstanding, its maturity and average interest rates in 2022 and 2021.

Philips Group
Long-term debt in millions of EUR unless otherwise stated

	2022						average remaining term (in years)	average rate of interest
	amount outstanding	Current portion	Non-current portion	Between 1 and 5 years	amount due after 5 years			
USD bonds	1,378		1,378	250	1,128	14.3	6.3%	
EUR bonds	4,061		4,061	1,836	2,225	5.7	1.7%	
Forward contracts	858	606	252	252		1.0		
Lease liabilities	1,082	230	852	504	348	3.9	2.4%	
Bank borrowings	705	2	702	702		1.9	1.7%	
Other long-term debt	28	4	24	17	6	8.9	2.9%	
Long-term debt	8,111	842	7,270	3,562	3,706	6.1	2.4%	

Philips Group
Long-term debt in millions of EUR unless otherwise stated

	2021						average remaining term (in years)	average rate of interest
	amount outstanding	Current portion	Non-current portion	Between 1 and 5 years	amount due after 5 years			
USD bonds	1,313		1,313	255	1,058	15.1	6.3%	
EUR bonds	3,233		3,233	2,242	991	4.4	1.0%	
Forward contracts	934	196	738	738		1.6		
Lease liabilities	1,220	257	963	580	383	4.2	2.1%	
Bank borrowings	203	1	202	202		3.2	0.1%	
Other long-term debt	30	5	26	18	8	8.6	3.5%	
Long-term debt	6,933	459	6,473	4,034	2,439	6.0	2.1%	

Bonds

The following table presents the amount outstanding and effective rate of bonds.

Philips Group

Unsecured Bonds in millions of EUR unless otherwise stated

	effective rate	2021	2022
Unsecured EUR Bonds			
Due 06/09/2023; 1/2%	0.634%	500	
Due 02/05/2024; 3/4%	0.861%	500	
Due 22/05/2026; 1/2%	0.608%	750	750
Due 02/05/2028; 1 3/8%	1.523%	500	500
Due 30/03/2025; 1 3/8%	1.509%	500	346
Due 30/03/2030; 2%	2.128%	500	500
Due 05/05/2027; 1 7/8%	2.049%		750
Due 05/11/2029; 2 1/8%	2.441%		650
Due 05/05/2033; 2 5/8%	2.710%		600
Unsecured USD Bonds			
Due 15/05/2025; 7 3/4%	7.429%	56	51
Due 01/06/2026; 7 1/5%	6.885%	120	119
Due 15/05/2025; 7 1/8%	6.794%	74	78
Due 11/03/2038; 6 7/8%	7.210%	641	683
Due 15/03/2042; 5%	5.273%	441	470
Adjustments ¹⁾		(37)	(57)
Unsecured Bonds		4,545	5,439

¹⁾ Adjustments related to both EUR and USD bonds and concern bond discounts, premium and transaction costs.

Leases

The following table presents a reconciliation between the total of future minimum lease payments and their present value.

Philips Group

Lease liabilities in millions of EUR

	2021			2022		
	future minimum lease payments	interest	present value of minimum lease payments	future minimum lease payments	interest	present value of minimum lease payments
Less than one year	280	22	257	251	21	230
Between one and five years	636	56	580	554	49	505
More than five years	417	34	383	376	28	348
Lease liabilities	1,333	113	1,220	1,180	98	1,082

Short-term debt

Philips Group

Short-term debt in millions of EUR

	2021	2022
Short-term bank borrowings	47	89
Current portion of long-term debt	459	842
Short-term debt	506	931

During 2022, the weighted average interest rate on the bank borrowings was 5.7% (2021: 1.2%). This increase was mainly driven by financial market conditions across various countries globally.

19 Provisions

Accounting policies

A provision is a liability of uncertain timing or amount. Provisions are recognized if, as a result of a past event, the company has a present legal or constructive obligation, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be estimated reliably. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money. The increase in the provision due to passage of time (accretion) is recognized as interest expense.

Restructuring-related provisions

Provisions for severance and termination benefits are recognized for those costs only when the company has a detailed formal plan for the restructuring and has raised a valid expectation with those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. Before a provision is established, the company recognizes any impairment loss on the assets associated with the restructuring.

Accounting estimates and judgments

By their nature, the recognition of provisions require estimates and assumptions regarding the timing and the amount of outflow of resources. The main estimates include:

- **Respironics field-action provision** – the provision requires management to make estimates and assumptions about items such as quantities and the portion of products to be remediated through replacement or repair.

- **Product warranty provisions** – the provisions for assurance-type product warranty reflect the estimated costs of replacement and free-of-charge services that will be incurred by the company with respect to products sold and include costs to execute field change orders.
- **Environmental provisions** – provisions for environmental remediation can change significantly due to the emergence of additional information regarding the extent or nature of the contamination, the need to utilize alternative technologies, actions by regulatory authorities as well as changes in judgments and discount rates.
- **Legal provisions** – provisions for legal claims and investigations reflect the best estimate of the outflow of resources, supported by internal and external legal counsel, when it is probable that such outflow of resources will be required to settle an obligation.
- **Contingent consideration provisions** – the provision for contingent consideration reflects the fair value of the expected payment to former shareholders of an acquired company for the exchange of control if specified future events occur or conditions are met, such as the achievement of certain regulatory milestones or the achievement of certain commercial milestones. The provision for contingent consideration can change significantly due to changes in the estimated achievement of milestones and changes in discount rates. Changes in fair value of the contingent consideration liability are reflected in other business income (expenses).

Philips Group
 Provisions in millions of EUR

	2021			2022		
	long-term	short-term	total	long-term	short-term	total
Post-employment benefits ¹⁾	659		659	546		546
Respironics field-action provision	52	525	577	23	366	390
Product warranty provisions	32	207	238	57	287	344
Environmental provisions	99	26	124	83	20	104
Restructuring-related provisions	8	58	66	6	134	140
Legal provisions	53	39	91	14	74	89
Contingent consideration provisions	156	52	208	89	23	113
Other provisions	257	92	349	279	112	390
Provisions	1,315	998	2,313	1,097	1,018	2,115

¹⁾ For more details refer to [Post-employment benefits, starting on page 198](#).

Respironics field action provision

On June 14, 2021, Philips' subsidiary, Philips Respironics initiated a voluntary recall notification in the United States and field safety notice outside the United States for certain sleep and respiratory care products related to the polyester-based polyurethane (PE-PUR) sound abatement foam in these devices.

The repair and replacement program is under way globally. Because of the prioritization of the repair and replace program, Philips is currently not taking new orders for sleep therapy systems, while masks and other consumables continue to be sold. As of December 31, 2022, approximately 90% of the production required for the delivery of replacement devices to patients has been completed. The time to complete the program is impacted by the dependency on supply of materials, including from China, and global logistics capacity. Philips Respironics is also conducting a test and research program with independent laboratories.

Philips has recognized a provision based on Philips' best estimate of the costs to repair or replace devices subject to the Respironics field action. The provision is related to the cost to repair and/or replace affected devices and includes, amongst others, the costs for the remaining production, the cost of intensified communication with physicians and patients, material costs, labor cost and logistics. The provision does not include any product liability costs or other claims. Movements during the year were as follows:

Philips Group
 Respironics field-action provision in millions of EUR

	2021	2022
Balance as of January 1	-	577
Additions	719	250
Utilizations	(175)	(486)
Translation differences	33	49
Balance as of December 31	577	390

Additions for the year reflect updated expectations in relation to the volume of devices eligible for remediation as well as additional costs related to the acceleration of the program. As of December 31, 2022, Philips Respironics expects to remediate a total of around 5.6 million devices (specific CPAP, BiPAP and mechanical ventilator devices) globally, excluding certain end-of-life devices that are expected to be retired. In 2022, following Philips Respironics' comprehensive patient and customer communication outreach and based on current insights, the total expected units to be remediated have increased by approximately 0.4 million, primarily in the US. Furthermore, efforts to accelerate the program resulted in a shift towards replacement, which increased the replacement share to 60% (compared to 46% as of December 31, 2021) and as a result further reduced repair

quantities. Utilizations for the year reflect the costs incurred in executing the repair and replace program during the year.

The completion of the field action continues to be subject to significant uncertainties, which require management to make estimates and assumptions about items such as quantities and the portion to be replaced or repaired. As of December 31, 2022, the impact of changes in these main assumptions and estimates, holding other assumptions constant, on the field action provision are as follows:

Philips Group

Main assumptions in millions of EUR unless otherwise stated

Assumption	Increase (decrease) in provision	
	Increase individual assumption by 10%	Decrease individual assumption by 10%
Total quantity of devices remaining	26	(26)
Replacement share	12	(12)

Actual outcomes in future periods may differ from these estimates and affect the company's results of operations, financial position and cash flows.

In addition, running remediation costs of EUR 210 million (2021: EUR 94 million) related to the remediation, such as testing, external advisory and regulatory response and additional right-of-return and warranty provisions have been incurred.

Following the FDA's inspection of certain of Philips Respironics' facilities in the US in 2021 and the subsequent inspectional observations, the US Department of Justice, acting on behalf of the FDA, in July 2022 started discussions with Philips regarding the terms of a consent decree to resolve the identified issues. At the end of December 2022, the discussions are ongoing. Furthermore, Philips is a defendant in a number of consumer class action lawsuits from users of the affected devices and a number of individual personal injury and other compensation claims. To date no provisions have been recorded for the litigation and investigations associated with the Respironics field action. For legal matters including claims refer to [Contingencies, starting on page 204](#).

Product warranty provisions

The provisions for assurance-type product warranty reflect the estimated costs of replacement and free-of-charge services that will be incurred by the company with respect to products sold, and include costs to execute field change orders. The field action provision in connection with the Philips Respironics voluntary recall notification is shown separately above.

The company expects the provisions to be utilized mainly within the next year.

Philips Group

Provisions for assurance-type product warranty in millions of EUR

	2021	2022
Balance as of January 1	167	238
Additions	364	320
Utilizations	(265)	(224)
Transfer to liabilities associated with assets held for sale	(37)	
Translation differences and other	10	9
Balance as of December 31	238	344

Additions in 2022 include quality actions of EUR 108 million in the Connected Care segment, mainly for the following matters:

Pads Cartridges

In February 2022, Philips issued a field safety notice notifying customers of a potential issue with the Adult SMART Pads Cartridge (M5071A) and the Infant/Child SMART Pads Cartridge (M5072A) for use specifically with the HeartStart HS1 Automated External Defibrillator (AED) devices. Philips has identified that for affected pads the HS1 AED could deliver less effective or ineffective therapy. Philips is actively working on replacing these pads and has commenced the replacement program in 2022.

V60 35V

In March 2022, Philips Respironics issued a voluntary recall notification/field safety notice to customers of its V60, V60 Plus and V680 ventilators, regarding a potential issue that could affect the main electrical circuit ("35V Rail") powering the ventilator and alarm. This notification was updated in April 2022 with additional customer instructions. In June 2022, Philips issued a further update to this notification, regarding the projected correction for this matter. To address the issue with the 35V Rail, Philips Respironics has commenced the remediation program in 2022.

Environmental provisions

The environmental provisions include accrued costs recorded with respect to environmental remediation in various countries. In the United States, subsidiaries of the company have been named as potentially responsible parties in state and federal proceedings for the clean-up of certain sites.

Provisions for environmental remediation can change significantly due to the emergence of additional information regarding the extent or nature of the contamination, the need to utilize alternative technologies, actions by regulatory authorities as well as changes in judgments and discount rates.

Approximately EUR 73 million of the long-term provision is expected to be utilized after one to five years, with the remainder after five years. For more details on the environmental remediation refer to [Contingencies, starting on page 204](#).

Philips Group
Environmental provisions in millions of EUR

	2021	2022
Balance as of January 1	183	124
Additions	18	15
Utilizations	(15)	(17)
Releases	(64)	(2)
Changes in discount rate	(10)	(27)
Accretion	3	4
Translation differences and other	9	7
Balance as of December 31	124	104

The additions and the releases of the provisions originate from additional insights in relation to factors like the estimated cost of remediation, changes in regulatory requirements and efficiencies in completion of various site work phases.

Based on the progressive insight with respect to site remediation experience, technological progress and risk-based clean-up strategies, the estimated remaining duration of remediation activities for environmental liabilities for infinite environmental sites was revised in 2021 from 60 years to 30 years. The resulting release was EUR 55 million of which EUR 33 million is recorded in continuing operations and EUR 22 million in discontinued operations.

Restructuring-related provisions

Philips Group
Restructuring-related provisions in millions of EUR

	January 1, 2022	additions	utilizations	releases	other changes	December 31, 2022
Diagnosis & Treatment	26	58	(27)	(8)	0	49
Connected Care	17	34	(13)	(3)	(1)	34
Personal Health	9	9	(7)	(2)	0	10
Other	14	52	(14)	(5)	0	47
Philips Group	66	154	(61)	(18)	(1)	140

In 2022, Philips initiated general productivity actions aimed at simplifying the organization to streamline the way of working and reduce operating expenses. This includes an immediate reduction of around 4,000 positions globally across the organization, subject to

consultation with the relevant workers councils and social partners, with severance and termination-related costs expected to be approximately EUR 130 million in aggregate, of which EUR 80 million was recorded in 2022.

In addition, restructuring projects were executed during the year, of which the most significant impacted Diagnosis & Treatment and Other and mainly took place in the US and Netherlands. The restructuring mainly comprised product portfolio rationalization and the reorganization of global support functions. The company expects the provisions to be utilized mainly within the next year.

2021

In 2021, the most significant restructuring projects impacted Diagnostic & Treatment and Connected Care businesses and mainly took place in the Netherlands and US.

The movements in the provisions for restructuring in 2021 are presented by segment as follows:

Philips Group
Restructuring-related provisions in millions of EUR

	January 1, 2021	additions	utilizations	releases	other changes	December 31, 2021
Diagnosis & Treatment	33	23	(19)	(13)	1	26
Connected Care	17	16	(12)	(4)	-	17
Personal Health	28	6	(21)	(6)	2	9
Other	38	10	(21)	(16)	4	14
Philips Group	117	55	(73)	(39)	6	66

Legal provisions

The company and certain of its group companies and former group companies are involved as a party in legal proceedings, including regulatory and other governmental proceedings.

Philips Group
Legal provisions in millions of EUR

	2021	2022
Balance as of January 1	72	91
Additions	43	89
Acquisitions	38	4
Utilizations	(17)	(100)
Releases	(48)	(3)
Accretion	1	-
Translation differences and other	3	7
Balance as of December 31	91	89

The majority of the movements in the above schedule are: Additions mainly relate to a provision recognized for alleged tender irregularities as disclosed in note [Contingencies, starting on page 204](#) and provisions recognized for CRT matters. Utilizations mainly relate to the settlement of investigations in the Connected Care businesses (unrelated to the Philips Respiroics voluntary recall notification).

For details of other legal matters, including regulatory and other governmental proceedings, refer to [Contingencies, starting on page 204](#).

The company expects the provisions to be utilized mainly within the next three years.

Contingent consideration provisions

Philips Group

Contingent consideration provisions in millions of EUR

	2021	2022
Balance as of January 1	318	208
Acquisitions	16	96
Utilizations	(48)	(105)
Fair value changes	(78)	(86)
Balance as of December 31	208	113

The provision for contingent consideration reflects the fair value of the expected payment to former shareholders of an acquiree for the exchange of control if specified future events occur or conditions are met, such as the achievement of certain regulatory milestones or the achievement of certain commercial milestones. The provision for contingent consideration can change significantly due to changes in the estimated achievement of milestones and changes in discount rates. Changes in fair value of the contingent consideration liability are reflected in other business income.

In 2021 and 2022, the fair value changes mainly related to EPD. In 2022, the decrease of EUR 61 million in the fair value of the contingent consideration comprised of EUR 30 million due to the revisions to EPD's forecast due to more severe short-term impacts of COVID-19 and the competitive environment, and EUR 31 million due to delays in achievement of certain milestones. In 2021, the decrease of EUR 67 million in the fair value of the contingent consideration comprised of EUR 41 million due to the revisions to EPD's forecast due to more severe short-term impacts of COVID-19 and the competitive environment, and EUR 26 million due to delays in achievement of certain milestones.

The company expects the provisions to be utilized mainly within the next three years.

Other provisions

Philips Group

Other provisions in millions of EUR

	2021	2022
Balance as of January 1	372	349
Additions	89	160
Utilizations	(87)	(95)
Releases	(29)	(35)
Accretion	(5)	(3)
Translation differences and other	9	14
Balance as of December 31	349	390

The main elements of other provisions are:

- provisions for employee jubilee funds EUR 83 million (2021: EUR 94 million);
- self-insurance provisions of EUR 57 million (2021: EUR 43 million);
- provisions for non-income taxes/social security of EUR 46 million (2021: EUR 37 million);
- provisions for rights of return of EUR 36 million (2021: EUR 40 million);
- provisions for decommissioning costs of EUR 33 million (2021: EUR 33 million);
- provisions for onerous contracts of EUR 38 million (2021: EUR 12 million), reflecting non-cancellable commitments on supplies for which no future demand or alternative usage has been identified, primarily caused by volatility in demand due to COVID-19.
- the remaining provisions relate to a variety of positions, for example provision for disability of employees and provision for royalty obligations.
- the releases in 2021 and 2022 are due to the reassessment of the positions in other provisions throughout the year.

The company expects the provisions to be utilized mainly within the next five years, except for:

- provisions for employee jubilee funds of which half is expected to be utilized after five years;
- provisions for decommissioning costs of which half is expected to be utilized after five years;
- provisions for rights of return to be utilized mainly within the next year.

20 Post-employment benefits

Accounting policies

Defined contribution plans

A defined contribution plan is a post-employment benefit plan for which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the Consolidated statements of income in the periods during which services are rendered by employees.

Defined Benefit plans

A defined benefit plan is a post-employment benefit plan that is not a defined contribution plan. Defined benefit plans define an amount of pension benefit that an employee will receive after retirement. That pension benefit typically depends on several factors such as years of service, age and salary.

The net pension asset or liability recognized in the Consolidated balance sheets in respect of defined benefit plans is the fair value of plan assets less the present value of the projected defined benefit obligation at the Consolidated balance sheets date. The defined benefit obligation is calculated annually by qualified actuaries using the projected unit credit method. Recognized assets are limited to the present value of any reductions in future contributions or any future refunds. The net pension liability is presented as a long-term provision; no distinction is made for the short-term portion.

For the company's major plans, a full discount rate curve of high-quality corporate bonds is used to determine the defined benefit obligation, where available. The curves are based on the Mercer Yield Curve methodology, which uses data of corporate bonds rated AA or equivalent. For the other plans the Mercer Yield Curve/Mercer Methodology has also been used taking into account the cash flows as much as possible in case there is a deep market in corporate bonds. For plans in countries without a deep corporate bond market, the discount rate is based on government bonds and the plan's maturity.

Pension costs in respect of defined benefit plans primarily represent the increase of the actuarial present value of the obligation for post-employment benefits based on employee service during the year and the interest on the net recognized asset or liability in respect of employee service in previous years.

Remeasurements of the net defined benefit asset or liability comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (excluding interest). The company recognizes all remeasurements in Other comprehensive income.

Past service costs arising from the introduction of a change to the benefit payable under a plan or a significant reduction of the number of employees covered by a plan (curtailment) are recognized in full in the Consolidated statements of income.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The company recognizes a liability and an expense for bonuses and incentives based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments.

The company's net obligation in respect of other long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods, such as jubilee entitlements. That benefit is discounted to determine its present value. Remeasurements are recognized in the Consolidated statements of income in the period in which they arise.

Further information on other employee benefits can be found in [Provisions, starting on page 193](#) in the Other provisions section.

Accounting estimates and judgments

To make the actuarial calculations for the valuation of defined benefit obligations, assumptions are needed for interest rates, healthcare cost increases, future pension increases, life expectancy and employee turnover rates. The actuarial calculations are made by external actuaries based on inputs from observable market data, such as corporate bond returns and yield curves to determine the discount rates to apply, mortality tables to determine life expectancy and inflation rates to determine future salary and pension growth assumptions.

Employee post-employment benefit plans have been established in many countries in accordance with the legal requirements, customs and the local practice in the countries involved. The larger part of post-employment benefits are company pension plans, of which some are funded and some are unfunded. All funded post-employment benefit plans are considered to be related parties.

Most employees that take part in a company pension plan are covered by defined contribution (DC) pension plans. The main DC plans are in the Netherlands and the United States. The company also sponsors a number of defined benefit (DB) pension plans. The benefits provided by these plans are based on employees' years of service and compensation levels.

The company also sponsors a limited number of DB retiree medical plans. The benefits provided by these plans typically cover a part of the healthcare costs after retirement. None of these plans are individually significant to the company and are therefore not further separately disclosed.

The larger funded DB and DC plans are governed by independent Trustees who have a legal obligation to protect the interests of all plan members and operate under the local regulatory framework.

The DB plans in Germany and the United States make up most of the defined benefit obligation (DBO) and the net position. The company also has DB plans in the rest of the world; however these are individually not significant to the company and do not have a significantly different risk profile that would warrant separate disclosure.

The adjacent table provides a break-down of the present value of the funded and unfunded DBO, the fair value of plan assets and the net position in Germany, the United States and in Other Countries. The table also provides the value of reimbursement rights.

Philips Group
Post-employment benefits in millions of EUR

	Germany		United States		Other Countries		Total	
	2021	2022	2021	2022	2021	2022	2021	2022
Present value of funded DBO	(606)	(489)	(558)	(440)	(206)	(179)	(1,370)	(1,108)
Present value of unfunded DBO	(316)	(249)	(149)	(128)	(135)	(136)	(600)	(513)
Total present value of DBO	(921)	(738)	(708)	(568)	(341)	(315)	(1,970)	(1,621)
Fair value of plan assets	572	477	623	474	185	171	1,380	1,122
Net position	(349)	(261)	(84)	(94)	(157)	(144)	(590)	(499)
Value of reimbursement rights						6		6

The classification of the net position is as follows:

Philips Group
Classification net position in millions of EUR

	Germany		United States		Other Countries		Total	
	2021	2022	2021	2022	2021	2022	2021	2022
Total asset for plans in a surplus	3	9	65	34	1	4	69	46
Total liability for plans in a deficit	(352)	(270)	(149)	(128)	(157)	(148)	(659)	(546)
Provisions for post-employment benefit plans under AHFS								
Net position	(349)	(261)	(84)	(94)	(157)	(144)	(590)	(499)

Germany

The company has several DB plans in Germany which for the largest part are unfunded, meaning that after retirement the company is responsible for the benefit payments to retirees.

Due to the relatively high level of social security in Germany, the company's pension plans mainly provide benefits for the higher earners. The plans are open for future pension accrual. Indexation is mandatory due to legal requirements. Some of the German plans have a DC design, but are accounted for as DB plans due to a legal minimum return requirement.

Company pension commitments in Germany are partly protected against employer bankruptcy via the "Pensions-Sicherungs-Verein" which charges a fee to all German companies providing pension promises.

Philips is one of the sponsors of Philips Pensionskasse VVaG in Germany, which is a multi-employer plan. The plan is classified and accounted for as a DC plan.

The United States

The US DB pension plans are closed plans without future pension accrual. For the funding of any deficit in the US plan the Group adheres to the minimum funding requirements of the US Pension Protection Act.

The assets of the US funded pension plans are in Trusts governed by fiduciaries. The non-qualified pension plans that cover accrual above the maximum salary of the funded qualified plan are unfunded.

The company's qualified pension commitments in the United States are covered via the Pension Benefit Guaranty Corporation which charges a fee to US companies providing DB pension plans. The fee is also dependent on the amount of unfunded vested liabilities.

Risks related to DB plans

DB plans expose the company to various demographic and economic risks such as longevity risk, investment risks, currency and interest rate risk and in some cases inflation risk. The latter plays a role in the assumed wage increase but more importantly in some countries where indexation of pensions is mandatory.

The company has an active de-risking strategy in which it constantly looks for opportunities to reduce the risks associated with its DB plans. Liability-driven investment strategies, lump sum cash-out options, buy-ins, buy-outs and a change to DC are examples of the strategy.

Investment policy in the largest pension plans

Pension fund trustees are responsible for and have full discretion over the investment strategy of the plan assets. The plan assets of the Philips pension plans are invested in well diversified portfolios. The interest rate sensitivity of the fixed income portfolio is closely aligned to that of the plan's pension liabilities for most of the plans. Any contributions from the sponsoring company are used to further increase the fixed income part of the assets. As part of the investment strategy, any improvement in the funded ratio over time is used to further decrease the interest rate mismatch between the plan assets and the pension liabilities.

Summary of pre-tax costs for post-employment benefits and reconciliations

The adjacent table contains the total of current and past service costs, administration costs and settlement results as included in Income from operations and the interest cost as included in Financial expenses.

Philips Group Pre-tax costs for post-employment benefits in millions of EUR

	2020	2021	2022
Defined benefit plans	74	36	50
- included in income from operations	59	28	39
- included in financial expense	13	8	10
- included in Discontinued operations	1	1	
Defined contribution plans	366	375	400
- included in income from operations	358	368	400
- included in Discontinued operations	8	7	
Post-employment benefits costs	440	411	449

Summary of the reconciliations for the DBO and plan assets

The adjacent tables contain the reconciliations for the DBO and plan assets.

Philips Group Defined benefit obligations in millions of EUR

	2021	2022
Balance as of January 1	2,153	1,970
Service cost	36	32
Interest cost	33	36
Employee contributions	7	4
Actuarial (gains) / losses		
- demographic assumptions	3	2
- financial assumptions	(86)	(366)
- experience adjustment	(6)	12
(Negative) past service cost	(5)	16
Settlements	(90)	
Benefits paid from plan	(95)	(95)
Benefits paid directly by employer	(33)	(41)
Translation differences and other	52	52
Balance as of December 31	1,970	1,621

Philips Group Plan assets in millions of EUR

	2021	2022
Balance as of January 1	1,403	1,380
Interest income on plan assets	25	26
Admin expenses paid	(1)	(1)
Return on plan assets excluding interest income	44	(254)
Employee contributions	7	4
Employer contributions	33	17
Settlements	(86)	0
Benefits paid from plan	(96)	(95)
Translation differences and other	50	45
Balance as of December 31	1,380	1,122

The past service cost in 2022 mainly relates to the retiree medical plans in Brazil. The settlement amounts of 2021 mainly relate to the transfer of the provident fund plan into the government provident fund in India.

Plan assets allocation

The asset allocation in the company's DB plans as of December 31 was as follows:

Philips Group Plan assets allocation in millions of EUR

	2021	2022
Assets quoted in active markets		
- Debt securities	790	560
- Equity securities		
- Other	195	203
Assets not quoted in active markets		
- Debt securities	1	
- Equity securities	122	101
- Other	272	258
Total assets	1,380	1,122

The plan assets in 2022 contain 32% (2021: 29%) unquoted plan assets. Plan assets in 2022 do not include property occupied by or financial instruments issued by the company.

Assumptions

The mortality tables used for the company's largest DB plans are:

Germany: Heubeck-Richttafeln 2018 Generational, assuming 93% of mortality rates for male retirees between age 60 and 85

US: PRI-2012 Generational with MP2021 improvement scale + white collar adjustment

The weighted averages of the assumptions used to calculate the DBO as of December 31 were as follows:

Philips Group Assumptions used for defined benefit obligations in Germany, the United States and the rest of the world in %

	Germany		United States		Other Countries		Total	
	2021	2022	2021	2022	2021	2022	2021	2022
Discount rate	1.1%	4.1%	2.6%	5.2%	2.1%	4.9%	1.8%	4.7%
Inflation rate	1.8%	2.0%	2.2%	2.3%	2.0%	2.6%	2.0%	2.2%
Salary increase	2.5%	2.8%	0.0%	0.0%	2.9%	3.3%	2.6%	2.9%

Sensitivity analysis

The following table illustrates the approximate impact on the DBO from movements in key assumptions. The DBO was recalculated using a change in the assumptions of 1% which overall is considered a reasonably possible change. The impact on the DBO because of changes in discount rate is normally accompanied by offsetting movements in plan assets, especially when using matching strategies.

The average duration of the DBO of the DB plans is 8 years (Germany: 9, United States: 8, and Other countries: 8) as of December 31, 2022 (2021: 11 years).

Philips Group Sensitivity of key assumptions in millions of EUR

	2021	2022
Increase		
Discount rate (1% movement)	(196)	(122)
Pension increase (1% movement)	99	57
Salary increase (1% movement)	19	12
Longevity ¹⁾	48	32
Decrease		
Discount rate (1% movement)	241	145
Pension increase (1% movement)	(83)	(49)
Salary increase (1% movement)	(18)	(11)

¹⁾ The mortality table (i.e. longevity) also impacts the DBO. The above sensitivity table illustrates the impact on the DBO of a further 10% decrease in the assumed rates of mortality for the company's major plans. A 10% decrease in assumed mortality rates equals improvement of life expectancy by 0.5 - 1 year.

Cash flows and costs in 2023

Cash outflows in relation to post-employment benefits are estimated to amount to EUR 464 million in 2023, consisting of:

- EUR 19 million employer contributions to funded DB plans (Germany: EUR 7 million, United States: EUR 0 million, Other Countries: EUR 12 million);
- EUR 43 million cash outflows in relation to unfunded DB plans (Germany: EUR 20 million, United States: EUR 11 million, Other Countries: EUR 12 million); and
- EUR 402 million employer contributions to DC plans (Netherlands: EUR 186 million, United States: EUR 153 million, Other Countries: EUR 63 million).

The service and administration cost for 2023 is expected to amount to EUR 29 million for DB plans. The net interest cost for 2023 for the DB plans is expected to amount to EUR 21 million. The cost for DC pension plans in 2023 is equal to the expected DC cash flow.

21 Accrued liabilities

Accounting policies

Accrued liabilities are initially measured at fair value and subsequently at amortized cost and are derecognized when the obligation under the liability is discharged, cancelled or has expired.

Accrued liabilities are summarized as follows:

Philips Group
Accrued liabilities in millions of EUR

	2021	2022
Personnel-related costs:		
- Salaries and wages	566	490
- Accrued holiday entitlements	127	97
- Other personnel-related costs	108	101
Fixed-asset-related costs:		
- Gas, water, electricity, rent and other	33	46
Communication and IT costs	82	64
Distribution costs	122	110
Sales-related costs:		
- Commission payable	7	8
- Advertising and marketing-related costs	175	127
- Other sales-related costs	20	20
Material-related costs	130	132
Interest-related accruals	52	71
Other accrued liabilities	362	361
Accrued liabilities	1,784	1,626

22 Other liabilities

Accounting policies

Other liabilities are initially measured at fair value and subsequently at amortized cost and are derecognized when the obligation under the liability is discharged, cancelled or has expired.

The company recognizes contract liabilities if a payment is received or a payment is due (whichever is earlier) from a customer before the company transfers the related goods or services. Contract liabilities are recognized as revenue when the company performs under the contract (i.e., transfers control of the related goods or services to the customer).

Other non-current liabilities

Non-current liabilities were EUR 60 million as of December 31, 2022 (December 31, 2021: EUR 56 million).

Non-current liabilities are associated mainly with indemnification and non-current accruals.

Other current liabilities

Other current liabilities are summarized as follows:

Philips Group
Other current liabilities in millions of EUR

	2021	2022
Accrued customer rebates	280	213
Other taxes including social security premiums	190	115
Other liabilities	116	120
Other current liabilities	587	448

Contract liabilities

Non-current contract liabilities were EUR 515 million as of December 31, 2022 (December 31, 2021: EUR 446 million) and current contract liabilities were EUR 1,696 million as of December 31, 2022 (December 31, 2021: EUR 1,491 million).

The current contract liabilities increased by EUR 205 million, which is mainly driven by an increase in deferred balances for customer service contracts.

The current contract liabilities as of December 31, 2021 resulted in revenue recognized of EUR 1,491 million in 2022.

23 Cash flow statement supplementary information

Accounting policies

Cash and cash equivalents

Cash and cash equivalents include all cash balances, certain money market funds and short-term highly liquid investments with an original maturity of three months or less that are readily convertible into known amounts of cash. Bank overdrafts are included in borrowings in current liabilities.

Cash flow statements

The cash flow statement is prepared using the indirect method. Cash flows related to interest and tax are included in operating activities. Assets and liabilities acquired as part of a business combination are included in investing activities (net of cash acquired). Dividends paid to shareholders are included in financing activities. Dividends received are included in operating activities.

Cash flows arising from transactions in a foreign currency are translated into the company's functional currency using the exchange rate at the date of the cash flow. Cash flows from derivative instruments that are accounted for as cash flow hedges are classified in the same category as the cash flows from the hedged items. Cash flows from other derivative instruments are classified as investing cash flows.

Cash paid for leases

In 2022, gross lease payments of EUR 316 million (2021: EUR 308 million; 2020: EUR 325 million) included interest of EUR 25 million (2021: EUR 25 million; 2020: EUR 29 million).

Net cash used for derivatives and current financial assets

In 2022, a total of EUR 72 million cash was paid with respect to foreign exchange derivative contracts related to activities for liquidity management (2021: EUR 48 million inflow; 2020: EUR 13 million outflow).

Purchase and proceeds from non-current financial assets

In 2022, the net cash outflow is EUR 38 million.

In 2021, the net cash flow is EUR 0 million.

In 2020, the net cash outflow of EUR 66 million was mainly the cash outflow due to investment in DC Health amounting to EUR 45 million in China.

Reconciliation of liabilities arising from financing activities

Certain items in the statements of cash flows do not correspond to the differences between the balance sheet amounts for the respective items, principally because of the effects of translation differences and consolidation changes.

Philips Group

Reconciliation of liabilities arising from financing activities in millions of EUR

	Balance as of December 31, 2021	Cash flow	Currency effects and consolidation changes	Other ¹⁾	Balance as of December 31, 2022
Long term debt ²⁾	6,933	1,045	107	27	8,111
EUR bonds	3,233	827			4,061
USD bonds	1,313	(20)	85		1,378
Leases	1,220	(260)	17	105	1,082
Forward contracts ³⁾	934			(76)	858
Bank borrowings	203	498	4		705
Other long-term debt	30	(1)	1	(1)	28
Short term debt ²⁾	47	47	(6)	1	89
Short-term bank borrowings	47	47	(6)	1	89
Other short-term loans					
Forward contracts ³⁾					
Equity	(1,410)	(593)		869	(1,133)
Dividend payable		(418)		418	
Forward contracts ³⁾	(934)			76	(858)
Treasury shares	(476)	(174)		375	(275)
Total		500			

¹⁾ Besides non-cash, other includes interest paid on leases, which is part of cash flows from operating activities

²⁾ In this table, current portion of long-term debt is included in long-term debt (and excluded from short-term debt).

³⁾ The forward contracts are related to the share buyback program and LTI plans

Philips Group

Reconciliation of liabilities arising from financing activities in millions of EUR

	Balance as of December 31, 2020	Cash flow	Currency effects and consolidation changes	Other ¹⁾	Balance as of December 31, 2021
Long term debt ²⁾	6,857	(226)	200	101	6,933
EUR bonds	3,229			4	3,233
USD bonds	1,210		103		1,313
Leases	1,216	(239)	98	145	1,220
Forward contracts ³⁾	982			(48)	934
Bank borrowings	205	(1)			203
Other long-term debt	16	14			30
Short term debt ²⁾	76	(25)	(5)		47
Short-term bank borrowings	76	(24)	(5)		47
Other short-term loans	1	(1)			
Forward contracts ³⁾					
Equity	(1,181)	(2,096)		1,868	(1,410)
Dividend payable		(484)		484	
Forward contracts ³⁾	(982)			48	(934)
Treasury shares	(199)	(1,613)		1,336	(476)
Total		(2,347)			

¹⁾ Besides non-cash, other includes interest paid on finance leases, which is part of cash flows from operating activities

²⁾ In this table, current portion of long-term debt is included in long-term debt (and excluded from short-term debt).

³⁾ The forward contracts are related to the share buyback program and LTI plans

24 Contingencies

Accounting policies

Contingent liabilities

A contingent liability is a liability of uncertain timing and amount. Contingencies are not recognized in the balance sheet because they are dependent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company or because the risk of loss is estimated to be possible but not probable or because the amount cannot be measured reliably. Pursuant to IAS 37, Provisions, Contingent Liabilities and Contingent Assets, certain information is not disclosed for legal proceedings for which the company concludes that disclosure can be expected to seriously prejudice the outcome of the matter.

Financial guarantees

Philips' policy is to provide guarantees and other letters of support only in writing. Philips does not stand by other forms of support. The company recognizes a liability at the fair value of the obligation at the inception of a financial guarantee contract. The guarantee is subsequently measured at the higher of the best estimate of the obligation or the amount initially recognized less, when appropriate, cumulative amortization.

Accounting estimates and judgments

Significant judgment is required to determine the likelihood of a potential outflow of resources. In addition, judgment is involved in determining whether the amount of an obligation can be measured with sufficient reliability. Contingencies involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties, governmental actions, tax and environmental remediation.

Contingent assets

As of December 31, 2022, the company had no material contingent assets.

Guarantees

The total fair value of guarantees recognized on the balance sheet amounts to EUR nil million for both 2022 and 2021. Remaining off-balance-sheet business related guarantees on behalf of third parties and associates to EUR 2 million in 2022 (December 31, 2021: EUR 2 million).

Environmental remediation

The company and its subsidiaries are subject to environmental laws and regulations. Under these laws, the company and/or its subsidiaries may be required to remediate the effects of certain manufacturing activities on the environment.

Legal proceedings

The company and certain of its group companies and former group companies are involved as a party in legal proceedings, regulatory and other governmental proceedings, including discussions on potential remedial actions, relating to such matters as competition issues, commercial transactions, product liability, participations, and environmental pollution.

While it is not feasible to predict or determine the outcome of all pending or threatened legal proceedings, regulatory and governmental proceedings, the company is of the opinion that the cases described below may have, or have had in the recent past, a significant impact on the company's consolidated financial position, results of operations and cash flows.

Public Investigations

The company is engaged in discussions with, and has provided information to, the US Securities and Exchange Commission (SEC) and US Department of Justice (DoJ) regarding alleged tender irregularities in the medical device industry in certain jurisdictions. These interactions are primarily focused on a number of compliance findings that the company is addressing in Brazil, China and Bulgaria. In connection with these discussions and their status, the company recorded a provision in the amount of EUR 60 million.

Given the significant uncertainty regarding the nature of the relevant events and obligations, Philips is not currently able to reliably estimate the full financial effect of a range of possible outcomes in connection with the abovementioned discussions with the SEC and DoJ beyond the recorded provision. The outcomes of these matters could have a material impact on the company's consolidated financial position, results of operations and cash flows.

Respironics field action

On June 14, 2021, Philips' subsidiary Philips RS North America LLC (Philips Respironics) issued a voluntary recall notification in the United States and field safety notice outside the United States for specific Philips Respironics CPAP, Bi-Level PAP, and mechanical ventilator devices (the "Recalled Devices").

Consent decree

On August 26, 2021, the US Food and Drug Administration (FDA) commenced an inspection of the Philips Respironics manufacturing facility in Murrysville, Pennsylvania and provided Philips Respironics with its preliminary inspectional observations on November 9, 2021. Philips Respironics responded to the FDA's inspectional observations in December 2021,

which described the actions already taken by the company, as well as additional planned actions. Philips Respironics is also providing periodic updates to the FDA on its progress for the planned actions. In July 2022, Philips started discussions with the DoJ acting on behalf of the FDA on a consent decree that would address compliance requirements for future sales, the resolution of the inspectional findings and the completion of the recall. At the end of December 2022, the discussions are ongoing.

DoJ investigation

On April 8, 2022, Philips Respironics and certain of Philips' subsidiaries in the US received a subpoena from the US DoJ to provide information related to events leading to the Respironics recall. The relevant subsidiaries are cooperating with the investigation. The criminal and civil investigation is being conducted by the US DoJ's Consumer Protection Branch and Civil Fraud Section, and the US Attorney's Office for the Eastern District of Pennsylvania. Given the early stages of the investigation, the company is not able to reliably estimate the financial impact, if any.

Product liability claims

Following the voluntary recall notification, a number of civil complaints have been filed in several jurisdictions against Philips Respironics and certain of its affiliates (including the company) generally alleging economic loss, personal injury and/or the potential for personal injury allegedly caused by devices subject to the recall.

In the United States, consumer and commercial class action lawsuits have been filed alleging economic loss and medical monitoring claims. Individual personal injury lawsuits have also been filed. On October 8, 2021, a Multi-District Litigation (MDL) in the US District Court for the Western District of Pennsylvania was formed, and most of these class action and personal injury lawsuits have been consolidated in the MDL for pre-trial proceedings. As of December 31, 2022, plaintiffs have filed a consolidated economic loss class action complaint on behalf of device users, hospitals, and insurers and other third-party payers, a consolidated medical monitoring class action complaint on behalf of device users, and over 300 individual personal injury complaints. The company anticipates that the number of individual personal injury complaints will increase in 2023.

In September 2022, the MDL court established a voluntary, court-approved census registry, and associated tolling, for potential claimants who have not filed claims, but may file claims in the future, relating to the Recalled Devices. The census registry replaces the private tolling agreement that had been in effect before the establishment of the census registry. At the time of termination, approximately 60,000 individuals had entered into the private tolling agreement. In the event these individuals wish to pursue or preserve their claims, they will need to file a lawsuit or register on the census registry. By December 31, 2022, approximately 13,500 individuals had joined the census registry. The company anticipates that the number of individuals on the census registry will increase in 2023.

In Australia, a consumer class action lawsuit alleging personal injury was filed against the company's subsidiary Philips Electronics Australia Ltd on October 4, 2021. In the course of 2022, the plaintiff in the case has sought leave of the court to discontinue the class action citing that there is insufficient evidence to warrant the continuation of the class action and that since the issue of proceedings, Philips Respironics has been repairing, replacing, or refunding the devices which are the subject of the recall, meaning that any compensation relating to financial loss would be relatively confined. It is expected that the case will be discontinued in the first half of 2023.

Philips Respironics and certain of its affiliates (including the company) are also defendants in consumer class action lawsuits in Canada and Israel and collective actions in Chile, France and the Netherlands alleging economic loss and/or personal injury.

While the company believes it is probable that these lawsuits will in the aggregate lead to an outflow of economic resources for Philips Respironics or other Philips entities, given the significant uncertainty regarding the nature of the relevant events and potential obligations, the company is not currently able to reliably estimate the amount of the obligation associated with these various lawsuits. The final outcome of the lawsuits and the cost to resolve them cannot currently be determined due to a number of variables, including uncertainty regarding the ultimate number of claimants and their allegations. Moreover, Philips Respironics has not yet completed its test and research program for all of the categories of the Recalled Devices.

For the United States specifically, the relative early stage of the census registry, and lack of clarity around the nature of the specific injury each claimant is claiming, contribute to the uncertainty. In addition, the MDL court has not yet decided several significant motions, including motions to dismiss all of the complaints, and plaintiffs have not yet filed their motions for class certification in the economic loss and medical monitoring actions. Further, discovery is still in its early stages, and expert discovery has not yet begun. Moreover, Philips Respironics has not yet completed its test and research program for all of the categories of the Recalled Devices. An adverse outcome with respect to any or all of these lawsuits and/or any future claims could have a material impact on the company's consolidated financial position, results of operations and cash flows.

Securities claims

On August 16, 2021, a securities class action complaint was filed against the company, its former CEO and its CFO in the United States District Court for the Eastern District of New York alleging violations of the Securities Exchange Act of 1934 causing damage to investors. On January 3, 2022, the lead plaintiff in the case filed its amended complaint seeking to represent individuals that purchased Philips shares between February 23, 2016, through November 12, 2021. Following the filing and briefing of the company's motion to dismiss in the first half of 2022, plaintiff filed a second amended complaint on November 30, 2022, in

which the alleged damage period was expanded to include certain share price declines that were allegedly based on disclosures made in 2022. The second amended complaint now focuses on share price declines that allegedly occurred as a result of various disclosures starting on April 26, 2021 through October 2022. The company's motion to dismiss the second amended complaint is due in the first quarter of 2023.

On September 11, 2022, the company received a letter from shareholders representative organization European Investors-VEB ("VEB"). The VEB holds Philips and its (former) managing and supervisory directors liable for – inter alia – allegedly failing to timely disclose price-sensitive information to shareholders regarding indications of potential (severe) health risks from the use of Recalled Devices, failing to exercise proper oversight over Philips Respironics and implement and ensure a proper information and risk management structure; providing incorrect or incomplete information in the company's financial disclosures.

It is the company's assessment that it is possible but not probable that these cases could lead to a certain outflow of economic resources. The company is not able to reliably estimate the financial impact, if any. An adverse outcome of these cases could have a material impact on the company's consolidated financial position, results of operations and cash flows.

Other claims

On October 12, 2021, SoClean, a company offering ozone-based cleaning products for sleep devices, filed a lawsuit against the company and certain of its affiliates alleging that the defendants' statements about the potential adverse effect ozone cleaning may have on the recalled devices has significantly damaged its business. Philips believes that the claim is without merit and will vigorously defend itself. Motions to dismiss the case were filed in November and December 2022.

In addition, some of Philips Respironics' business partners such as distributors and durable medical equipment providers have filed or threatened to file claims alleging economic losses suffered as a consequence of the voluntary recall. In particular, Philips Respironics is engaging with certain of its business partners on the level of compensation they allege to be entitled to under Philips Respironics' replacement program of the Recalled Devices.

It is the company's assessment that it is possible but not probable that these cases could lead to a certain outflow of economic resources. The company is not able to reliably estimate the financial impact, if any. In the event of an adverse outcome, these matters could have a material impact on the company's consolidated financial position, results of operations and cash flows.

To date no provisions have been recorded for the litigation and investigations associated with the Respironics field action.

Miscellaneous

For details on other contractual obligations, please refer to liquidity risk in [Details of treasury and other financial risks, starting on page 218](#).

25 Related-party transactions

In the normal course of business, Philips purchases and sells goods and services from/to various related parties in which Philips typically holds between 20% and 50% equity interest and has significant influence. These transactions are generally conducted with terms comparable to transactions with third parties.

Philips Group

Related-party transactions in millions of EUR

	2020	2021	2022
Sales of goods and services	204	116	111
Purchases of goods and services	57	41	46
Receivables from related parties	37	40	55
Payables to related parties	1	2	2

In the previous table, sales transactions between Philips and PMC are included amounting to EUR 101 million in 2022 (2021: EUR 106 million; 2020: EUR 191 million), under which PMC has leased the equipment to the ultimate customer. In addition to that, as part of its S&RC operations in the US, Philips Medical Capital LLC funded durable medical equipment (DMEs) providers, through loans and leases. PMC-funded transactions these DMEs entered into with Philips amount to EUR 117 million in 2022 (2021: EUR 162 million; 2020: EUR 242 million). The associated costs of these funding transactions are borne by the ultimate customer and settled directly with Philips Medical Capital LLC.

Philips Medical Capital LLC, a Pennsylvania limited liability company, is owned 60% by De Lage Landen Financial Services, Inc. (DLL) and 40% by Philips Electronics North America Corporation (Philips).

In light of the composition of the Executive Committee, the company considers the members of the Executive Committee and the Supervisory Board to be the key management personnel as defined in IAS 24 Related Party Disclosures.

For remuneration details of the Executive Committee, the Board of Management and the Supervisory Board see [Information on remuneration, starting on page 211](#).

For Post-employment benefit plans see [Post-employment benefits, starting on page 198](#).

26 Share-based compensation

Accounting policies

Philips share-based compensation is an equity-settled plan comprising restricted and performance shares. The restricted shares are subject to a three-year service condition and the performance shares include both market and non-market-based performance conditions, in addition to a three-year vesting period. These shares are awarded to the Executive Committee and Senior Management.

The grant date fair value of market-based performance shares is determined through a Monte Carlo valuation model. The grant date fair value of non-market-based performance shares and restricted shares is determined as the share price at the grant date as participants are eligible to receive dividends throughout the vesting period. The costs of share-based compensation plans are revised for expected performance (non-market-based performance shares) and forfeiture and are spread evenly over the service period.

Share-based compensation is recognized over the vesting period as personnel expense in the consolidated statement of income, with a corresponding increase to equity.

Accounting estimates and judgments

The use of a valuation model to determine market-based performance share fair value requires estimates for the expected volatility of the Philips share price and correlation among input variables.

At each reporting date, Philips calculates the expected realization the of non-market-based performance targets and revises the expected share-based compensation expense. The cumulative effect is recorded in the consolidated statement of income with a corresponding adjustment in equity.

No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met.

The purpose of the share-based compensation plans is to align the interests of management with those of shareholders by providing incentives to improve the company's performance on a long-term basis, thereby increasing shareholder value.

The company has the following plans:

- performance shares: rights to receive common shares in the future based on performance and service conditions;
- restricted shares: rights to receive common shares in the future based on a service condition; and
- options on its common shares, including the 2012 and 2013 Accelerate! grant.

Since 2013 the Board of Management and other members of the Executive Committee are only granted performance shares^{*)}. Performance shares as well as restricted shares can be granted to executives, certain selected employees and new employees. Prior to 2013 options were also granted.

Under the terms of employee stock purchase plans established by the company in various countries, employees are eligible to purchase a limited number of Philips shares at discounted prices through payroll withholdings.

Share-based compensation costs were EUR 104 million (2021: EUR 115 million; 2020: EUR 119 million). This includes the employee stock purchase plan of EUR 9 million, which is not a share-based compensation that affects equity. In the Consolidated statements of changes in equity EUR 95 million is recognized in 2022 and represent the costs of the share-based compensation plans. The amount recognized as an expense is adjusted for forfeiture. USD-denominated performance shares, restricted shares and options are granted to employees in the United States only.

Performance shares

The performance is measured over a three-year performance period. The performance shares granted in 2019 have two performance conditions, relative Total Shareholders' Return ('TSR') compared to a peer group of 20 companies including Philips (2021: 20 companies; 2020: 20 companies, 2019; 20 companies) and adjusted Earnings Per Share growth^{**)} ('EPS'). For performance shares granted in 2020 onwards, an additional non-financial criterion was added around sustainability. The introduction of the sustainability criterion reflects a further alignment of the remuneration package for the Board of Management with Philips' mission, vision and aim to act as a responsible member of society. The criterion is based on three Sustainable Development Goals ('SDG') as defined by the United Nations that are included in Philips' strategy on sustainability (refer to [Environment, Social and Governance, starting on page 45](#)).

The performance shares vest three years after the grant date. The number of performance shares that will vest is dependent on achieving the performance conditions provided that the grantee is still employed with the company. For the performance shares with a grant date in 2019 the two financial conditions, TSR and EPS, are equally weighted, while for the performance shares with a grant date in 2020, 2021, and 2022 the TSR is weighted 50%, EPS 40% and SDG 10%.

The amount recognized as an expense is adjusted for actual performance of adjusted EPS growth^{**)} and the actual realization of the SDGs since these are non-market performance conditions. It is not adjusted for non-vesting or extra vesting of performance shares due to a relative TSR performance that differs from the performance anticipated at the grant date, since this is a market-based performance condition.

The fair value of the performance shares is measured based on Monte-Carlo simulation, which takes into account dividend payments between the grant date and the vesting date by including reinvested dividends as well as the market conditions expected to impact relative Total Shareholders' Return performance in relation to selected peers. The following weighted-average assumptions were used for the 2022 grants:

- Risk-free rate: 0.43%
- Expected share price volatility: 32%

The assumptions were used for these calculations only and do not necessarily represent an indication of Management's expectation of future developments for other purposes. The company has based its volatility assumptions on historical experience measured over a ten-year period.

A summary of the status of the company's performance share plans as of December 31, 2022 and changes during the year are presented in the following table:

Philips Group
Performance shares

	2021		2022	
	shares	weighted average grant-date fair value	shares	weighted average grant-date fair value
EUR-denominated				
Outstanding as of January 1	3,545,312	41.31	3,097,713	45.28
Granted	1,121,001	50.73	2,323,435	20.55
Notional dividends ¹⁾	62,872	45.22	155,067	33.91
Vested/Issued	(1,466,223)	39.18	(434,329)	40.90
Forfeited	(272,873)	45.90	(233,556)	38.67
Adjusted quantity ²⁾	107,624	37.67	(522,493)	40.48
Outstanding as of December 31	3,097,713	45.28	4,385,837	33.13
USD-denominated				
Outstanding as of January 1	2,412,767	47.10	2,005,000	51.48
Granted	693,918	61.32	1,530,585	21.93
Notional dividends ¹⁾	41,324	51.42	98,883	37.15
Vested/Issued	(947,772)	47.48	(248,848)	45.23
Forfeited	(268,500)	51.29	(309,570)	44.04
Adjusted quantity ²⁾	73,264	50.06	(326,066)	45.26
Outstanding as of December 31	2,005,000	51.48	2,749,983	36.66

¹⁾ Dividend declared in 2022 on outstanding shares.

²⁾ Adjusted quantity includes the adjustments made to Performance shares outstanding due to updates on the actual TSR and EPS.

As of December 31, 2022, a total of EUR 103 million of unrecognized compensation costs relate to non-vested performance shares (as of December 31, 2021 EUR 110 million; as of December 31, 2020 EUR 116 million). These costs are expected to be recognized over a weighted-average period of 1.83 years.

Restricted shares

The fair value of restricted shares is equal to the share price at grant date. The company issues restricted shares that, in general, have a 3 year cliff-vesting period provided that the grantee is still employed with the company.

A summary of the status of the company's restricted shares as of December 31, 2022 and changes during the year are presented in the following table:

Philips Group
Restricted shares

	2021		2022	
	shares	weighted average grant-date fair value	shares	weighted average grant-date fair value
EUR-denominated				
Outstanding as of January 1	1,813,385	36.20	1,618,488	39.93
Granted	631,347	44.41	1,349,003	22.03
Notional dividends ¹⁾	33,430	39.69	81,500	35.67
Vested/Issued	(671,703)	33.96	(540,930)	35.82
Forfeited	(187,648)	40.19	(186,811)	35.06
Cancelled	(323)	35.72		
Outstanding as of December 31	1,618,488	39.93	2,321,250	30.73
USD-denominated				
Outstanding as of January 1	1,649,847	41.14	1,611,021	46.26
Granted	721,469	53.42	1,463,855	23.60
Notional dividends ¹⁾	30,551	44.99	83,151	39.37
Vested/Issued	(584,833)	40.64	(541,336)	41.48
Forfeited	(206,013)	46.09	(271,427)	38.51
Outstanding as of December 31	1,611,021	46.26	2,345,263	33.87

¹⁾ Dividend declared in 2022 on outstanding shares.

As of December 31, 2022, a total of EUR 72 million of unrecognized compensation costs relate to non-vested restricted shares (as of December 31, 2021 EUR 66 million; as of December 31, 2020 EUR 62 million). These costs are expected to be recognized over a weighted-average period of 1.84 years.

Option plans

The company granted options that expire after ten years. These options vest after three years, provided that the grantee is still employed with the company. All outstanding options have vested as of December 31, 2022.

The following tables summarize information about the company's options as of December 31, 2022 and changes during the year:

Philips Group

Options on EUR-denominated listed share

	options	weighted average exercise price
Outstanding as of January 1, 2022	239,077	14.93
Exercised	(226,177)	14.91
Expired	(12,150)	14.82
Outstanding as of December 31, 2022	750	22.43
Exercisable as of December 31, 2022	750	22.43

The exercise prices range from EUR 14.82 to EUR 22.43. The weighted average remaining contractual term for options outstanding and options exercisable as of December 31, 2022, was 0.1 years. The aggregate intrinsic value of the options outstanding and options exercisable as of December 31, 2022, was EUR 0 million.

The total intrinsic value of options exercised during 2022 was EUR 3 million (2021: EUR 6 million, 2020: EUR 9 million).

Philips Group

Options on USD-denominated listed share

	options	weighted average exercise price
Outstanding as of January 1, 2022	150,165	19.75
Exercised	(136,665)	19.53
Expired	(11,550)	20.62
Outstanding as of December 31, 2022	1,950	30.27
Exercisable as of December 31, 2022	1,950	30.27

The exercise prices range from 19.50 to 30.27. The weighted average remaining contractual term for options outstanding and options exercisable as of December 31, 2022, was 0.1 years. The aggregate intrinsic value of the options outstanding and options exercisable as of December 31, 2022, was 0 million.

The total intrinsic value of options exercised during 2022 was USD2 million (2021: USD 7 million, 2020: USD 11 million).

As of December 31, 2022 there were no unrecognized compensation costs related to outstanding options. Cash received from exercises under the company's option plans amounted to EUR 6 million in 2022 (2021: EUR 9 million, 2020: EUR 21 million). The actual tax deductions realized as a result of USD option exercises totaled approximately 0.6 million in 2022 (2021: EUR 1 million, 2020: EUR 3 million).

The outstanding options as of December 31, 2022 are categorized in exercise price ranges as follows:

Philips Group

Outstanding options in millions of EUR unless otherwise stated

	options	intrinsic value in millions	weighted average remaining contractual term
EUR-denominated			
10-15			
15-20			
20-25	750		0.1
Outstanding options	750		0.1
USD-denominated			
15-20			
20-25			
25-30			
30-35	1,950		0.1
Outstanding options	1,950		0.1

The aggregate intrinsic value in the tables and text above represents the total pre-tax intrinsic value (the difference between the company's closing share price on the last trading day of 2022 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders if the options had been exercised on December 31, 2022.

The following table summarizes information about the company's Accelerate! options as of December 31, 2022 and changes during the year:

Philips Group
Accelerate! options

	options	weighted average exercise price
EUR-denominated		
Outstanding as of January 1, 2022	136,975	18.13
Exercised	(81,975)	15.24
Outstanding as of December 31, 2022	55,000	22.43
Exercisable as of December 31, 2022		
	55,000	22.43
USD-denominated		
Outstanding as of January 1, 2022	17,500	20.02
Exercised	(17,500)	20.02
Outstanding as of December 31, 2022		
Exercisable as of December 31, 2022		

The exercise prices of the Accelerate! options are EUR 15.24 and EUR 22.43 for EUR-denominated options and is USD 20.02 for USD-denominated options. The weighted average remaining contractual term for EUR-denominated Accelerate! options outstanding and exercisable as of December 31, 2022 was 0.1 years. The weighted average remaining contractual term for USD-Accelerate! options outstanding and exercisable as of December 31, 2022 was 0 years. The aggregate intrinsic value of the EUR-denominated Accelerate! options outstanding and exercisable as of December 31, 2022, was EUR 0 million. The aggregate intrinsic value of the USD-denominated Accelerate! options outstanding and exercisable as of December 31, 2022 was USD 0 million.

The total intrinsic value of Accelerate! options exercised during 2022 was EUR 1.1 million for EUR-denominated options (2021: EUR 0.7 million, 2020: EUR 1.6 million) and USD 0.3 million for USD-denominated options (2021: USD 0.7 million, 2020: USD 0.9 million).

Cash received from exercises for EUR-denominated and USD-denominated Accelerate! options amounted to EUR 1.6 million in 2022 (2021: EUR 0.7 million, 2020: EUR 1.4 million). The actual tax deductions realized as a result of Accelerate! USD options exercises totaled approximately EUR 0.1 million in 2022 (2021: EUR 0.1 million, 2020: EUR 0.1 million).

^{*)} Executive Committee members can receive restricted share rights as a sign-on LTI awards upon hiring.

^{**)} The definition of this non-IFRS measure and a reconciliation to the IFRS measure is included in [Equity, starting on page 187](#)

27 Information on remuneration

Remuneration of the Executive Committee

In 2022, the total remuneration costs relating to the members of the Executive Committee (consisting of 14 members throughout the year, including the members of the Board of Management) amounted to EUR 25.6 million (2021: EUR 33.4 million; 2020: EUR 33.2 million) consisting of the elements in the following table.

Philips Group
Remuneration costs of the Executive Committee ¹⁾ in EUR

	2020	2021	2022
Base salary/Base compensation	9,299,794	9,598,588	9,528,279
Annual incentive ²⁾	6,726,768	5,250,408	208,370
Performance shares ³⁾	13,153,975	12,610,073	11,242,581
Restricted share rights ³⁾	288,372	1,380,644	1,191,529
Pension allowances ⁴⁾	2,054,570	2,107,953	1,949,204
Pension scheme costs	382,513	306,694	288,179
Other compensation ⁵⁾	1,264,908	2,104,044	1,216,163
Total	33,170,901	33,358,405	25,624,305

¹⁾ The Executive Committee consisted of 13 members as per December 31, 2022 (2021: 13 members; 2020: 15 members)

²⁾ The annual incentives are related to the performance in the year reported which are paid out in the subsequent year.

³⁾ Costs of performance shares and restricted share rights are based on accounting standards (IFRS) and do not reflect the value of performance shares at the vesting/release date

⁴⁾ Pension allowances are gross taxable allowances paid to the Executive Committee members in the Netherlands. These allowances are part of the pension arrangement

⁵⁾ The stated amounts mainly concern (share of) allowances to members of the Executive Committee 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

As of December 31, 2022, the members of the Executive Committee (including the members of the Board of Management) held 0 stock options (2021: 184,900; 2020: 193,300).

Remuneration of the Board of Management

In 2022, the total remuneration costs relating to the members of the Board of Management amounted to EUR 8.4 million (2021: EUR 10.3 million; 2020: EUR 11.4 million), see the following table.

Philips Group

Remuneration costs of individual members of the Board of Management in EUR

	base compensation/ salary	annual incentive ¹⁾	performance shares ²⁾	restricted share rights ²⁾	pension allowances ³⁾	pension scheme costs	other compen- sation	total costs
2022								
R. Jakobs ⁴⁾	256,438		112,737	-	57,973	6,012	11,507	444,667
F.A. van Houten ⁴⁾	1,041,849	208,370	2,930,068	-	444,051	22,121	42,533	4,688,992
A. Bhattacharya	806,250	-	763,140	-	237,250	28,133	61,308	1,896,081
M.J. van Ginneken	626,250	-	585,490	-	141,622	28,133	35,343	1,416,837
	2,730,788	208,370	4,391,434	-	880,896	84,398	150,691	8,446,577
2021								
F.A. van Houten	1,325,000	850,915	2,626,295	-	565,403	27,462	57,224	5,452,299
A. Bhattacharya	790,000	360,103	1,172,533	-	233,857	27,462	68,908	2,652,864
M.J. van Ginneken	605,000	317,192	886,035	-	150,755	27,462	42,610	2,029,054
	2,720,000	1,528,211	4,684,863	-	950,014	82,387	168,742	10,134,217
2020								
F.A. van Houten	1,325,000	1,298,500	2,874,467	-	565,922	27,001	62,176	6,153,067
A. Bhattacharya	785,000	596,600	1,295,996	-	233,126	27,001	70,267	3,007,990
M.J. van Ginneken	580,000	437,920	952,453	-	158,800	27,001	46,986	2,203,160
	2,690,000	2,333,020	5,122,916	-	957,849	81,004	179,428	11,364,217

¹⁾ The annual incentives are related to the performance in the year reported which are paid out in the subsequent year.

²⁾ Costs of performance shares and restricted share rights are based on accounting standards (IFRS) and do not reflect the value of performance shares at the vesting/release date

³⁾ 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.

⁴⁾ 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.

The accumulated annual pension entitlements and the pension costs of individual members of the Board of Management are as follows:

Philips Group

Accumulated annual pension entitlements and pension-related costs in EUR unless otherwise stated

	age at December 31, 2022	accumulated annual pension as of December 31, 2022	total pension related costs
R. Jakobs	48	53,175	63,985
A. Bhattacharya	61	37,446	265,383
M.J. van Ginneken	49	50,614	169,755
Pension costs			499,123

When pension rights are granted to members of the Board of Management, necessary payments (if insured) and all necessary provisions are made in accordance with the applicable accounting principles. In 2022, no (additional) pension benefits were granted to former members of the Board of Management.

Remuneration of the Supervisory Board

The remuneration of the members of the Supervisory Board amounted to EUR 1.5 million (2021: EUR 1.3 million; 2020: 1.3 million). Former members received no remuneration.

The members of the Supervisory Board do not receive any share-based remuneration. Therefore, as of December 31, 2022 the members of the Supervisory Board held no stock options, performance shares or restricted shares.

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

Philips Group Remuneration of the Supervisory Board in EUR

	membership	committees	other compensation ¹⁾	total
2022				
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
	1,105,616	248,411	192,574	1,546,602
2021				
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
P.A.M. Stoffels	109,863	27,808	4,769	142,440
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
F. Sijbesma	141,301	27,808	8,237	177,346
I. Nooyi	100,000	14,000	2,269	116,269
S.K. Chua	65,753	11,836	1,492	79,081
	1,044,644	242,652	38,595	1,325,891
2020				
J. van der Veer	155,000	35,000	11,345	201,345
C.A. Poon	115,000	49,000	7,269	171,269
P. Löscher	66,667	21,333	1,513	89,513
F. Sijbesma	76,667	9,333	1,513	87,513
N. Dhawan	100,000	18,000	7,269	125,269
O. Gadiesh	100,000	14,000	2,269	116,269
D.E.I. Pyott	100,000	42,000	12,269	154,269
P.A.M. Stoffels	100,000	9,333	9,769	119,102
A.M. Harrison	100,000	14,000	2,269	116,269
M.E. Doherty	100,000	24,000	9,769	133,769
	1,013,333	236,000	65,254	1,314,587

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.

Supervisory Board members' and Board of Management members' interests in Philips shares

Members of the Supervisory Board and of the Board of Management are prohibited from writing call and put options or similar derivatives of Philips securities.

Philips Group

Shares held by Board members ^{1) 2)} in number of shares

	December 31, 2021	December 31, 2022
R. Jakobs	101,156	109,422
A. Bhattacharya	148,365	169,517
M.J. van Ginneken	110,528	123,914
P. Stoffels	-	17,000
S. Poonen	-	3,000
I. Nooyi	-	3,100
D. Pyott	-	19,000
S.K. Chua	-	2,000
F. Sijbesma	-	12,500
M. Harrison	-	1,500
P. Löscher	-	20,732

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

²⁾ The total shares held by the members of the Board of Management is less than 1% of the company's issued share capital.

28 Fair value of financial assets and liabilities

Accounting policies

Fair value hierarchy

For financial reporting purposes, financial instruments are categorized into Level 1, 2 or 3, based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are as follows:

- Level 1 – inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that the company can access at the measurement date.
- Level 2 – all significant inputs (other than quoted prices included within Level 1) are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 – one or more of the significant inputs are not based on observable market data, such as third-party pricing information without adjustments, for the asset or liability.

Transfers between levels of the fair value hierarchy are recognized at the end of the reporting period during which the change has occurred.

Offsetting and master netting agreements

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when, and only when, the company has currently a legally enforceable right to set-off the amounts and the group intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Accounting estimates and judgments

Determining the fair value of financial instruments requires the use of estimates according to the method applied for each type of financial asset or liability. The estimated fair value of financial instruments has been determined by the company using available market information and appropriate valuation methods. The estimates presented are not necessarily indicative of the amounts that will ultimately be realized by the company upon maturity or disposal. The use of different market assumptions and/or estimation methods may have a material effect on the estimated fair value amounts.

Specific valuation techniques used to value financial instruments include:

Level 1

Instruments included in level 1 are comprised primarily of listed equity investments classified as financial assets carried at fair value through profit or loss or carried at fair value through other comprehensive income. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives or convertible bond instruments) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are based on observable market data,

the instrument is included in level 2. The fair value of derivatives is calculated as the present value of the estimated future cash flows based on observable interest yield curves, basis spread and foreign exchange rates. The valuation of convertible bond instruments uses observable market quoted data for the options and present value calculations using observable yield curves for the fair value of the bonds.

Level 3

If one or more of the significant inputs are not based on observable market data, such as third-party pricing information without adjustments, the instrument is included in level 3.

The fair value of debt is estimated on the basis of the quoted market prices for certain issuances, or on the basis of discounted cash flow analysis using market rates plus Philips' spread for the particular tenors of the borrowing arrangement. Accrued interest is not included within the carrying amount or estimated fair value of debt.

The fair value of contingent consideration is dependent on the terms of the respective acquisition agreement that may require Philips to pay additional consideration to former shareholders if specified future events occur or conditions are met, such as the achievement of certain regulatory milestones or the achievement of certain commercial milestones. The fair value of the contingent consideration provision is generally determined using a probability-weighted and a risk-adjusted approach to estimate the achievement of future regulatory and commercial milestones, respectively. The discount rates used in the risk adjusted approach reflect the inherent risk related to achieving the commercial milestones. Both regulatory and commercial milestones are discounted for the time value of money at risk-free rates. The fair value measurement is based on management's estimates and assumptions and hence classified as Level 3 in the fair value hierarchy.

The following tables show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. Fair value information for financial assets and financial liabilities not carried at fair value is not included if the carrying amount is a reasonable approximation of fair value.

Philips Group

Fair value of financial assets and liabilities in millions of EUR

	carrying amount	estimated fair value ¹⁾	Level 1	Level 2	Level 3
December 31, 2022					
Financial assets					
Carried at fair value:					
Debt instruments	232	232			232
Equity instruments	4	4	1		2
Other financial assets	86	86		35	51
Financial assets carried at FVTP&L	322	322	1	35	285
Debt instruments	25	25		25	
Equity instruments	259	259	30		229
Current financial assets	9	9			9
Receivables - current	26	26			26
Financial assets carried at FVTOCI	319	319	30	25	264
Derivative financial instruments	127	127		127	
Financial assets carried at fair value	768	768	32	187	549
Carried at (amortized) cost:					
Cash and cash equivalents	1,172				
Loans and receivables:					
Current loans receivables	2				
Other non-current loans and receivables	54				
Receivables - current	4,088				
Receivables - non-current	279				
Financial assets carried at (amortized) cost	5,596				
Total financial assets	6,364				

	carrying amount	estimated fair value ¹⁾	Level 1	Level 2	Level 3
Financial liabilities					
Carried at fair value:					
Contingent consideration	(113)	(113)			(113)
Financial liabilities carried at FVTP&L	(113)	(113)			(113)
Derivative financial instruments	(211)	(211)		(211)	
Financial liabilities carried at fair value	(324)	(324)		(211)	(113)
Carried at (amortized) cost:					
Accounts payable	(1,968)				
Interest accrual	(71)				
Debt (Corporate bonds and leases)	(6,520)	(6,083)	(5,001)	(1,082)	
Debt (excluding corporate bonds and leases)	(1,680)				
Financial liabilities carried at (amortized) cost	(10,240)				
Total financial liabilities	(10,564)				

¹⁾ For Cash and cash equivalents, Loans and receivables, Accounts payable, interest accrual and Debt (excluding corporate bonds and leases), the carrying amounts approximate fair value because of the nature of these instruments (including maturity and interest conditions) and therefore fair value information is not included in the table above.

Philips Group

Fair value of financial assets and liabilities in millions of EUR

	carrying amount	estimated fair value ¹⁾	Level 1	Level 2	Level 3
December 31, 2021					
Financial assets					
Carried at fair value:					
Debt instruments	233	233			233
Equity instruments	4	4	4		
Other financial assets	46	46		34	12
Financial assets carried at FVTP&L	283	283	4	34	245
Debt instruments	27	27		27	
Equity instruments	273	273	63		210
Current financial assets	-	-			
Receivables - current	68	68			68
Financial assets carried at FVTOCI	368	368	63	27	278
Derivative financial instruments	63	63		63	
Financial assets carried at fair value	714	714	67	124	523
Carried at (amortized) cost:					
Cash and cash equivalents	2,303				
Loans and receivables:					
Current loans receivables	2				
Other non-current loans and receivables	47				
Receivables - current	3,720				
Receivables - non-current	224				
Financial assets carried at (amortized) cost	6,296				
Total financial assets	7,010				

	carrying amount	estimated fair value ¹⁾	Level 1	Level 2	Level 3
Financial liabilities					
Carried at fair value:					
Contingent consideration	(208)	(208)			(208)
Financial liabilities carried at FVTP&L	(208)	(208)			(208)
Derivative financial instruments	(202)	(202)		(202)	
Financial liabilities carried at fair value	(410)	(410)		(202)	(208)
Carried at (amortized) cost:					
Accounts payable	(1,872)				
Interest accrual	(52)				
Debt (Corporate bonds and leases)	(5,765)	(6,396)	(5,177)	(1,220)	
Debt (excluding corporate bonds and leases)	(1,214)				
Financial liabilities carried at (amortized) cost	(8,904)				
Total financial liabilities	(9,314)				

¹⁾ For Cash and cash equivalents, Loans and receivables, Accounts payable, interest accrual and Debt (excluding corporate bonds and leases), the carrying amounts approximate fair value because of the nature of these instruments (including maturity and interest conditions) and therefore fair value information is not included in the table above.

The following table shows the reconciliation from the beginning balance to the end balance for Level 3 fair value measurements.

Philips Group

Reconciliation of Level 3 fair value measurements in millions of EUR

	Financial assets	Financial liabilities
Balance as of January 1, 2022	523	208
Acquisitions		96
Purchase	131	
Sales	(76)	
Utilizations		(105)
Recognized in profit and loss:		
other business income		(85)
financial income and expenses ¹⁾	7	(8)
Recognized in other comprehensive income ²⁾		8
Receivables held to collect and sell	(41)	
Reclassification	5	
Balance as of December 31, 2022	549	113

¹⁾ Refer to Financial income and expenses, starting on page 167 for details.

²⁾ Includes translation differences

Philips Group

Reconciliation of Level 3 fair value measurements in millions of EUR

	Financial assets	Financial liabilities
Balance as of January 1, 2021	411	318
Acquisitions		16
Purchase	113	
Sales	(122)	
Utilizations		(48)
Recognized in profit and loss:		
other business income		(87)
financial income and expenses	98	1
Recognized in other comprehensive income ¹⁾	12	9
Receivables held to collect and sell	(25)	
Reclassification from associates	36	
Balance as of December 31, 2021	523	208

¹⁾ Includes translation differences

Offsetting and master netting agreements

Transactions in derivatives are subject to master netting and set-off agreements. In the case of certain termination events, under the terms of the master agreement, Philips can terminate the outstanding transactions and aggregate their positive and negative values to arrive at a single net termination sum (or close-out amount). This contractual right is subject to the following:

- The right may be limited by local law if the counterparty is subject to bankruptcy proceedings.
- The right applies on a bilateral basis.

Philips Group

Financial assets subject to offsetting, enforceable master netting arrangements or similar agreements in millions of EUR

	2021	2022
Derivatives		
Gross amounts of recognized financial assets	63	127
Gross amounts of recognized financial liabilities offset in the balance sheet		
Net amounts of financial assets presented in the balance sheet	63	127
Related amounts not offset in the balance sheet		
Financial instruments	(47)	(54)
Net amount	17	73

Philips Group

Financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements in millions of EUR

	2021	2022
Derivatives		
Gross amounts of recognized financial liabilities	(202)	(211)
Gross amounts of recognized financial assets offset in the balance sheet		
Net amounts of financial liabilities presented in the balance sheet	(202)	(211)
Related amounts not offset in the balance sheet		
Financial instruments	47	54
Net amount	(155)	(157)

29 Details of treasury and other financial risks

Accounting policies

Derivative financial instruments, including hedge accounting

The company uses derivative financial instruments principally to manage its foreign currency risks and, to a more limited extent, interest rate and commodity price risks. All derivative financial instruments are accounted for at the trade date and classified as current or non-current assets or liabilities based on the maturity date or the early termination date. The company measures all derivative financial instruments at fair value that is derived from the market prices of the instruments, calculated on the basis of the present value of the estimated future cash flows based on observable interest yield curves, basis spread, credit spreads and foreign exchange rates, or derived from option pricing models, as appropriate. Gains or losses arising from changes in fair value of derivatives are recognized in the Consolidated statements of income, except for derivatives that are highly effective and qualify for cash flow or net investment hedge accounting.

Changes in the fair value of foreign exchange forward contracts attributable to forward points and changes in the time value of the option contracts are deferred in the cash flow hedges reserve within equity. The deferred amounts are recognized in the Consolidated statements of income against the related hedged transaction when it occurs.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge are recorded in OCI until the Consolidated statements of income are affected by the variability in cash flows of the designated hedged item. To the extent that the hedge is ineffective, changes in the fair value are recognized in the Consolidated statements of income.

The company formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When it is established that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the company discontinues hedge accounting prospectively. When hedge accounting is discontinued because it is expected that a forecasted transaction will not occur, the company continues to carry the derivative on the Consolidated balance sheets at its fair value, and gains and losses that were accumulated in OCI are recognized immediately in the same line item as they relate to in the Consolidated statements of income.

Foreign currency differences arising upon retranslation of financial instruments designated as a hedge of a net investment in a foreign operation are recognized directly in the currency translation differences reserve through OCI, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized in the Consolidated statements of income.

Accounting estimates and judgments

Financial assets are subject to impairment assessment, which involves estimating expected credit losses. Refer to [Other financial assets, starting on page 184](#) for accounting policies on impairment of financial assets.

Philips is exposed to several types of financial risks which are further analyzed below. Philips does not purchase or hold derivative financial instruments for speculative purposes. Information regarding financial instruments is included in [Fair value of financial assets and liabilities, starting on page 214](#).

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk for the group is monitored through the Treasury liquidity committee, which tracks the development of the actual cash flow position for the group and uses input from a number of sources in order to forecast the overall liquidity position on both a short and longer term basis. Philips invests surplus cash in short-term deposits with appropriate maturities to ensure sufficient liquidity is available to meet liabilities when due and in money market funds.

The rating of the company's debt by major rating agencies may improve or deteriorate. As a result, Philips' future borrowing capacity may be influenced and its financing costs may fluctuate. Philips has various sources to mitigate the liquidity risk for the group. As of

December 31, 2022, Philips had EUR 1,172 million in cash and cash equivalents (2021: EUR 2,303 million), within which short-term deposits of EUR 482 million (2021: EUR 1,357 million). Cash and cash equivalents include all cash balances, money market funds and short-term highly liquid investments with an original maturity of three months or less that are readily convertible into known amounts of cash. Philips pools cash from subsidiaries to the extent legally and economically feasible; cash not pooled remains available for the company's operational or investment needs.

Philips faces cross-border foreign exchange controls and/or other legal restrictions in a few countries that could limit its ability to make these balances available on short notice for general use by the group.

Philips has a USD 2.5 billion Commercial Paper Program and a EUR 1 billion committed standby revolving credit facility that can be used for general group purposes, such as a backstop for its Commercial Paper Program. As of December 31, 2022, Philips did not have any loans outstanding under either facility. These facilities do not have a material adverse change clause, have no financial covenants and no credit-rating-related acceleration possibilities. Philips issued commercial paper of EUR 200 million in September 2022 and EUR 101 million in October 2022, that was repaid throughout the fourth quarter of 2022. In addition, Philips secured a EUR 1 billion credit facility in the fourth quarter of 2022 that can be used for general corporate purposes. As of December 31, 2022, Philips had EUR 500 million outstanding under the credit facility. The facility does not have a material adverse change clause, has no financial covenants and no credit-rating-related acceleration possibilities. As per March 9, 2020, Philips established a Euro Medium-Term Note (EMTN) program, a framework that facilitates the issuance of notes for a total amount up to EUR 10 billion. In 2022, Philips issued three new tranches under the program for a total of EUR 2 billion, while also redeeming its outstanding 2023 and 2024 Notes and issuing a tender offer on the outstanding 2025 and 2026 Notes. For a description of Philips' credit facilities, refer to [Debt, starting on page 191](#).

In addition to cash and cash equivalents, as of December 31, 2022, Philips also held EUR 32 million of listed (level 1) equity investments at fair value (classified as other non-current financial assets).

The following table presents a summary of the Group's fixed contractual cash obligations and commitments as of December 31, 2022. These amounts are an estimate of future payments which could change as a result of various factors such as a change in interest rates, foreign exchange, contractual provisions, as well as changes in business strategy and needs. Therefore, the actual payments made in future periods may vary from those presented in the following table:

Philips Group

Contractual cash obligations ^{1) 2)} in millions of EUR

	total	payments due by period			
		less than 1 year	1-3 years	3-5 years	after 5 years
Long-term debt	8,168	842	1,760	1,809	3,757
Short-term debt	89	89			
Interest on debt	1,683	159	304	264	956
Derivative liabilities	210	208	2		
Purchase obligations ³⁾	782	336	412	21	12
Trade and other payables	1,968	1,968			
Contractual cash obligations	12,901	3,603	2,478	2,094	4,725

¹⁾ Amounts in this table are undiscounted

²⁾ This table excludes post-employment benefit plan contribution commitments and income tax liabilities in respect of tax risks because it is not possible to make a reasonably reliable estimate of the actual period of cash settlement.

³⁾ Purchase obligations are agreements to purchase goods or services that are enforceable and legally binding for the Group. They specify all significant terms, including fixed or minimum quantities to be purchased, fixed, minimum or variable price provisions and the approximate timing of the transaction. They do not include open purchase orders or other commitments which do not specify all significant terms.

Philips has contracts with investment funds where it committed itself to make, under certain conditions, capital contributions to these funds of an aggregated remaining amount of EUR 127 million (2021: EUR 116 million). As of December 31, 2022 capital contributions already made to these investment funds are recorded as non-current financial assets.

Philips offers voluntary supply chain finance programs with third parties which provide participating suppliers the opportunity to factor their trade receivables at the sole discretion of both the suppliers and the third parties. Philips continues to recognize these liabilities as trade payables and settles them accordingly on the invoice maturity date based on the terms and conditions these arrangements. As of December 31, 2022 approximately EUR 151 million (2021: EUR 139 million) of the Philips account payable were transferred under these arrangements.

With respect to the Respiroics field action, please refer to [Contingencies, starting on page 204](#). The management continues to monitor the risks associated with such potential claims and its impact on liquidity position, if any.

Leasing activities

The company leases various items of real estate, vehicles and other equipment where it acts as a lessee. The company has multiple extension and termination options in a number of lease contracts. These are used to maximize operational flexibility in terms of managing the assets used in the company's operations. The options considered reasonably certain are part of lease liabilities. However, the options not considered reasonably certain are not part of

lease liability, which exposes the company to potential future cash outflows amounting to EUR 400 million. In addition, the company is committed to leases not yet commenced to EUR 93 million. The company's lease contracts do not contain financial covenants.

The company enters into sale-and-leaseback transactions primarily for its Sleep & Respiratory Care businesses. These transactions are accounted for at market value. The payments for these leases are considered in determining lease liabilities. Principal repayments are part of cash flows used for financing activities and interest payments are part of cash flows used for operating activities. The cash inflows arising from the sales transactions are part of cash flows provided by financing activities. Lease payments under sale-and-leaseback arrangements for 2022 were EUR 72 million (2021: EUR 85 million). The remaining minimum payment under sale-and-leaseback arrangements included in lease obligations above are as follows:

Philips Group

Remaining minimum payments under sale-and-leaseback arrangements in millions of EUR

2023	55
2024	38
2025	23
2026	14
2027	5
Thereafter	18

Philips has leasing activities where it acts as lessor. In such arrangements, Philips provides the customer with a right to use of medical equipment in exchange for a series of payments. Residual values of assets under lease form an insignificant part of the carrying amount of those assets. Residual values are influenced by asset market prices and are therefore subject to management estimation. Residual values are at least reassessed on an annual basis, or more often when necessary. Reassessments are based on a combination of realization of assets sold, expert knowledge and judgment of local markets. For lease receivables, the value of unguaranteed residual values as of December 31, 2022 was EUR 0.6 million (2021: EUR 0.2 million). In order to reduce residual value risk exposures there may be residual value guarantees or purchase options embedded in the customer contract. Credit risk for lease receivables is reviewed regularly and mitigated, for example, by retaining a security interest in the leased asset.

Currency risk

Currency risk is the risk that reported financial performance or the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Philips operates in many countries and currencies and therefore currency fluctuations may impact Philips' financial results. Philips is exposed to currency risk in the following areas:

- Transaction exposures, related to anticipated sales and purchases and on-balance-sheet receivables/payables resulting from such transactions
- Translation exposure of foreign-currency intercompany and external debt and deposits
- Translation exposure of net income in foreign entities
- Translation exposure of foreign-currency-denominated equity invested in consolidated companies
- Translation exposure to equity interests in non-functional-currency investments in associates and other non-current financial assets.

It is Philips' policy to reduce the potential year-on-year volatility caused by foreign-currency movements on its net earnings by hedging the anticipated net exposure of foreign currencies resulting from foreign-currency sales and purchases. In general, net anticipated exposures for the Group are hedged during a period of 15 months in layers of 20% up to a maximum hedge of 80%. Philips' policy requires significant committed foreign currency exposures to be fully hedged, generally using forwards. However, not every foreign currency can or shall be hedged as there may be regulatory barriers or prohibitive hedging cost preventing Philips from effectively and/or efficiently hedging its currency exposures. As a result, hedging activities cannot and will not eliminate all currency risks for anticipated and committed transaction exposures.

The following table outlines the estimated nominal value in millions of EUR for committed and anticipated transaction exposure and related hedges for Philips' most significant currency exposures consolidated as of December 31, 2022:

Philips Group

Estimated transaction exposure and related hedges in millions of EUR

	Sales/Receivables		Purchases/Payable	
	exposure	hedges	exposure	hedges
Balance as of December 31, 2022				
Exposure currency				
USD	1,754	(1,530)	(979)	936
JPY	479	(289)	(9)	9
GBP	303	(188)	(7)	7
CNY	346	(259)	(80)	79
CAD	203	(138)		
PLN	65	(62)		
AUD	139	(92)	(1)	1
CHF	132	(56)	(3)	2
CZK	48	(50)		
SEK	55	(17)	(1)	1
RUB	192	(192)	(129)	129
Others	64	(46)	(259)	162
Total 2022	3,779	(2,920)	(1,468)	1,326
Total 2021	5,131	(3,363)	(1,559)	1,322

Philips uses foreign exchange spot and forward contracts, as well as zero cost collars in hedging the exposure. The derivatives related to transactions are, for hedge accounting purposes, split into hedges of on-balance-sheet accounts receivable/ payable and forecasted sales and purchases. Changes in the value of on-balance-sheet foreign-currency accounts receivable/payable, as well as the changes in the fair value of the hedges related to these exposures, are reported in the income statement under costs of sales. The RUB as shown in the table above was hedged for part of the year till Q2 2022. Hedges related to forecasted transactions, where hedge accounting is applied, are accounted for as cash flow hedges. The results from such hedges are deferred in other comprehensive income within equity to the extent that the hedge is effective. As of December 31, 2022, a loss of EUR 2 million was deferred in equity as a result of these hedges (2021: EUR 25 million loss). The result deferred in equity will be released to earnings mostly during 2023 at the time when the related hedged transactions affect the income statement. During 2022, EUR 1 million (2021: EUR nil million net gain) was recorded in the consolidated statement of income as a result of ineffectiveness on certain anticipated cash flow hedges. Ineffectiveness arises when anticipated exposures are no longer expected to be highly probable. During 2022, a loss of EUR 42 million included in the cash flow hedges reserve in equity pertaining to changes in fair value of foreign exchange forward contracts attributable to forward points and changes in the time value of option contracts was released to income statement.

The total net fair value of hedges related to transaction exposure as of December 31, 2022, was an unrealized gain of EUR 6 million. The estimated impact of a 10% increase of value of the EUR is estimated to be EUR 114 million. The following table contains an overview of the instantaneous 10% increase in the value of EUR against major currencies.

Philips Group

Estimated impact of 10% increase of value of the EUR on the fair value of hedges in millions of EUR

	2021	2022
USD	78	68
JPY	13	15
GBP	14	16
CHF	5	4
PLN	3	2
RUB	10	0

The EUR 114 million increase includes a gain of EUR 41 million that would impact the income statement, which would largely offset the opposite revaluation effect on the underlying accounts receivable and payable, and the remaining gain of EUR 73 million would be recognized in equity to the extent that the cash flow hedges were effective.

Foreign exchange exposure also arises as a result of inter-company loans and deposits. Where the company enters into such arrangements, the financing is generally provided in the functional currency of the subsidiary entity. The currency of the company's external funding and liquid assets is matched with the required financing of subsidiaries, either directly through external foreign currency loans and deposits, or synthetically by using foreign exchange derivatives, including cross currency interest rate swaps and foreign exchange forward contracts. In certain cases where group companies may also have external foreign currency debt or liquid assets, these exposures are also hedged through the use of foreign exchange derivatives. Changes in the fair value of hedges related to this exposure are recognized within financial income and expenses in the statements of income. When such loans would be considered part of the net investment in the subsidiary, net investment hedging would be applied.

Translation exposure of foreign-currency equity invested in consolidated entities is generally not hedged. If a hedge is entered into, it is accounted for as a net investment hedge. Net current-period change, before tax, of the currency translation reserve of EUR 748 million mainly relates to the development of the USD versus the EUR. As of December 31, 2022, a weakening of USD by 10% versus the EUR would result in a decrease in the currency translation reserve in equity of approximately EUR 1,132 million, while a strengthening of USD by 10% versus the EUR would result in an increase in the currency translation reserve in equity of approximately EUR 1,384 million. Refer to the country risk paragraph for countries with significant foreign currency denominated equity invested.

As of December 31, 2022, cross-currency interest rate swaps for a nominal value of USD 500 million (liability at fair value: EUR 147 million) and external bond funding for a nominal value of USD 1,490 million (liability at book value: EUR 1,378 million) were designated as net investment hedges of financing investments in foreign operations for an equal amount. During 2022 a total loss of EUR 1.1 million was recognized in the income statement as ineffectiveness on net investment hedges, arising from counterparty and own credit risk.

The total net fair value of financing derivatives as of December 31, 2022, was a liability of EUR 147 million. An instantaneous 10% increase in the value of the EUR against all currencies would lead to an increase of EUR 192 million in the value of the derivatives, including a EUR 191 million increase related to the USD.

As of December 31, 2021, cross-currency interest rate swaps for a nominal value of USD 500 million (liability at fair value: EUR 116 million) and external bond funding for a nominal value of USD 1,473 million (liability at book value: EUR 1,313 million) were designated as net investment hedges of financing investments in foreign operations for an equal amount. During 2021 a total gain of EUR 1.1 million was recognized in the income statement as ineffectiveness on net investment hedges, arising from counterparty and own credit risk.

The total net fair value of financing derivatives as of December 31, 2021, was a liability of EUR 116 million. An instantaneous 10% increase in the value of the EUR against all currencies would lead to an increase of EUR 40 million in the value of the derivatives, including a EUR 40 million increase related to the USD.

Philips does not currently hedge the foreign exchange exposure arising from equity interests in non-functional-currency investments in associates and other non-current financial assets.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As of December 31, 2022, Philips had outstanding debt of EUR 8,201 million (2021: EUR 6,980 million), which constitutes an inherent interest rate risk with potential negative impact on financial results. At year-end, Philips held EUR 1,172 million in cash and cash equivalents (2021: EUR 2,303 million), and had total long-term debt of EUR 7,270 million (2021: EUR 6,473 million) and total short-term debt of EUR 931 million (2021: EUR 506 million). As of December 31, 2022, Philips had a ratio of fixed-rate long-term debt to total outstanding debt of approximately 80% compared to 90% one year earlier. Philips debt has a long maturity profile with an average tenor of long-term debt of 6.1 years with maturities up to 2042.

The following table provides the impact of a 1% increase/decrease of interest rates on the fair value of the debt and the annualized net interest expenses.

Philips Group

Net debt¹⁾ and interest rate sensitivity in millions of EUR

	2021	2022
Impact 1% interest increase on the fair value of the fixed-rate long-term debt ^{2) 3)}	(297)	(274)
Impact 1% interest decrease on the fair value of the fixed-rate long-term debt ^{2) 3)}	298	274
Impact 1% interest increase on the annualized net interest expense ⁴⁾	20	4

¹⁾ The definition of this non-IFRS measure and a reconciliation to the IFRS measure is included in [Equity, starting on page 187](#)

²⁾ The sensitivity analysis conducted shows that if long-term interest rates were to increase/decrease instantaneously by 1% from their level of December 31, 2022, with all other variables (including foreign exchange rates) held constant.

³⁾ Fixed-rate long-term debt is excluding forward contracts.

⁴⁾ The impact is based on the outstanding net cash position (after excluding fixed-rate debt) as of December 31, 2022.

Global regulators and central banks have been driving international efforts to reform key benchmark interest rates (Interbank Offered Rate or IBOR rates). The market has transitioned to alternative risk-free reference rates (RFRs) that are transaction-based. LIBOR has been discontinued for most currencies and maturities after December 31, 2021, except for the US-dollar for which certain maturities are expected to be phased out in 2023. The company has no interest rate hedging relationships which get affected by the reform and does not expect any significant impact on existing contracts due to change in the interest rates. The company implemented new alternative risk-free rates from January 1, 2022 and the impact upon transition was EUR 1 million financial expense.

Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in equity prices.

Philips is a shareholder in some publicly listed companies and as a result is exposed to potential financial loss through movements in their share prices. The aggregate equity price exposure in such financial assets amounted to approximately EUR 32 million as of December 31, 2022 (2021: EUR 67 million). Philips does not hold derivatives in the above-mentioned listed companies. Philips also has shareholdings in several privately-owned companies amounting to EUR 229 million, mainly consisting of minority stakes in companies in various industries. As a result, Philips is exposed to potential value adjustments.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in commodity prices.

Philips is a purchaser of certain base metals, precious metals and energy. Philips may hedge certain commodity price risks using derivative instruments to minimize significant, unanticipated earnings fluctuations caused by commodity price volatility. As of December 31, 2022 and 2021, respectively, Philips did not have any significant outstanding financial commodity derivatives.

Credit risk

Credit risk represents the loss that would be recognized at the reporting date, if counterparties failed completely to perform their payment obligations as contracted. Credit risk is present within Philips trade receivables and contract assets. To have better insights into the credit exposures, Philips performs ongoing evaluations of the financial and non-financial condition of its customers and adjusts credit limits when appropriate. In instances where the creditworthiness of a customer is determined not to be sufficient to grant the credit limit required, there are a number of mitigation tools that can be utilized to close the gap, including reducing payment terms, cash on delivery, pre-payments and pledges on assets.

Philips invests available cash and cash equivalents with various financial institutions and is exposed to credit risk with these counterparties. Philips is also exposed to credit risks in the event of non-performance by financial institutions with respect to financial derivative instruments. Philips actively manages concentration risk and on a daily basis measures the potential loss under certain stress scenarios, should a financial institution default. These worst-case scenario losses are monitored and limited by the company.

The company does not enter into any financial derivative instruments to protect against default by financial institutions. However, where possible the company requires all financial institutions with which it deals in derivative transactions to complete legally enforceable netting agreements under an International Swap Dealers Association master agreement or otherwise prior to trading, and whenever possible, to have a strong credit rating. Philips also regularly monitors the development of the credit risk of its financial counterparties. Wherever possible, cash is invested and financial transactions are concluded with financial institutions with strong credit ratings or with governments or government-backed institutions.

The following table shows the number of financial institutions with credit rating A- and above with which Philips has cash at hand and short-term deposits above EUR 10 million as of December 31, 2022.

Philips Group

Credit risk with number of counterparties for deposits above EUR 10 million

	10-100 million	100-500 million	500 million and above
AA- rated bank counterparties	1	0	0
A+ rated bank counterparties	3	1	0
A rated bank counterparties	0	1	0
A- rated bank counterparties	1	1	0
	5	3	0

For an overview of the overall maximum credit exposure related to debt instruments, derivatives and loans and receivables, refer to [Fair value of financial assets and liabilities, starting on page 214](#).

Country risk

Country risk is the risk that political, legal, or economic developments in a single country could adversely impact performance. The country risk per country is defined as the sum of the equity of all subsidiaries and associated companies in country cross-border transactions, such as intercompany loans, accounts receivable from third parties and intercompany accounts receivable. The country risk is monitored on a regular basis.

As of December 31, 2022, the company had country risk exposure of EUR 14.0 billion in the United States, EUR 1.3 billion in China (including Hong Kong). Other countries higher than EUR 500 million are Germany EUR 808 million, United Kingdom EUR 766 million, and Japan EUR 639 million. Other country which have significant exposure is Singapore EUR 206 million. The degree of risk of a country is taken into account when new investments are considered. The company does not, however, use financial derivative instruments to hedge country risk.

The impact of hyperinflation is also routinely assessed and was not material for the periods presented.

Other insurable risks

Philips is insured for a broad range of losses by global insurance policies in the areas of property damage/ business interruption, general and product liability, transport, directors' and officers' liability, employment practice liability, crime and cybersecurity. The

counterparty risk related to the insurance companies participating in the above-mentioned global insurance policies is actively managed. As a rule, Philips only selects insurance companies with a financial strength of at least A-. Throughout the year the counterparty risk is monitored on a regular basis.

To lower exposures and to avoid potential losses, Philips has a global Risk Engineering program in place. The main focus of this program is on property damage and business interruption risks including company interdependencies. Regular on-site assessments take place at Philips locations and business-critical suppliers by risk engineers of the insurer in order to provide an accurate assessment of the potential loss and its impact. The results of these assessments are shared across the company's stakeholders. On-site assessments are carried out against the predefined Risk Engineering standards, which are agreed between Philips and the insurers. Recommendations are made in a Risk Improvement report and are monitored centrally. This is the basis for decision-making by the local management of the business as to which recommendations will be implemented.

For all policies, deductibles are in place, which vary from EUR 0.3 million to EUR 10 million per occurrence and this variance is designed to differentiate between the existing risk categories within Philips. Above a first layer of working deductibles, Philips operates its own re-insurance captive, which during 2022 retained EUR 25 million per claim and EUR 50 million in the annual aggregate for general, product, professional liability, and marine cargo claims.

New contracts were signed effective December 31, 2022, for the coming year, whereby the re-insurance captive retentions remained the same.

30 Subsequent events

On January 30, 2023, Philips announced plans to create value with sustainable impact, which is based on focused organic growth to deliver patient- and people-driven innovation at scale with improved execution as key value driver, prioritizing patient safety and quality, supply chain reliability and a simplified operating model. In addition to the reduction of its workforce by 4,000 roles announced in October 2022, Philips plans to reduce its workforce by an additional 6,000 roles globally by 2025, of which 3,000 will be implemented in 2023 in line with the relevant local regulations and processes. These reductions are focused on Corporate and Functions optimization and non-core activities, for which charges in 2023 are expected to be approximately EUR 470 million.

Company financial statements contents

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11 Company financial statements

Introduction

Statutory financial statements

This section 'Company financial statements' contains the audited financial statements including the notes thereon of Koninklijke Philips N.V., the holding company within the Philips group. Together with the section '[Group financial statements, starting on page 141](#)', it contains the statutory financial statements of the company. These statements are subject to adoption by the company's shareholders at the 2023 Annual General Meeting of Shareholders.

Accounting policies applied

The financial statements including the notes thereon have been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code. In accordance with Section 2:362 (8) of the Dutch Civil Code, the recognition and measurement principles applied in these company financial statements are the same as those applied in the consolidated financial statements (see [General information to the Consolidated financial statements, starting on page 151](#) and the accounting policies relating to specific financial statement items included in the respective notes to the consolidated financial statements).

Presentation of Company financial statements

The structure of the Company balance sheets and Company statements of income are aligned as much as possible with the Consolidated statements in order to achieve optimal transparency between the Group financial statements and the Company financial statements.

The Company balance sheet is presented prior to the appropriation of results.

11.1 Statements of income

Koninklijke Philips N.V.
Statements of income in millions of EUR
 For the year ended December 31

	2021	2022
A Sales	378	414
Cost of sales	(16)	(23)
Gross margin	362	391
Selling expenses	(8)	(9)
General and administrative expenses	(39)	(47)
B Other business income	3,439	68
C Income from operations	3,754	403
D Financial income	315	130
D Financial expenses	(256)	(284)
Income before taxes	3,813	249
E Income tax expenses	(396)	(62)
Income after tax	3,417	187
H Results relating to investments in associates	(18)	(2)
Net income from group companies	(80)	(1,793)
Net income	3,319	(1,608)

Amounts may not add up due to rounding.

11.2 Balance sheets before appropriation of results

Koninklijke Philips N.V.
Balance sheets in millions of EUR
 As of December 31

	2021	2022
Non-current assets		
Property, plant and equipment	1	1
G Intangible assets	47	84
H Financial fixed assets	21,670	19,768
Non-current receivables	61	44
Deferred tax assets	570	531
I Other non-current financial assets	261	242
Other non-current assets	5	3
Total non-current assets	22,615	20,673
Current assets		
Current financial assets	-	9
J Receivables	5,799	8,297
K Cash and cash equivalents	1,836	849
Total current assets	7,635	9,155
Total assets	30,250	29,829

	2021	2022
L Shareholders' equity		
Common shares	177	178
Capital in excess of par value	4,646	5,025
Revaluation reserves	(369)	(379)
Other legal reserves	1,770	2,876
Other reserves	4,895	7,156
Net income	3,319	(1,608)
Total shareholders' equity	14,438	13,249
Non-current liabilities		
M Long-term debt	5,483	6,391
Long-term provisions	3	-
Deferred tax liabilities	11	16
Non-current tax liabilities	234	245
Other non-current liabilities	178	86
Total non-current liabilities	5,909	6,738
Current liabilities		
M Short-term debt	9,669	9,463
N Other current liabilities	233	379
Total current liabilities	9,903	9,842
Total liabilities and shareholders' equity	30,250	29,829

Amounts may not add up due to rounding.

11.3 Statements of changes in equity

Koninklijke Philips N.V.

Statements of changes in equity in millions of EUR

For the year ended December 31

	Common shares	Capital in excess of par value	Fair value through OCI	Cash flow hedges	Currency translation differences	Affiliated companies	Retained earnings	Treasury shares	Net income	Shareholders' equity
			Revaluation reserves		Other legal reserves		Other reserves			
Balance as of December 31, 2020	182	4,400	(305)	23	(58)	626	6,016	(199)	1,187	11,870
Appropriation of prior year result							1,187		(1,187)	
Net income									3,319	3,319
Net current period change			(39)	(52)	1,075	27	86			1,097
Income tax on net current period change			1	18	(5)					13
Reclassification into income				(14)	105					91
Dividend distributed	1	290					(773)			(482)
Transfer of gain on disposal of equity investments at FVTOCI to retained earnings							-			-
Purchase of treasury shares							-	(758)		(757)
Re-issuance of treasury shares		(150)					18	143		11
Forward contracts							48	(869)		(821)
Share call options							12	(21)		(9)
Cancellation of treasury shares	(7)						(1,221)	1,228		
Share-based compensation plans		110								110
Income tax share-based compensation plans		(4)								(4)
Balance as of December 31, 2021	177	4,646	(344)	(25)	1,117	654	5,371	(476)	3,319	14,438

11.3 Statements of changes in equity (continued)

Koninklijke Philips N.V.

Statements of changes in equity in millions of EUR

For the year ended December 31

	Common shares	Capital in excess of par value	Fair value through OCI	Cash flow hedges	Currency translation differences	Affiliated companies	Retained earnings	Treasury shares	Net income	Shareholders' equity
			Revaluation reserves		Other legal reserves		Other reserves			
Balance as of December 31, 2021	177	4,646	(344)	(25)	1,117	654	5,371	(476)	3,319	14,438
Appropriation of prior year result							3,319		(3,319)	
Net income									(1,608)	(1,608)
Net current period change			(32)	(29)	747	356	(275)			766
Income tax on net current period change			1	(10)	2					(7)
Reclassification into income				63	-					63
Dividend distributed	3	326					(741)			(412)
Transfer of gain on disposal of equity investments at FVTOCI to retained earnings			(1)				1			-
Purchase of treasury shares							-	(24)		(24)
Re-issuance of treasury shares		(43)					(28)	77		7
Forward contracts							76	(140)		(64)
Share call options							5	(12)		(6)
Cancellation of treasury shares	(2)						(298)	299		
Share-based compensation plans		95								95
Income tax on share-based compensation plans		1								1
Balance as of December 31, 2022	178	5,025	(376)	(2)	1,866	1,010	7,431	(275)	(1,608)	13,249

Amounts may not add up due to rounding.

11.4 Notes to the Company financial statements

A Sales

Sales relate to external sales and mainly comprise of license income from intellectual property rights owned by the company.

B Other business income (expense)

Koninklijke Philips N.V.

Other Business Income in millions of EUR

	2021	2022
Other business income (expense) from sold and deconsolidated businesses	3,332	(19)
Other	107	87
Other business income	3,439	68

Other business income (expense) includes the subsequent results from various sold and deconsolidated businesses.

On September 1, 2021, the company completed the sale of the Domestic Appliances business and recognized a transaction gain before tax of EUR 3,373 million. For further details on this transaction, refer to [Discontinued operations and assets classified as held for sale, starting on page 156](#).

The line Other mainly includes income and expense from transactions with group companies regarding overhead services and brand license agreements.

C Sales and costs by nature

Koninklijke Philips N.V.

Sales and costs by nature in millions of EUR

	2021	2022
Sales	378	414
Costs of materials used	1	(5)
Employee benefit expenses	(28)	(28)
Depreciation and amortization	(10)	(13)
Advertising and promotion	(4)	(3)
Other operational costs	(22)	(29)
Other business income	3,439	68
Income from operations	3,754	403

For more information about Other business income, refer to [Other business income \(expense\), starting on page 231](#) and [Discontinued operations and assets classified as held for sale, starting on page 156](#).

For a summary of the audit fees related to the Philips Group, refer to the [Group financial statements, starting on page 141](#) which is deemed incorporated and repeated herein by reference.

D Financial income and expense

Financial income mainly relates to intercompany financing transactions of EUR 66 million (2021: EUR 127 million) and income from Other financial assets of EUR 28 million (2021: EUR 119 million). Financial income related to intercompany financing transactions decreased mainly due to a reduction of intercompany loans in the US at the end of 2021. Financial income related to Other financial assets decreased mainly due to the value adjustment through P&L of investment in limited life funds. For further information, refer to [Other financial assets, starting on page 233](#).

Financial expense mainly relates to interest paid on external debt of EUR 188 million (2021: EUR 120 million) and the value adjustments related to Other financial assets of EUR 44 million (2021: EUR 46 million). Financial expense related to interest paid on external debt increased mainly due to an increase in external loans.

E Income taxes

Koninklijke Philips N.V. is the lead legal entity of the fiscal unity that exists for Dutch corporate income tax purposes and reports the income tax expense of the fiscal unity.

The effective tax rate in 2022 deviates compared to the Dutch statutory tax rate of 25.8%, mainly due to due to non-deductible expenses, expenses relating to uncertain tax treatments and withholding tax costs, partly offset by exempted results relating to participations and recurring favorable tax incentives. The decrease in the effective tax rate reflected in Others represents mainly the effect of the inclusion of income of other legal entities that are part of the fiscal unity contributing to the fiscal unity income tax expense.

Koninklijke Philips N.V.

Effective income tax rate in %

	2022
Weighted average statutory income tax rate	25.8
Unrecognized tax loss and credit carryforwards	0.1
Changes to recognition of temporary differences	0.0
Non-taxable income and tax incentives	(18.0)
Non-deductible expenses	21.9
Withholding and other taxes	3.5
Tax rate changes	0.0
Prior year tax	0.2
Tax expenses (benefit) due to other tax liabilities	4.5
Others, net	(13.2)
Effective income tax rate	24.8

As of December 31, 2022, tax credit carry forwards for which no deferred tax assets have been recognized in the balance sheet amount to EUR 20 million (2021: EUR 20 million) and have an unlimited period of carry forward.

F Employees

The number of persons having a contract with the company as of December 31, 2022 was 13 (2021: 13):

- 4 of them had a services contract;
- 9 of them had a contract of employment.

They were all posted in the Netherlands.

For the remuneration of past and present members of both the Board of Management and the Supervisory Board, refer to [Information on remuneration, starting on page 211](#), which is deemed incorporated and repeated herein by reference.

G Intangible assets

Intangible assets include mainly licenses and patents. The changes during 2022 were as follows;

Koninklijke Philips N.V.

Intangible assets in millions of EUR

	2022
Balance as of January 1	
Cost	166
Amortization / impairments	(119)
Book value	47
Additions	50
Disposal	
Amortization	(9)
Impairment	(4)
Total change	37
Balance as of December 31	
Cost	213
Amortization / impairments	(129)
Book Value	84

H Financial fixed assets

Accounting policies

Investments in group companies and associates are measured on the basis of the equity method. Loans provided to group companies are stated at amortized cost, less impairment. The company makes use of the option to eliminate intercompany expected credit losses against the book value of loans and receivables to group companies, instead of elimination against the investments in group companies.

The changes during 2022 were as follows:

Koninklijke Philips N.V.

Financial fixed assets in millions of EUR

	Investments in group companies	Investments in associates	Loans to group companies	Total
Balance as of January 1, 2022	20,729	335	606	21,670
Changes:				
Acquisitions/additions	167	74	67	307
Sales/redemptions	(15)	(43)	(42)	(100)
Net income from group companies and associates	(1,793)	(38)		(1,832)
Dividends received	(1,209)	(1)		(1,210)
Translation differences	865	11	1	876
Impairment		(73)		(73)
Other	129	(1)		128
Balance as of December 31, 2022	18,872	264	632	19,768

Investments in group companies

Investment in group companies decreased by EUR 1,857 million. The decrease is due to negative result from group companies and dividends paid by group companies to Koninklijke Philips N.V.

Translation differences of positive EUR 865 million reflect the increase in value expressed in EUR of net invested capital in foreign group companies denominated in currencies other than EUR. This increase is mainly due to the strengthening of the USD versus the EUR in 2022.

Acquisitions and divestments were not material from the point of view of the company financial statements. For further information about acquisitions and divestments, refer to [Acquisitions and divestments, starting on page 158](#).

Position Other of EUR 129 million mainly relates to employee share-based compensation plans and actuarial gains due to higher interest rates.

Investments in associates

Investments in associates represent minority investments in various companies with significant influence. In 2022, the company recorded an impairment of EUR 66 million in relation to its interest in Candid Care Co. As part of the acquisition of Affera, Inc. by Medtronic plc in August 2022, the company sold its investment in Affera to Medtronic and recorded a gain of EUR 84 million on the sale. None of the investments are regarded as

individually material from the point of view of the company financial statements. For further information about associates, refer to [Interests in entities, starting on page 161](#).

Loans to group companies

The EUR 26 million increase in loans is mainly due to the new loans to group companies.

List of investments in group companies

A list of investments in group companies, prepared in accordance with the relevant legal requirements (Dutch Civil Code, Book 2, Sections 379 and 414), is deposited at the Chamber of Commerce in Eindhoven, the Netherlands.

Other financial assets

Other current financial assets

Other current financial assets of EUR 9 million (2021: nil) is related to earn-out arising from equity investment.

Other non-current financial assets

The changes during 2022 were as follows:

Koninklijke Philips N.V.

Other non-current financial assets in millions of EUR

	Non-current financial assets at FVTP&L	Non-current financial assets at FVTOCI	Non-current financial assets at Amortized cost	Total
Balance as of January 1, 2022	185	69	7	261
Changes:				
Acquisitions/additions	48	16		63
Sales/redemptions/reductions	(50)	(1)	-	(51)
Impairments	(3)			(3)
Value adjustments through OCI		(16)		(16)
Value adjustments through P&L	(13)		-	(13)
Translation differences and other	-	2	-	2
Balance as of December 31, 2022	166	69	7	242

The company's investments in Other non-current financial assets mainly consist of investments in common shares of companies in various industries and investments in limited life funds. Acquisitions/additions mainly relate to new investments and capital calls for certain limited life funds. Sales/redemptions/reductions mainly relate to distribution notes from those limited life funds.

The main movement in Other non-current financial assets at FVTP&L of EUR 48 million is related to earn-out arising from equity investment. The decrease of EUR 50 million is mainly due to distribution notes received.

J Receivables

Koninklijke Philips N.V.
Receivables in millions of EUR

	2021	2022
Trade accounts receivable	152	97
Receivables from group companies	5,443	7,891
Advances and prepaid expenses	24	34
Derivative instruments - assets	113	154
Other receivables	68	121
Receivables	5,799	8,297

Receivables from group companies mainly relate to in-house bank contracts. The position increases due to the in-house bank financing to group companies, which required capital for investments or for current operations.

For further details on derivative instruments, refer to note [Fair value of financial assets and liabilities, starting on page 214](#) and [Details of treasury and other financial risks, starting on page 218](#).

K Cash and cash equivalents

Cash and cash equivalents are all freely available. For further details on Cash and cash equivalents, refer to note [Fair value of financial assets and liabilities, starting on page 214](#) and [Details of treasury and other financial risks, starting on page 218](#).

L Shareholders' equity

Accounting policies

The revaluation reserves and other legal reserves are recognized based on the Dutch Civil Code.

For details, please refer to Group financial statements Note 18 [Equity, starting on page 187](#).

Revaluation and Other Legal Reserves

As of December 31, 2022, revaluation reserves relate to unrealized loss on financial assets fair value through OCI of EUR 376 million (2021: EUR 344 million unrealized losses) and unrealized currency translation gain of EUR 1,866 million (2021: EUR 1,117 million unrealized

gain). Legal reserves relate to 'affiliated companies' of EUR 1,010 million (2021: EUR 654 million) and unrealized loss on cash flow hedges of EUR 2 million (2021: EUR 25 million unrealized losses).

The item 'affiliated companies' relates to the 'wettelijke reserve deelnemingen', which is required by Dutch law. This reserve relates to any legal or economic restrictions on the ability of affiliated companies to transfer funds to the parent company in the form of dividends.

M Debt

Long-term debt

The following tables present information about the long-term debt outstanding, its maturity and average interest rates in 2022 and 2021.

Koninklijke Philips N.V.
Long-term debt in millions of EUR

	USD bonds	EUR bonds	Loans from group companies	Forward contracts	Bank borrowings	Other debt	Total debt
Balance as of January 1, 2022	1,313	3,233	491	934	200	1	6,171
New financing		1,982	976	63	500	1	3,521
Repayment	(20)	(1,154)	(1,061)	(140)	(2)	(2)	(2,379)
Acquisitions					3	(3)	
Exchange differences	85				-	1	86
Other changes in value	-	-	2	1	(2)	3	5
Balance as of December 31, 2022	1,378	4,061	408	858	700	0	7,405

Koninklijke Philips N.V.
Long-term debt in millions of EUR, unless otherwise stated

	2022						
	amount outstanding	Current portion	Non-current portion	Between 1 and 5 years	Amount due after 5 years	Average remaining term (in years)	Average rate of interest
USD bonds	1,378		1,378	250	1,128	14.3	6.3%
EUR bonds	4,061		4,061	1,836	2,225	5.7	1.7%
Loans from group companies	408	408				0.9	3.2%
Forward contracts	858	606	252	252		1.0	
Bank borrowings	700		700	700		1.9	1.7%
Long-term debt	7,405	1,013	6,391	3,039	3,352		

Koninklijke Philips N.V.

Long-term debt in millions of EUR, unless otherwise stated

	2021					Average remaining term (in years)	Average rate of interest
	amount outstanding	Current portion	Non-current portion	Between 1 and 5 years	Amount due after 5 years		
USD bonds	1,313		1,313	255	1,058	15.1	6.3%
EUR bonds	3,233		3,233	2,242	991	4.4	1.0%
Loans from group companies	491	491				0.8	3.0%
Forward contracts	934	196	738	738		1.6	
Bank borrowings	200		200	200		3.2	0.0%
Other long-term debt	1	1				0.2	0.0%
Long-term debt	6,171	688	5,483	3,434	2,049		

Long-term debt of EUR 7,405 million mainly relates to bonds and forward contracts. The increase of EUR 1,234 million mainly comes from the issuance of EUR 1,982 million EUR bonds, offset by the redemption of EUR 1,154 million EUR bonds originally due in 2023 and 2024. Forward contracts mainly relate to share buyback program and company's long-term incentive and employee stock purchase plans.

Short-term debt

The following table present information about the short-term debt outstanding in 2022 and 2021.

Koninklijke Philips N.V.

Short-term debt in millions of EUR

	2021	2022
Short-term bank borrowings	8	1
Current portion of external long-term debt	197	606
Current portion of intercompany loans	491	408
Other debt to group companies	8,973	8,448
Short-term debt	9,669	9,463

Short-term debt mainly relates to the other debt to group companies of EUR 8,448 million which represent in-house bank contracts driven by investments and operational cash needs in subsidiaries. The current portion of outstanding external and intercompany long-term debt of EUR 1,013 million mainly relates to share buyback program.

For further details on debt and treasury risk, refer to [Debt, starting on page 191](#) and [Details of treasury and other financial risks, starting on page 218](#).

N Other current liabilities

Koninklijke Philips N.V.

Other current liabilities in millions of EUR

	2021	2022
Accrued expenses	91	89
Derivative instruments - liabilities	110	246
Other short-term liabilities	32	44
Other current liabilities	233	379

During 2022, the company reclassified derivative contracts due in 2023, to Other current liabilities from Other non-current liabilities. For further details on derivative instruments, refer to note [Fair value of financial assets and liabilities, starting on page 214](#) and [Details of treasury and other financial risks, starting on page 218](#)

0 Commitments and contingencies

The company has contracts with investment funds where it committed itself to make, under certain conditions, capital contributions to their funds up to an aggregated remaining amount of EUR 90 million (2021: EUR 104 million). As of December 31, 2022, capital contributions already made to these investment funds are recorded as Other non-current financial assets.

General guarantees as referred to in Section 403, Book 2, of the Dutch Civil Code, have been given by the company on behalf of several group companies in the Netherlands. The liabilities of these companies to third parties and investments in associates totaled EUR 1,247 million as of December 31, 2022 (2021: EUR 1,316 million). Guarantees totaling EUR 421 million (2021: EUR 491 million) have also been given on behalf of other group companies. As of December 31, 2022 there have been no guarantees given on behalf of unconsolidated companies and third parties (2021: nil).

The company is the head of a fiscal unity that contains the most significant Dutch wholly-owned group companies. The company is therefore jointly and severally liable for the tax liabilities of the tax entity as a whole.

For additional information, refer to [Contingencies, starting on page 204](#), which is deemed incorporated and repeated herein by reference.

P Subsequent events

Capital injection to group company

On February 3, 2023, the company injected USD 1.9 billion into a US group company. The capital injection was applied to settle intercompany debt and was therefore cash neutral at a consolidated group level.

For more information refer to Group financial statements [Subsequent events, starting on page 224](#)

12 Further information

12.1 Appropriation of profits

Pursuant to article 34 of the articles of association of the Company, a dividend will first be declared on preference shares out of net income. The remainder of the net income, after any retention by way of reserve with the approval of the Supervisory Board, shall be available for distribution to holders of common shares subject to shareholder approval after year-end. As of December 31, 2022, the issued share capital consists only of common shares. No preference shares have been issued. Article 33 of the articles of association of the company gives the Board of Management the power to determine what portion of the net income shall be retained by way of reserve, subject to the approval of the Supervisory Board.

- the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company balance sheet as of December 31, 2022;
- the company statement of income for 2022;
- the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the *Our responsibilities for the audit of the financial statements* section of our report.

We are independent of Koninklijke Philips N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the “Wet toezicht accountantsorganisaties” (Wta, Audit firms supervision act), the “Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten” (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the “Verordening gedrags- en beroepsregels accountants” (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information in support of our opinion

We designed our audit procedures in the context of our audit of the financial statements as a whole and in forming our opinion thereon. The following information in support of our opinion and any findings were addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

Our understanding of the business

Koninklijke Philips N.V. is a health technology company focused on improving people's health and enabling better outcomes across the health continuum from healthy living and prevention, to diagnosis, treatment and home care. The group is structured in operating reporting units (hereinafter: components) and we tailored our group audit approach accordingly. We paid specific attention in our audit to a number of areas driven by the

12.2 Independent auditor's report

To: the Supervisory Board and Shareholders of Koninklijke Philips N.V.

Report on the audit of the financial statements 2022 included in the annual report

Our opinion

We have audited the financial statements 2022 of Koninklijke Philips N.V. (Philips, or the Company), based in Eindhoven, the Netherlands. The financial statements comprise the group and company financial statements.

In our opinion:

- the accompanying group financial statements give a true and fair view of the financial position of Koninklijke Philips N.V. as of December 31, 2022 and of its result and its cash flows for 2022 in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and with Part 9 of Book 2 of the Dutch Civil Code
- the accompanying company financial statements give a true and fair view of the financial position of Koninklijke Philips N.V. as of December 31, 2022 and of its result for 2022 in accordance with Part 9 of Book 2 of the Dutch Civil Code

The group financial statements comprise:

- the consolidated balance sheet as of December 31, 2022;
- the following statements for 2022: the consolidated statements of income, comprehensive income, cash flows and changes in equity;

operations of the group, as set out in our Key Audit Matters, as well as in our risk assessment.

We determined materiality and identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, in order to design audit procedures responsive to those risks and to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Materiality

Materiality	EUR 55 million (2021: EUR 71 million)
Benchmark applied	0.3% of sales in the amount of EUR 17,827 million rounded (2021: 5% of income before taxes, adjusted for certain non-recurring items).
Explanation	We determined materiality based on our understanding of the Company's business and our perception of the financial information needs of users of the financial statements. We consider sales an important metric for the activities of the Company in 2022. Last year's materiality was based on income before taxes, adjusted for certain non-recurring items. Due to the financial performance of Koninklijke Philips N.V. in 2022 we considered income before taxes, adjusted for certain non-recurring items, no longer to be an appropriate benchmark.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of EUR 2.75 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Koninklijke Philips N.V. is at the head of a group of entities. The financial information of this group is included in the group financial statements.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for components. Decisive were the size and/or the risk profile of the components. On this basis, we selected components for which an audit had to be carried out on the complete set of financial information or specific items.

Our group audit primarily focused on significant group entities. Following our assessment of the risk of material misstatement to Koninklijke Philips N.V.'s group financial statements, we have selected 9 components which required an audit of the complete financial information (Full Scope components). Furthermore, we selected 33 components requiring audit procedures on specific account balances or specified audit procedures on significant

accounts that we considered had the potential for the greatest impact on the group financial statements (Specific or Specified Scope components). We performed certain audit procedures centrally, related to financial statement account balances such as capitalized development costs, restructuring costs, Health Systems sales and Personal Health sales running on the primary systems, Field Change Order (FCO) provisions, payroll, acquisitions and goodwill. Furthermore, we were involved in certain component team audit procedures related to tax, legal claims, litigation and contingencies. For the remaining components, we performed selected other procedures, including analytical review and test of details to respond to potential risks of material misstatements to the financial statements that we identified.

As a result of our scoping of the complete financial information, specific account balances and the performance of audit procedures at different levels in the organization, our actual coverage varies per financial statement account balance and the depth of our audit procedures per account balance varies depending on our risk assessment.

Accordingly, our audit coverage, for selected account balances included in the key audit matters stated below, are summarized as follows:

Respironics field action provision in Audit Coverage %

Full scope **100%** 

CGU S&RC Goodwill in Audit Coverage %

Full scope **100%** 

Sales in Audit Coverage %

Full scope **33%** 
 Specific scope **32%** 
 Specified procedures **35%** 

Involvement with component teams

Component performance materiality was determined using judgment, based on the relative size of the component and our risk assessment.

We hosted audit meetings with component auditors to discuss the group audit, risks, audit approach and instructions. In addition, we sent instructions to component auditors, covering the significant areas to be audited and the information required to be reported to us. Based on our risk assessment, we attended in-person site visits at component locations in the United States, Germany, India, Japan, Panama and Indonesia. We held a virtual site visit in China given COVID restrictions during the year. These site visits encompassed some, or all, of the following activities: co-developing the significant risk area audit approach, reviewing key local working papers and conclusions, meeting with local and regional management teams and obtaining an understanding of key processes including centralized entity level controls processes. In general, we interacted regularly with the component teams during various stages of the audit through the use of video or teleconferencing facilities. Where deemed appropriate, we attended certain Full and Specific Scope component closing meetings with management, also using video or teleconferencing facilities. We reviewed key working papers of component auditors using the EY electronic audit file platform, screen sharing or by the provision of copies of work papers direct to the group audit team.

By performing the procedures mentioned above at components, together with additional procedures at the central level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion on the group financial statements.

Teaming, use of specialists and internal audit

We ensured that the audit teams both at group and at component levels included the appropriate skills and competencies which are needed for the audit of a listed client in the health technology industry. We included specialists in the areas of IT audit, forensics, treasury, and income tax and have made use of our own valuation, share-based compensation and actuarial experts.

We performed our audit in cooperation with internal audit of Koninklijke Philips N.V., leveraging their in-depth knowledge of Koninklijke Philips N.V. and work performed. We agreed on the joint coordination of the audit planning, the nature and scope of the work to be performed, reporting and documentation. We evaluated and tested the relevant work performed by Internal Audit to satisfy ourselves that the work was adequate for our purposes and established what work had to be performed by our own professionals.

Our focus on climate-related risks

Climate-related risks can impact financial reporting. The Board of Management has summarized Philips' commitments and obligations in relation to climate, and reported in Chapter 5 'Environmental, Social, and Governance' and Chapter 13 'ESG Statements' on the Environmental, Social and Governance (ESG) how the Company is addressing climate-related and environmental risks.

As part of our audit of the financial statements, we evaluated the extent to which climate-related risks and the Company's commitments and (constructive) obligations are taken into account in estimates and significant assumptions applied by Koninklijke Philips N.V. Furthermore, we read the management report and considered whether there is any material inconsistency between the non-financial information in Chapter 5 'Environmental, Social, and Governance' and Chapter 13 'ESG Statements' and the financial statements. Based on the audit procedures performed, we do not deem climate-related risks to have a material impact on the financial reporting judgments, estimates or significant assumptions as of December 31, 2022 and as such we have not identified a key audit matter.

Our focus on fraud and non-compliance with laws and regulations

Our responsibility

Although we are not responsible for preventing fraud or non-compliance and we cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Our audit response related to fraud risks

We identified and assessed the risks of material misstatements of the financial statements due to fraud. During our audit we obtained an understanding of Philips and its environment and the components of the system of internal control, including the risk assessment process and the Board of Management's process for responding to the risks of fraud and monitoring the system of internal control including how the Supervisory Board exercises oversight, as well as the outcomes.

We refer to section 6 of the management report for the Board of Management's fraud risk assessment and section 8.3 of the [Supervisory Board report, starting on page 107](#) in which the Audit Committee reflects on this fraud risk assessment.

We evaluated the design and relevant aspects of the system of internal control and in particular the fraud risk assessment, as well as the code of conduct, whistle blower procedures and incident registration. We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls designed to mitigate fraud risks.

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption, in close co-operation with our forensic and legal specialists. We evaluated whether these factors indicate that a risk of material misstatement due to fraud is present.

We incorporated elements of unpredictability in our audit. We also considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance.

As in all of our audits, we addressed the risks related to management override of controls. For these risks, we have performed procedures, among others, to evaluate key accounting estimates for management bias that may represent a risk of material misstatement due to fraud, in particular relating to important judgment areas and significant accounting estimates as disclosed in Note 1 [General information to the Consolidated financial statements, starting on page 151](#) to the financial statements. We have also used data analysis to identify and address high-risk journal entries and evaluated the business rationale (or lack thereof) of significant extraordinary transactions, including those with related parties. When identifying and assessing fraud risks, we presumed that there are risks of fraud in sales recognition. We refer to our Key Audit Matter related to Sales recognition – sales related accruals and installable sales orders for further information, as to our procedures in this regard.

We considered available information and made inquiries of relevant executives, directors, internal audit, legal, compliance, human resources, regional directors and the Supervisory Board.

The fraud risks we identified, inquiries and other available information did not lead to specific indications for fraud or suspected fraud potentially materially impacting the view of the financial statements.

Our audit response related to risks of non-compliance with laws and regulations

We performed appropriate audit procedures regarding compliance with the provisions of those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements. Furthermore, we assessed factors related to the risks of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general industry

experience, through discussions with the Board of Management, reading minutes, inspection of internal audit and compliance reports and performing test of controls, substantive tests of details on classes of transactions, account balances or disclosures.

Given the Company is a global organization, operating in multiple jurisdictions, in our assessment of the risk of non-compliance with laws and regulations, we also considered the potential risk from Philips' interactions with third-party distributors and governmental agencies. We refer to section 6.6 [Compliance risks, starting on page 103](#) in the management report. Our audit approach included the following steps: 1) obtain an understanding of the environment and the Company to enable the detection of non-compliance with laws and regulations related to bribery and corruption, 2) obtain an understanding of the internal control environment and the measures for mitigating those risks (by the Company) in the light of applicable anti-corruption laws and regulations and 3) execute controls-based and substantive audit procedures in order to obtain sufficient evidence for the mitigation of the risk of non-compliance with laws and regulations related to bribery and corruption.

We also inspected lawyers' letters and correspondence with regulatory authorities and remained alert to any indication of (suspected) non-compliance throughout the audit. Finally, we obtained written representations that all known or alleged instances of non-compliance with laws and regulations have been disclosed to us.

We refer to our Key Audit Matter related to the Measurement of provisions and disclosures for legal claims, litigations and contingent liabilities for further information as to our procedures in this regard.

Our audit response related to going concern

As disclosed in section 'Basis of preparation' in Note 1 [General information to the Consolidated financial statements, starting on page 151](#) to the financial statements, the financial statements have been prepared on a going concern basis. When preparing the financial statements the Board of Management made a specific assessment of the Company's ability to continue as a going concern and to continue its operations for the foreseeable future. We discussed and evaluated the specific assessment with the Board of Management, exercising professional judgment and maintaining professional skepticism.

We considered whether the Board of Management's going concern assessment, based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, contains all events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion.

Based on our procedures performed, we did not identify material uncertainties about going concern. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed. In comparison with previous year, the nature of our key audit matters did not change.

Revenue recognition – Sales related accruals and installable sales orders

Risk Primarily in the Personal Health businesses, the Company has sales promotion-related agreements with distributors and retailers whereby discounts and rebates are provided according to the quantity of goods sold and promotional and marketing activities performed by distributors and retailers. The estimation of the sales related accruals involve subjective management assumptions based on a combination of historical patterns and future expectations regarding which promotional targets are expected to be met by distributors and retailers. We identified a fraud risk related to the estimation of the sales related accruals through inappropriate estimations. Further reference is made to Note 6, **Income from operations, starting on page 162**, section Sales composition and disaggregation, as included in the group financial statements.

Auditing the Company's measurement of sales related accruals is complex because the calculation involves subjective management assumptions around the extent to which promotional or marketing targets will be met by distributors and retailers and the related rebates that will be owed.

In addition, the sales in the Diagnosis & Treatment (D&T) and Connected Care (CC) businesses of the Company include the sale of equipment which requires installation and formal acceptance by the customer before control over the goods and services are transferred to the customer and sales can be recognized (installable sales orders). There is a risk of management accelerating sales through override of customer acceptance controls for installable sales orders.

Our audit approach Our audit procedures included, amongst others, evaluating the appropriateness of the Company's revenue recognition policies for sales promotion-related agreements in accordance with IFRS 15 'Revenue from Contracts with Customers' and whether the policies have been applied consistently or whether changes, if any, are appropriate in the circumstances.

As part of our audit procedures, we obtained an understanding, evaluated the design and tested the operating effectiveness of the Company's controls that address the risks of material misstatement relating to measurement for sales related accruals and the occurrence of sales for installable sales orders. This included testing controls relating to management's verification that sales related accruals have been reviewed and underlying assumptions were based on management's best estimate. We also tested the Company's controls over customers' acceptance of installed equipment.

With respect to the sales related accruals, we evaluated management's assumptions by performing, among other procedures, a retrospective review of actual settlements of prior period sales related accruals, confirmed the agreed upon terms and conditions for a sample of contracts and performed cut off testing through assessing the sales promotions obligations around year-end.

Furthermore, with respect to the installable sales orders we have tested, among other procedures, sales transactions before and after period-end for installable sales orders by obtaining formal customer acceptance documentation to evidence occurrence of sales in the appropriate period. We have integrated unpredictability into the nature, timing and extent of these procedures by also testing random sales transactions for installable sales orders that do not meet quantitative or qualitative criteria.

We also assessed the adequacy of the sales related accruals disclosures as included in the group financial statements.

Key observations We consider management's assumptions related to the sales related accruals to be within an acceptable range.

In addition, we evaluated that the sales related accruals disclosures are adequate.

Valuation of Goodwill for Cash Generating Unit Sleep & Respiratory Care

<i>Risk</i>	<p>Goodwill is allocated to Cash Generating Units (CGUs) which management tests for impairment annually and whenever impairment indicators require. Further reference is made to Note 11, Goodwill, starting on page 176, as included in the group financial statements.</p> <p>In 2022, an impairment of EUR 1,331 million was recorded on the Goodwill of CGU Sleep & Respiratory Care (S&RC). Management revised the expected future cashflows of CGU S&RC to reflect assumptions related to the consent decree that is currently under discussion on the S&RC business in the upcoming years, along with updates to expected business performance, and changes to the pre-tax discount rate following macro-economic developments. As of December 31, 2022, the total carrying value of goodwill allocated to CGU S&RC amounted to EUR 731 million.</p> <p>Auditing the calculation of the recoverable amount for CGU S&RC is complex, given the significant judgment and estimation uncertainty related to assumptions in the model used to determine whether the recoverable amount of the CGU S&RC is appropriate. The most significant assumptions used within the model to support the recoverable amount of the CGU S&RC are sales growth rates, EBITA in the terminal value, pre-tax discount rate, and the scope and duration of the consent decree that is currently under discussion.</p>
<i>Our audit approach</i>	<p>Our audit procedures included, amongst others, evaluating the appropriateness of the impairment methodology applied by the Company related to the valuation of goodwill in accordance with IAS 36 'Impairment of Assets' and whether the methodology has been applied consistently or whether changes, if any, are appropriate in the circumstances. We focused specifically on the CGU S&RC considering the recent impairment.</p> <p>We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over management's goodwill impairment review process related to the CGU S&RC. This includes controls over management's review and approval of the significant assumptions, controls over the mathematical accuracy of the calculation and the appropriateness of the valuation models used. For example, we tested controls over management's review and determination of sales growth, EBITA in the terminal value, pre-tax discount rate, and the scope and duration of the consent decree that is currently under discussion.</p> <p>As part of these procedures, we assessed and tested the assumptions used by management in its valuation model for the CGU S&RC by comparing the assumptions to external data such as industrial sales growth rates and discount rates, and we performed sensitivity analyses over these key assumptions. We were assisted in our evaluation of the discount rate by EY valuation specialists. Further, we corroborated the assumptions of the consent decree that is currently under discussion, including the scope and duration to the underlying legal documentation. Additionally, to test the data used by management, we compared the cash flow projections used in the valuation model of the recoverable amount to the information approved by the Executive Committee and have evaluated the historical accuracy of management's estimates that drive the assessment, such as business plans and expected growth rates. We gained an understanding of the developments of the performance and corroborated if they are in line with forecasted figures.</p> <p>We also assessed the adequacy of management's disclosure around goodwill as included in the group financial statements.</p>
<i>Key observations</i>	<p>We consider management's assumptions and estimates made to calculate the recoverable amount to be reasonable.</p> <p>We evaluated that the disclosures in the group financial statements are adequate.</p>

Measurement of provisions and disclosures for legal claims, litigations and contingent liabilities

Risk The Company and certain of its group companies and former group companies are involved as a party in legal proceedings, including regulatory and other governmental proceedings, as well as being investigated by governmental authorities for alleged non-compliance with laws and regulations. As more fully described in Note 19, [Provisions, starting on page 193](#), and Note 24, [Contingencies, starting on page 204](#), this includes legal claims and litigation related to the Respiroics field action, and discussions with and information provided to the Securities and Exchange Commission (SEC) and Department of Justice (DOJ) regarding alleged tender irregularities in China, Bulgaria and Brazil.

The Company recognizes provisions for legal claims and litigation when it has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be estimated reliably. The Company has disclosed in Note 24 [Contingencies, starting on page 204](#) present obligations with a probable outflow of economic resources where the amount cannot be reliably estimated, as well as certain possible obligations arising from past events.

Auditing the provisions for legal claims and litigation, and the disclosure for provisions and contingent liabilities, is complex and judgmental due to the difficulty in predicting the outcome of the matters and estimating the potential impact if the outcomes are unfavorable and the amounts involved are, or can be, material to the financial statements as a whole.

Our audit approach Our audit procedures included, amongst others, evaluating the appropriateness of the Company's accounting policies related to provisions and disclosures for legal claims, litigations and contingent liabilities in accordance with IAS 37 'Provisions, contingent liabilities and contingent assets', and whether the accounting policies have been applied consistently or whether changes, if any, are appropriate in the circumstances.

Our audit procedures included, among others, obtaining an understanding, evaluating the design and testing the effectiveness of the Company's internal controls around the identification and evaluation of legal claims, litigation and investigations, and the recording and continuous re-assessment of the related provisions, contingent liabilities and disclosures.

To evaluate the allegations and test the Company's estimate of provisions for legal claims and litigation and the disclosure for provisions and contingent liabilities, we discussed the allegations with both internal and external legal counsel and requested confirmation letters from in-house legal counsel and external legal counsel involved in these matters. We also discussed the allegations with the Company's finance department, inspected relevant correspondence with authorities, and inspected the minutes of the meetings of the Audit Committee, Supervisory Board, Board of Management and Executive Committee. For claims settled during the year, we read the related settlement agreements and agreed the cash payments, as appropriate. Specifically related to ongoing investigations into alleged non-compliance with laws and regulations, we were supported by forensic specialists and legal specialists to assist us in assessing certain technical aspects of the legal claims and litigation.

We also assessed the adequacy of the Company's disclosure for provisions for legal claims and litigation, and contingent liabilities, as included in the group financial statements.

Key observations We consider the Board of Management's assessment and conclusion on the expected outcome of the above matters reasonable, and the accounting of legal claims and litigation adequate.

We evaluated that the disclosures in the financial statements are adequate.

Measurement and disclosure of the Respiroics field action provision related to Sleep & Respiratory Care products

<i>Risk</i>	<p>As more fully described in Note 19, Provisions, starting on page 193, the Respiroics field action provision amounted to EUR 390 million as of December 31, 2022.</p> <p>Determining the field action provision is complex and requires significant judgment by management. Significant assumptions used to determine the provision relate to the estimated total quantity of devices remaining and the replacement share.</p>
<i>Our audit approach</i>	<p>Our audit procedures included, amongst others, evaluating the appropriateness of the Company's accounting policies related to the Respiroics field action in accordance with IAS 37 'Provisions', contingent liabilities and contingent assets, and whether the accounting policies have been applied consistently or whether changes, if any, are appropriate in the circumstances.</p> <p>We obtained an understanding, evaluated the design and tested the operating effectiveness of the Company's controls relating to the Respiroics field action provision calculation and utilization. This included testing controls relating to management's review of the provision, including the determination of significant assumptions. Further, we tested the controls over the completeness, the utilization and mathematical accuracy of the provision.</p> <p>Our audit procedures included, among others, the assessment of the significant assumptions and data used by management in its calculation model for the Respiroics field action provision. For example, we assessed the estimated quantities of the devices through obtaining third party confirmations for quantities already registered for remediation as of December 31, 2022, as well as corroborated the remaining quantity estimate by evaluating the trend analysis of registrations over time. We corroborated the reasonability of the replacement share and performed procedures over historical accuracy. In our assessment we considered the contracted repair capacity, the upgraded in-house production capacity, and management's internal and external communication. We also performed an analysis of the significant assumptions to evaluate the sensitivity of the provision. In addition, we inspected the communication with regulatory authorities regarding the identified quality issues and held discussions with management on the recall process, capacity considerations as well as the ongoing cooperation with the United States Food and Drug Administration. As the recall continues to progress, we have audited the utilization of the field action provision through a combination of analytical procedures and detailed testing procedures.</p> <p>We further assessed the adequacy of the disclosures as included in the group financial statements.</p>
<i>Key observations</i>	<p>We consider the Respiroics field action provision as of December 31, 2022 to be within a reasonable range.</p> <p>We evaluated that the disclosures in the financial statements are adequate.</p>

Report on other information included in the annual report

The annual report contains other information in addition to the financial statements and our auditor's report thereon.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code for the management report and the other information as required by Part 9 of Book 2 of the Dutch Civil Code and as required by Sections 2:135b and 2:145 sub-section 2 of the Dutch Civil Code for the remuneration report.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 and Section 2:135b sub-Section 7 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Board of Management is responsible for the preparation of the other information, including the management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information required by Part 9 of Book 2 of the Dutch Civil Code. The Board of Management and the Supervisory Board are responsible for ensuring that the remuneration report is drawn up and published in accordance with sections 2:135b and 2:145 sub-section 2 of the Dutch Civil Code. In accordance with the Dutch Corporate Governance Code, the Supervisory Board renders account of the implementation of the remuneration policy in 2022 in the remuneration report, as prepared by the Remuneration Committee.

Report on other legal and regulatory requirements and ESEF

Engagement

Following the appointment by the General Meeting on May 7, 2015, we were engaged by the Supervisory Board as auditor of Koninklijke Philips N.V. on October 22, 2015, as of the audit for the year 2016 and have operated as statutory auditor ever since that date. We were reappointed in the Annual General Meeting of Shareholders (AGM) on May 9, 2019 for a term of three years starting January 1, 2020.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

European Single Electronic Reporting Format (ESEF)

Koninklijke Philips N.V. has prepared the annual report in ESEF. The requirements for this are set out in the Delegated Regulation (EU) 2019/815 with regard to regulatory technical standards on the specification of a single electronic reporting format (hereinafter: the RTS on ESEF).

In our opinion, the annual report, prepared in the XHTML format, including the (partially) marked-up consolidated financial statements, as included in the reporting package by Koninklijke Philips N.V., complies in all material respects with the RTS on ESEF.

The Board of Management is responsible for preparing the annual report, including the financial statements, in accordance with the RTS on ESEF, whereby the Board of Management combines the various components into a single reporting package.

Our responsibility is to obtain reasonable assurance for our opinion whether the annual report in this reporting package complies with the RTS on ESEF.

We performed our examination in accordance with Dutch law, including Dutch Standard 3950N 'Assurance-opdrachten inzake het voldoen aan de criteria voor het opstellen van een digitaal verantwoordingsdocument' (assurance engagements relating to compliance with criteria for digital reporting). Our examination included amongst others:

- obtaining an understanding of the Company's financial reporting process, including the preparation of the reporting package
- identifying and assessing the risks that the annual report does not comply in all material respects with the RTS on ESEF and designing and performing further assurance procedures responsive to those risks to provide a basis for our opinion, including:
 - obtaining the reporting package and performing validations to determine whether the reporting package containing the Inline XBRL instance document and the XBRL extension taxonomy files has been prepared in accordance with the technical specifications as included in the RTS on ESEF
 - examining the information related to the consolidated financial statements in the reporting package to determine whether all required mark-ups have been applied and whether these are in accordance with the RTS on ESEF.

Description of responsibilities regarding the financial statements

Responsibilities of the Board of Management and the Supervisory Board for the financial statements

The Board of Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS-EU and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Management is responsible for such internal control as the Board of Management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Management is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Management should prepare the financial statements using the going concern basis of accounting unless the Board of Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Board of Management should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. The 'Information in support of our opinion' section above includes an informative summary of our responsibilities and the work performed as the basis for our opinion.

Our audit further included among others:

- Performing audit procedures responsive to the risks identified, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Management
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect, we also submit an additional report to the Audit Committee of the Supervisory Board in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, the Netherlands, February 21, 2023

Ernst & Young Accountants LLP

Signed by F.J. Blenderman

12.3 Reconciliation of non-IFRS information

In this Annual Report Philips presents certain financial measures when discussing Philips' performance that are not measures of financial performance or liquidity under IFRS ('non-IFRS'). These non-IFRS measures (also known as non-GAAP or alternative performance measures) are presented because management considers them important supplemental measures of Philips' performance and believes that they are widely used in the industry in which Philips operates as a means of evaluating a company's operating performance and liquidity. Philips believes that an understanding of its sales performance, profitability, financial strength and funding requirements is enhanced by reporting the following non-IFRS measures:

- Comparable sales growth;
- EBITA;
- Adjusted EBITA;
- Adjusted income from continuing operations attributable to shareholders;
- Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted (Adjusted EPS);
- Adjusted EBITDA;
- Free cash flow;
- Net debt : group equity ratio; and
- Organic Return on Invested Capital (ROIC)

Non-IFRS measures do not have standardized meanings under IFRS and not all companies calculate non-IFRS measures in the same manner or on a consistent basis. As a result, these measures may not be comparable to measures used by other companies that have the same or similar names. Accordingly, undue reliance should not be placed on the non-IFRS measures contained in this Annual Report and they should not be considered as substitutes for sales, net income, net cash provided by operating activities or other financial measures computed in accordance with IFRS.

This chapter contains the definitions of the non-IFRS measures used in this Annual Report as well as reconciliations from the most directly comparable IFRS measures. The non-IFRS measures discussed in this Annual Report are cross referenced to this chapter. These non-IFRS measures should not be viewed in isolation or as alternatives to equivalent IFRS measures and should be used in conjunction with the most directly comparable IFRS measures.

The non-IFRS financial measures presented are not measures of financial performance or liquidity under IFRS, but measures used by management to monitor the underlying performance of Philips' business and operations and, accordingly, they have not been audited or reviewed by Philips' external auditors.

Additionally, Philips provides forward-looking targets for comparable sales growth, adjusted EBITA margin improvement, free cash flow and organic ROIC, which are non-IFRS financial measures. Philips has not provided a quantitative reconciliation of these targets to the most directly comparable IFRS measures because certain information needed to reconcile these non-IFRS financial measures to the most comparable IFRS financial measures are dependent on specific items or impacts which are not yet determined, are subject to uncertainty and variability in timing and amount due to their nature, are outside of Philips' control, or cannot be predicted, including items and impacts such as currency exchange rates, acquisitions and disposals, legal and tax gains and losses and pension settlements, charges and costs such as impairments, restructuring and acquisition-related charges, amortization of intangible assets and net capital expenditures. Accordingly, reconciliations of these non-IFRS forward looking financial measures to the most directly comparable IFRS financial measures are not available without unreasonable effort. Such unavailable reconciling items could significantly impact the results of operations and financial condition.

Comparable sales growth

Comparable sales growth represents the period-on-period growth in sales excluding the effects of currency movements and changes in consolidation. As indicated in [General information to the Consolidated financial statements](#), starting on page 151, foreign currency sales and costs are translated into Philips' presentation currency, the euro, at the exchange rates prevailing at the respective transaction dates. As a result of significant foreign currency sales and currency movements during the periods presented, the effects of translating foreign currency sales amounts into euros could have a material impact on the comparability of sales between periods. Therefore, these impacts are excluded when presenting comparable sales in euros by translating the foreign currency sales of the previous period and the current period into euros at the same average exchange rates. In addition, the years presented were affected by a number of acquisitions and divestments, as a result of which various activities were consolidated or deconsolidated. The effect of consolidation changes has also been excluded in arriving at the comparable sales. For the purpose of calculating comparable sales, when a previously consolidated entity is sold or control is lost, relevant sales for that entity of the corresponding prior year period are excluded. Similarly, when an entity is acquired and consolidated, relevant sales for that entity of the current year period are excluded.

Comparable sales growth is presented for the Philips Group, operating segments and geographic area. Philips' believes that the presentation of comparable sales growth is meaningful for investors to evaluate the performance of Philips' business activities over time. Comparable sales growth may be subject to limitations as an analytical tool for investors, because comparable sales growth figures are not adjusted for other effects, such as increases or decreases in prices or quantity/volume. In addition, interaction effects between currency movements and changes in consolidation are not taken into account.

Philips Group Sales growth composition by segment in %

	nominal growth	consolidation changes	currency effects	comparable growth
2022 versus 2021				
Diagnosis & Treatment	6.2	0.0	(6.8)	(0.7)
Connected Care	(3.7)	(0.1)	(7.0)	(10.8)
Personal Health	5.7	0.0	(5.7)	0.1
Philips Group	3.9	(0.2)	(6.5)	(2.8)
2021 versus 2020				
Diagnosis & Treatment	5.6	0.0	2.5	8.1
Connected Care	(17.5)	(7.2)	2.2	(22.6)
Personal Health	7.2	0.0	1.6	8.8
Philips Group	(0.9)	(2.5)	2.2	(1.2)
2020 versus 2019				
Diagnosis & Treatment	(3.7)	(1.0)	2.3	(2.3)
Connected Care	18.6	0.7	2.3	21.6
Personal Health	(9.0)	0.0	2.8	(6.2)
Philips Group	1.0	(0.5)	2.4	2.9

Philips Group

Sales growth composition by geographic area in %

	nominal growth	consolidation changes	currency effects	comparable growth
2022 versus 2021				
Western Europe	(1.2)	(1.3)	(0.4)	(2.8)
North America	11.9	0.2	(12.4)	(0.3)
Other mature geographies	(3.0)	0.0	2.5	(0.5)
Total mature geographies	5.9	(0.3)	(6.7)	(1.1)
Growth geographies	(0.8)	-	(6.0)	(6.9)
Philips Group	3.9	(0.2)	(6.5)	(2.8)
2021 versus 2020				
Western Europe	(1.5)	(1.3)	(0.4)	(3.2)
North America	(1.5)	(5.5)	3.6	(3.4)
Other mature geographies	(3.2)	(0.1)	3.6	0.3
Total mature geographies	(1.8)	(3.5)	2.4	(2.8)
Growth geographies	1.2	-	1.8	3.0
Philips Group	(0.9)	(2.5)	2.2	(1.2)
2020 versus 2019				
Western Europe	11.2	(1.1)	0.1	10.2
North America	(0.3)	(0.3)	1.9	1.3
Other mature geographies	(3.0)	(0.5)	0.4	(3.1)
Total mature geographies	2.5	(0.6)	1.1	3.0
Growth geographies	(2.6)	(0.2)	5.4	2.6
Philips Group	1.0	(0.5)	2.4	2.9

EBITA and Adjusted EBITA

The term Adjusted EBITA is used to evaluate the performance of Philips and its segments. EBITA represents Income from operations excluding amortization and impairment of acquired intangible assets and impairment of goodwill. Adjusted EBITA represents EBITA excluding gains or losses from restructuring costs, acquisition-related charges and other items.

Restructuring costs are defined as the estimated costs of initiated reorganizations, the most significant of which have been approved by the Executive Committee, and which generally involve the realignment of certain parts of the industrial and commercial organization.

Acquisition-related charges are defined as costs that are directly triggered by the acquisition of a company, such as transaction costs, purchase accounting related costs and integration-related expenses.

Other items are defined as any individual item with an income statement impact (loss or gain) that is deemed by management to be both significant and incidental to normal business activity. This includes the following: litigation costs and settlements in favor of (or against) the company, gains (or losses) on sale of businesses or assets, remediation costs, impairment of assets, portfolio realignment charges, environmental charges and other items which are individually above an amount of EUR 20 million in a quarter, or an individual item which is above EUR 40 million across multiple quarters. Refer to Net income, Income from operations (EBIT) and Adjusted EBITA within the [Results of operations, starting on page 30](#) section of [Financial performance, starting on page 26](#).

Philips considers the use of Adjusted EBITA appropriate as Philips uses it as a measure of segment performance and as one of its strategic drivers to increase profitability through re-allocation of its resources towards opportunities offering more consistent and higher returns. This is done with the aim of making the underlying performance of the businesses more transparent.

EBITA excludes amortization and impairment of acquired intangible assets (and impairment of goodwill), which primarily relates to brand names, customer relationships and technology, as Philips believes that such amounts are inconsistent in amount and frequency, are significantly impacted by the timing and/or size of acquisitions and do not factor into its decisions on allocation of its resources across segments. Although we exclude amortization and impairment of acquired intangible assets from the Adjusted EBITA measure, Philips believes that it is important for investors to understand that these acquired intangible assets contribute to revenue generation.

Philips believes Adjusted EBITA is useful to evaluate financial performance on a comparable basis over time by factoring out restructuring costs, acquisition-related charges and other incidental items which are not directly related to the operational performance of Philips Group or its segments.

Adjusted EBITA may be subject to limitations as an analytical tool for investors, as it excludes restructuring costs, acquisition-related charges and other incidental items and therefore does not reflect the expense associated with such items, which may be significant and have a significant effect on Philips' net income.

Adjusted EBITA margin refers to Adjusted EBITA divided by sales expressed as a percentage.

Adjusted EBITA is not a recognized measure of financial performance under IFRS. The reconciliation of Adjusted EBITA to the most directly comparable IFRS measure, Net income, for the years indicated is presented in the following table. Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis, resulting in them being shown on a Philips Group level only.

Philips Group

Reconciliation of Net income to Adjusted EBITA in millions of EUR

	Philips Group	Diagnosis & Treatment	Connected Care	Personal Health	Other
2022					
Net Income	(1,605)				
Discontinued operations, net of income taxes	(13)				
Income tax expense	(113)				
Investments in associates, net of income taxes	2				
Financial expenses	258				
Financial income	(58)				
Income from operations	(1,529)	404	(2,246)	515	(202)
Amortization and impairment of acquired intangible assets	363	143	199	15	7
Impairment of goodwill	1,357	27	1,331		
EBITA	192	573	(716)	531	(196)
Restructuring and acquisition-related charges	202	21	108	11	61
Other items:	925	180	703	(4)	46
<i>Respironics field-action provision</i>	250		250		
<i>Respironics field-action running remediation costs</i>	210		210		
<i>R&D project impairments</i>	134	120	12	3	
<i>Portfolio realignment charges</i>	109		109		
<i>Impairment of assets in S&RC</i>	39		39		
<i>Provision for public investigations tender irregularities</i>	60	60			
<i>Provisions for quality actions in Connected Care</i>	59		59		
<i>Remaining items</i>	63	-	24	(6)	46
Adjusted EBITA	1,318	774	95	538	(89)

Philips Group

Reconciliation of Net income to Adjusted EBITA in millions of EUR

	Philips Group	Diagnosis & Treatment	Connected Care	Personal Health	Other
2021					
Net Income	3,323				
Discontinued operations, net of income taxes	(2,711)				
Income tax expense	(103)				
Investments in associates, net of income taxes	4				
Financial expenses	188				
Financial income	(149)				
Income from operations	553	941	(722)	576	(242)
Amortization and impairment of acquired intangible assets	322	153	148	15	6
Impairment of goodwill	15	2	13		
EBITA	890	1,097	(562)	591	(236)
Restructuring and acquisition-related charges	95	7	93	(1)	(5)
Other items:	1,069	(32)	965	-	136
<i>Respironics field-action provision</i>	719	-	719		-
<i>Respironics field-action running remediation costs</i>	94		94		
<i>Provisions for quality actions in Connected Care</i>	94		94		
<i>Loss on divestment of business</i>	76				76
<i>Remaining items</i>	87	(32)	58	-	61
Adjusted EBITA	2,054	1,071	497	590	(105)

Philips Group

Reconciliation of Net income to Adjusted EBITA in millions of EUR

	Philips Group	Diagnosis & Treatment	Connected Care	Personal Health	Other
2020					
Net Income	1,195				
Discontinued operations, net of income taxes	(196)				
Income tax expense	212				
Investments in associates, net of income taxes	9				
Financial expenses	202				
Financial income	(158)				
Income from operations	1,264	497	704	362	(300)
Amortization and impairment of acquired intangible assets	377	209	134	16	18
Impairment of goodwill	144	-	144		
EBITA	1,784	706	982	378	(282)
Restructuring and acquisition-related charges	195	29	97	31	37
Other items	299	83	112	24	81
Adjusted EBITA	2,277	818	1,191	433	(165)

Adjusted income from continuing operations attributable to shareholders

The term Adjusted income from continuing operations attributable to shareholders represents income from continuing operations less continuing operations non-controlling interests, amortization and impairment of acquired intangible assets, impairment of goodwill, excluding gains or losses from restructuring costs and acquisition-related charges, other items, adjustments to net finance expenses, adjustments to investments in associates and adjustments to tax expense. Shareholders refers to shareholders of Koninklijke Philips N.V.

Restructuring costs, acquisition-related charges and other items are all defined in the EBITA and Adjusted EBITA section above.

Net finance expenses are defined as either the financial income or expense component of an individual item already identified to be excluded as part of the Adjusted income from continuing operations, fair value movements of equity investments in limited life funds recognized at fair value through profit or loss or a financial income or expense component with an income statement impact (gain or loss) that is deemed by management to be both significant and incidental to normal business activity.

The adjustments to tax expense include the tax impact of the adjustments to income from continuing operations as well as tax only adjusting items, and uses the Weighted Average Statutory Tax Rate plus any recurring tax costs or benefits.

Philips considers the use of Adjusted income from continuing operations attributable to shareholders appropriate as Philips uses it as the basis for the Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted, a non-IFRS measure.

Adjusted income from continuing operations attributable to shareholders may be subject to limitations as an analytical tool for investors, as it excludes certain items and therefore does not reflect the expense associated with such items, which may be significant and have a significant effect on Philips' net income. Net income, for the years indicated is included in the following table. Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis, resulting in them being shown on a Philips Group level only.

Adjusted income from continuing operations attributable to shareholders is not a recognized measure of financial performance under IFRS. The reconciliation of Adjusted income from continuing operations attributable to shareholders to the most directly comparable IFRS measure, Net income, for the years indicated is included in the following table.

Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted (Adjusted EPS)

Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted is calculated by dividing the Adjusted income from continuing operations attributable to shareholders by the diluted weighted average number of shares (after deduction of treasury shares) outstanding during the period, as defined in [General information to the Consolidated financial statements](#), starting on page 151, earnings per share section.

Philips considers the use of Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted appropriate as it is a measure that is useful when comparing its performance to other companies in the HealthTech industry. However, it may be subject to limitations as an analytical tool for investors, as it uses Adjusted income from continuing operations attributable to shareholders which has certain items excluded.

Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted is not a recognized measure of financial performance under IFRS. The most directly comparable IFRS measure, income from continuing operations attributable to shareholders per common share (in EUR) - diluted for the years indicated, is included in the following table.

Philips Group

Adjusted income from continuing operations attributable to shareholders¹⁾ in millions of EUR unless otherwise stated

	2020	2021	2022
Net income	1,195	3,323	(1,605)
Discontinued operations, net of income taxes	(196)	(2,711)	(13)
Income from continuing operations	999	612	(1,618)
Income from continuing operations attributable to non-controlling interests	(8)	(4)	(3)
Income from continuing operations attributable to shareholders¹⁾	991	608	(1,622)
Adjustments for:			
Amortization and impairment of acquired intangible assets	377	322	363
Impairment of goodwill	144	15	1,357
Restructuring costs and acquisition-related charges	195	95	202
Other items:	299	1,069	925
<i>Respironics field-action provision</i>		719	250
<i>Respironics field-action running remediation costs</i>		94	210
<i>R&D project impairments</i>			134
<i>Portfolio realignment charges</i>			109
<i>Impairment of assets in S&RC</i>			39
<i>Provision for public investigations tender irregularities</i>			60
<i>Provisions for quality actions in Connected Care</i>		94	59
<i>Loss on divestment of business</i>		76	
<i>Remaining items</i>	299	87	63
Net finance income/expenses	(125)	(84)	(4)
Tax impact of adjusted items and tax only adjusting items	(285)	(527)	(376)
Adjusted Income from continuing operations attributable to shareholders¹⁾	1,594	1,497	845
Earnings per common share:			
Income from continuing operations attributable to shareholders ¹⁾ per common share (in EUR) - diluted	1.08	0.67	(1.84)
Adjusted income from continuing operations attributable to shareholders ¹⁾ per common share (in EUR) - diluted	1.74	1.65	0.96

¹⁾ Shareholders refers to shareholders of Koninklijke Philips N.V.

Adjusted EBITDA

Adjusted EBITDA is defined as Income from operations excluding amortization and impairment of intangible assets, impairment of goodwill, depreciation and impairment of property, plant and equipment, restructuring costs, acquisition-related charges and other items.

Philips understands that Adjusted EBITDA is broadly used by analysts, rating agencies and investors in their evaluation of different companies because it excludes certain items that can vary widely across different industries or among companies within the same industry. Philips considers Adjusted EBITDA useful when comparing its performance to other companies in the HealthTech industry. However, Adjusted EBITDA may be subject to limitations as an analytical tool because of the range of items excluded and their significance in a given reporting period. Furthermore, comparisons with other companies may be complicated due to the absence of a standardized meaning and calculation framework. Philips management compensates for the limitations of using Adjusted EBITDA by using this measure to supplement IFRS results to provide a more complete understanding of the factors and trends affecting the business rather than IFRS results alone. In addition to the limitations noted above, Adjusted EBITDA excludes items that may be recurring in nature and should not be disregarded in the evaluation of performance. However, we believe it is useful to exclude such items to provide a supplemental analysis of current results and trends compared to other periods. This is because certain excluded items can vary significantly depending on specific underlying transactions or events. Also, the variability of such items may not relate specifically to ongoing operating results or trends and certain excluded items, while potentially recurring in future periods and may not be indicative of future results. A reconciliation from net income to Adjusted EBITDA is provided in the following table. Net income, for the years indicated is included in the following table. Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis, resulting in them being shown on a Philips Group level only.

Philips Group

Reconciliation of Net income to Adjusted EBITDA in millions of EUR

	Philips Group	Diagnosis & Treatment	Connected Care	Personal Health	Other
2022					
Net Income	(1,605)				
Discontinued operations, net of income taxes	(13)				
Income tax expense	(113)				
Investments in associates, net of income taxes	2				
Financial expenses	258				
Financial income	(58)				
Income from operations	(1,529)	404	(2,246)	515	(202)
Depreciation, amortization and impairment of fixed assets	1,602	559	514	132	397
Impairment of goodwill	1,357	27	1,331		
Restructuring and acquisition-related charges	202	21	108	11	61
Other items:	925	180	703	(4)	46
<i>Respironics field-action provision</i>	250		250		
<i>Respironics field-action running remediation costs</i>	210		210		
<i>R&D project impairments</i>	134	120	12	3	
<i>Portfolio realignment charges</i>	109		109		
<i>Impairment of assets in S&RC</i>	39		39		
<i>Provision for public investigations tender irregularities</i>	60	60			
<i>Provisions for quality actions in Connected Care</i>	59		59		
<i>Remaining items</i>	63	-	24	(6)	46
Add back impairment of fixed assets included in Restructuring and acquisition-related charges and Other items	(252)	(135)	(84)	(3)	(30)
Adjusted EBITDA	2,305	1,055	326	652	272

Philips Group

Reconciliation of Net income to Adjusted EBITDA in millions of EUR

	Philips Group	Diagnosis & Treatment	Connected Care	Personal Health	Other
2021					
Net Income	3,323				
Discontinued operations, net of income taxes	(2,711)				
Income tax expense	(103)				
Investments in associates, net of income taxes	4				
Financial expenses	188				
Financial income	(149)				
Income from operations	553	941	(722)	576	(242)
Depreciation, amortization and impairment of fixed assets	1,323	459	382	131	350
Impairment of goodwill	15	2	13		
Restructuring and acquisition-related charges	95	7	93	(1)	(5)
Other items:	1,069	(32)	965	-	136
<i>Respironics field-action provision</i>	719	-	719		-
<i>Respironics field-action running remediation costs</i>	94		94		
<i>Provisions for quality actions in Connected Care</i>	94		94		
<i>Loss on divestment of business</i>	76				76
<i>Remaining items</i>	87	(32)	58	-	61
Add back impairment of fixed assets included in Restructuring and acquisition-related charges and Other items	(70)	(21)	(51)		2
Adjusted EBITDA	2,985	1,358	680	706	241

Philips Group

Reconciliation of Net income to Adjusted EBITDA in millions of EUR

	Philips Group	Diagnosis & Treatment	Connected Care	Personal Health	Other
2020					
Net Income	1,195				
Discontinued operations, net of income taxes	(196)				
Income tax expense	212				
Investments in associates, net of income taxes	9				
Financial expenses	202				
Financial income	(158)				
Income from operations	1,264	497	704	362	(300)
Depreciation, amortization and impairment of fixed assets	1,462	536	414	145	368
Impairment of goodwill	144	0	144		
Restructuring and acquisition-related charges	195	29	97	31	37
Other items	299	83	112	24	81
Add back impairment of fixed assets included in Restructuring and acquisition-related charges and Other items	(102)	(35)	(64)	1	(4)
Adjusted EBITDA	3,262	1,111	1,407	563	180

Free cash flow

Free cash flow is defined as net cash flows from operating activities minus net capital expenditures. Net capital expenditures are comprised of the purchase of intangible assets, expenditures on development assets, capital expenditures on property, plant and equipment and proceeds from sales of property, plant and equipment.

Philips discloses free cash flow as a supplemental non-IFRS financial measure, as Philips believes it is a meaningful measure to evaluate the performance of its business activities over time. Philips understands that free cash flow is broadly used by analysts, rating agencies and investors in assessing its performance. Philips also believes that the presentation of free cash flow provides useful information to investors regarding the cash generated by the Philips operations after deducting cash outflows for purchases of intangible assets, capitalization of product development, expenditures on development assets, capital expenditures on property, plant and equipment and proceeds from disposal of property, plant and equipment. Therefore, the measure gives an indication of the long-term cash generating ability of the business. In addition, because free cash flow is not impacted by purchases or sales of businesses and investments, it is generally less volatile than the total of net cash provided by (used for) operating activities and net cash provided by (used for) investing activities.

Free cash flow may be subject to limitations as an analytical tool for investors, as free cash flow is not a measure of cash generated by operations available exclusively for discretionary expenditures and Philips requires funds in addition to those required for capital expenditures for a wide variety of non-discretionary expenditures, such as payments on outstanding debt, dividend payments or other investing and financing activities. In addition, free cash flow does not reflect cash payments that may be required in future for costs already incurred, such as restructuring costs.

Philips Group

Composition of free cash flow in millions of EUR

	2020	2021	2022
Net cash flows provided by operating activities	2,511	1,629	(173)
Net capital expenditures:	(876)	(729)	(788)
<i>Purchase of intangible assets</i>	(114)	(107)	(105)
<i>Expenditures on development assets</i>	(296)	(259)	(257)
<i>Capital expenditures on property, plant and equipment</i>	(485)	(397)	(444)
<i>Proceeds from disposals of property, plant and equipment</i>	19	33	18
Free cash flow	1,635	900	(961)

Net debt : group equity ratio

Net debt : group equity ratio is presented to express the financial strength of Philips. Net debt is defined as the sum of long- and short-term debt minus cash and cash equivalents. Group equity is defined as the sum of shareholders' equity and non-controlling interests. This measure is used by Philips Treasury management and investment analysts to evaluate financial strength and funding requirements. This measure may be subject to limitations because cash and cash equivalents are used for various purposes, not only debt repayment. The net debt calculation deducts all cash and cash equivalents whereas these items are not necessarily available exclusively for debt repayment at any given time.

Philips Group

Composition of net debt to group equity in millions of EUR unless otherwise stated

	2020	2021	2022
Long-term debt	5,705	6,473	7,270
Short-term debt	1,229	506	931
Total debt	6,934	6,980	8,201
Cash and cash equivalents	3,226	2,303	1,172
Net debt	3,708	4,676	7,028
Shareholders' equity	11,870	14,438	13,249
Non-controlling interests	31	36	34
Group equity	11,901	14,475	13,283
Net debt : group equity ratio	24.76	24.76	35.65

Organic Return on Invested Capital

Organic Return on Invested Capital (ROIC) is defined as organic return which includes income from operations for the year excluding the impact of: Income or Loss from operations of businesses acquired in the five year period prior to the measurement date; certain tax gains and losses determined by management to be material in nature and require separate disclosure and; certain other items; and tax effects of the other adjustments (calculated at group effective tax rate) divided by average of the Net operating capital at the end of each of the five quarters ending on the relevant measurement date excluding the average net operating capital at the end of each of the five quarters ending on the relevant measurement date of the businesses acquired in the five year period prior to the measurement date, expressed as a percentage.

Net operating capital is defined as tangible fixed assets, intangible fixed assets, including goodwill, inventories and receivable balances, minus payable balances and provisions, all as further defined below. Net operating capital is adjusted to exclude assets and liabilities of businesses acquired in the five year period prior to the relevant measurement date, and adjustments determined by management to be necessary for comparability.

Other items are defined as material in nature and require separate disclosure and have the same nature as the items excluded from Adjusted EBITA. In the years 2020-2022 these other items included legal provisions, pension settlements, results of divestments, remediation costs, impairment of assets and portfolio realignment charges. Refer to Net income, Income from operations (EBIT) and Adjusted EBITA within the [Results of operations, starting on page 30](#) section of [Financial performance, starting on page 26](#). Organic ROIC is calculated after taxes.

The term Organic Return on Invested Capital (ROIC) is used by management to evaluate Philips' efficiency at allocating the capital under its control to profitable investments and how well the company uses capital to generate returns. Philips believes that Organic ROIC provides useful information to investors because it excludes the impact of recently acquired businesses, giving a more accurate representation of how the Philips Business System is leveraged to drive operational excellence and removes irregularity caused by various operating models of recently acquired businesses. Philips also believes that excluding certain items determined by management to be material in nature and requiring separate disclosure enhances comparability across several periods. Organic ROIC may be subject to limitations as an analytical tool for investors, as it excludes Income or Loss from operations of acquired businesses and tax gains and losses and certain other items, which may have a significant effect on ROIC. Organic ROIC is not a recognized measure of financial performance under IFRS.

The most comparable IFRS measure to Organic ROIC is Return on total assets, calculated as Income from operations for the year divided by total assets as of the end of the year. Return on total assets as of the balance sheet date for the years ended December 31, 2020, 2021 and 2022 is included in the following table.

Philips Group

Return on total assets in millions of EUR unless otherwise stated

	2020	2021	2022
Income from operations	1,264	553	(1,529)
Total assets	27,713	30,961	30,688
Return on total assets (%)	4.6%	1.8%	(5.0)%

The reconciliation of Average Net operating capital and the reconciliation of Net income to Organic ROIC for the years ended December 31, 2020, 2021 and 2022 are included in the following tables.

Philips Group

Reconciliation of Average Net operating capital ¹⁾ in millions of EUR

	2020	2021	2022
Tangible fixed assets	2,799	2,716	2,715
Intangible assets (including goodwill)	11,789	13,454	14,684
Inventories	3,056	3,248	3,999
Receivable balances ²⁾	5,010	4,648	5,043
Payable balances ³⁾	(6,520)	(6,627)	(7,129)
Provisions ⁴⁾	(2,066)	(2,178)	(2,313)
Group Average Net operating capital	14,068	15,261	16,999
Net operating capital of businesses acquired	(3,176)	(5,511)	(5,739)
Average Net operating capital	10,892	9,750	11,260

¹⁾ All line items represent the average of each of the five quarters ending before the relevant measurement date.

²⁾ Receivable balances consists of (Non-)Current receivables, Other (non-)current assets, (Non-)Current derivative financial assets and Income tax receivable.

³⁾ Payable balances consist of Accounts payable, Accrued liabilities, (Non-)Current contract liabilities, Other (Non-)current liabilities, (Non-) current derivative financial liabilities and (Non-)Current tax liabilities.

⁴⁾ Provisions consist of Long-term and Short-term provisions.

Philips Group

Reconciliation of Net Income to Organic ROIC in millions of EUR unless otherwise stated

	2020	2021	2022
Net Income	1,195	3,323	(1,605)
Discontinued operations, net of income taxes	(196)	(2,711)	(13)
Income tax expense	212	(103)	(113)
Investments in associates, net of income taxes	9	4	2
Financial expenses	202	188	258
Financial income	(158)	(149)	(58)
Income from operations	1,264	553	(1,529)
Loss from operations of businesses acquired	265	124	178
Tax gains and losses	(22)	(197)	(169)
Goodwill impairment	144	15	1,357
Other items:	59	872	802
<i>Respironics field-action provision</i>		719	250
<i>Respironics field-action running remediation costs</i>		94	210
<i>R&D project impairments</i>			134
<i>Portfolio realignment charges</i>			109
<i>Impairment of assets in S&RC</i>			39
<i>Loss on divestment of business</i>		76	
<i>Provision for specified legal matters</i>	38	(17)	60
<i>Pension liability derisking</i>	21		
Income tax expense	(212)	103	113
Tax effects of other adjustments	30	(33)	(45)
Organic return	1,528	1,437	707
Average Net operating capital	10,892	9,750	11,260
Organic ROIC (%)	14.0%	14.7%	6.3%

12.4 Other Key Performance Indicators

In addition to monitoring the IFRS and non-IFRS financial measures discussed under [Financial performance, starting on page 26](#), Philips' management also uses the following other key performance indicators to monitor the performance of the business and to manage the business. Comparative results have been restated to reflect the treatment of the Domestic Appliances business as a discontinued operation (for more information, please refer to [Discontinued operations and assets classified as held for sale, starting on page 156](#)).

Philips Group

Other Key Performance Indicators

	2020	2021	2022
Lives improved, in billions	1.53	1.67	1.81
Operational carbon footprint, in kilotonnes CO ₂ -equivalent	518	519	438
Circular revenues	15%	16%	18%
Waste to landfill	2.6%	0.1%	0.0%
Closing the Loop ¹⁾	N/A	34%	35%
Comparable order intake	9%	4%	(3)%

¹⁾ We expanded the definition of our Closing the Loop practices to include all professional medical equipment in 2021. Complete figures are not available for 2020.

Lives Improved

The purpose of Philips is to improve people's health and well-being through meaningful innovation and we aim to improve the lives of 2 billion people a year by 2025, including 300 million in underserved communities, rising to 2.5 billion and 400 million respectively by 2030. We use Lives Improved as a measurement of our societal impact. In the course of 2021 we changed the definition of 'lives improved' (effective January 2021) to align more closely with our purpose. The new definition includes only products or solutions that contribute to people's health and well-being, and no longer includes the contribution from our Green Products and Solutions that support a healthy ecosystem. Additionally, as we discontinued our Domestic Appliances business, we have removed the impact of this business from the Lives Improved results. The combined impact of these changes resulted in an overall drop of 223 million lives improved in 2021. We calculate Lives Improved as the number of individual interactions for each product sold (based on market intelligence and statistical data) and multiply by the number of those products delivered in a year (eliminating double counting for multiple different product touches per individual). See [Improving people's lives, starting on page 63](#) for more information on Lives Improved.

Operational Carbon Footprint

We aim to minimize our environmental impact and we use the Operational Carbon Footprint as one of the measurements of our impact. We define Operational Carbon Footprint as the total greenhouse gas emissions caused by an organization, event, product or person; expressed in kilotonnes CO₂-equivalent. We calculate our Operational Carbon Footprint on a monthly basis and include industrial sites (manufacturing and assembly sites), non-industrial sites (offices, warehouses, IT centers and R&D facilities), business travel (lease and rental cars and airplane travel) and logistics (air, sea and road transport) See [Sustainable Operations, starting on page 56](#) for more information on our Operational Carbon Footprint.

Circular Revenues

As a company committed to the transition to a circular economy, we aim to decouple economic growth from the use of natural resources and ecosystems by using those resources more effectively. We define Circular Revenues as revenues generated through products and solutions that meet specific Circular Economy requirements (including performance and access-based business models, refurbished, reconditioned and remanufactured products and systems, refurbished, reconditioned and remanufactured components, upgrades or refurbishment on site or remote, and products with a recycled plastics content of >25% post-consumer recycled plastics or >30% post-industrial/postconsumer recycled plastics by total weight of eligible plastics). We calculate Circular Revenues as annual revenues attributable to products and solutions that meet the Circular Economy requirements.

Waste to Landfill

At Philips, as a responsible company, we strive to reduce our environmental impact. We define Waste to Landfill as total waste that is delivered for landfill and exclude one-time-only waste and waste delivered to landfill due to regulatory requirements. We calculate Waste to Landfill in kilotonnes per year. See [Sustainable Operations, starting on page 56](#) for more information on Waste to Landfill.

Closing the Loop

At Philips, we are committed to offer a trade-in on all our professional medical equipment and to take care of responsible repurposing of such trade-in systems. We call this "Closing the Loop". We calculate Closing the Loop as Process Adherence (%) multiplied by Reclaim (%). Process adherence (%) is defined as the % of won Replacement Philips deals which are associated with a trade in request in our CRM system. Reclaim (%) is defined as the % of won Replacement Philips deals with a customer accepted trade in request in our CRM system and a repurposing strategy that fulfills our reclaim requirements.

Philips believes that the five other key performance indicators described above (Lives Improved, Operational Carbon Footprint, Circular Revenues, Waste to Landfill and Closing the Loop) provide important information to investors and are important to understanding the long-term performance and prospects of the business. In addition, these other key

performance indicators are also used for management compensation purposes. Members of the Board of Management are eligible for grants of performance shares under the Long-Term Incentive (LTI) Plan, and the vesting of the performance shares is subject to performance over a period of 3 years and based on certain criteria, including a 10% weighting for Sustainability Objectives, which Philips defines as the five other key performance indicators described above: Lives Improved, Carbon Footprint, Circular Revenues, Waste to Landfill and Closing the Loop. Philips believes that including these other key performance indicators in our remuneration policy encourages management to act responsibly and sustainably, supporting the company's overall performance and enhancing the long-term value of the company. See [Remuneration of the Board of Management in 2022, starting on page 119](#) for more information on the Philips' Long-Term Incentive (LTI) Plan.

Comparable order intake

Comparable order intake represents the period-on-period growth, expressed as a percentage, in order intake excluding the effects of currency movements and changes in consolidation. Comparable order intake is reported for equipment and software in the Diagnoses & Treatment and Connected Care businesses, and is defined as the total contractually committed value of equipment and software to be delivered within a specified timeframe, and is an approximation of expected future revenue growth in the respective businesses. Comparable order intake does not derive from the financial statements and a quantitative reconciliation is thus not provided.

Philips has simplified its order intake policy by aligning horizons for all modalities to 18 months to revenue. Order intake for software contracts corresponds to the same 18 months to revenue horizon, meaning that only the next 18 months conversion to revenue under the contract is recognized. Philips believes this policy eliminates major variances in order intake growth and better reflects expected revenue in the short term from order intake booked in the reporting period.

Philips uses comparable order intake as an indicator of business activity and performance. Comparable order intake is not an alternative to revenue and may be subject to limitations as an analytical tool due to differences in amount and timing between booking orders and revenue recognition. Due to divergence in practice, other companies may calculate this or a similar measure (such as order backlog) differently and therefore comparisons between companies may be complicated.

12.5 Forward-looking statements and other information

Forward-looking statements

This document contains certain forward-looking statements with respect to the financial condition, results of operations and business of Philips and certain of the plans and objectives of Philips with respect to these items. Examples of forward-looking statements include statements made about our strategy, estimates of sales growth, future Adjusted EBITA^{*)}, future restructuring and acquisition-related charges and other costs, future developments in Philips' organic business and the completion of acquisitions and divestments. Forward-looking statements can be identified generally as those containing words such as "anticipates", "assumes", "believes", "estimates", "expects", "should", "will", "will likely result", "forecast", "outlook", "projects", "may" or similar expressions. By their nature, these statements involve risk and uncertainty because they relate to future events and circumstances and there are many factors that could cause actual results and developments to differ materially from those expressed or implied by these statements.

These factors include but are not limited to: Philips' ability to gain leadership in health informatics in response to developments in the health technology industry; Philips' ability to transform its business model to health technology solutions and services; macroeconomic and geopolitical changes; integration of acquisitions and their delivery on business plans and value creation expectations; securing and maintaining Philips' intellectual property rights, and unauthorized use of third-party intellectual property rights; ability to meet expectations with respect to ESG-related matters; failure of products and services to meet quality or security standards, adversely affecting patient safety and customer operations; breach of cybersecurity; challenges in connection with Philips' strategy to improve execution and other business performance initiatives; the resilience of our supply chain; attracting and retaining personnel; COVID-19 and other pandemics; challenges to drive operational excellence and speed in bringing innovations to market; compliance with regulations and standards including quality, product safety and (cyber) security; compliance with business conduct rules and regulations including privacy and upcoming ESG disclosure and due diligence requirements; treasury and financing risks; tax risks; reliability of internal controls, financial reporting and management process; global inflation.

As a result, Philips' actual future results may differ materially from the plans, goals and expectations set forth in such forward-looking statements. For a discussion of factors that could cause future results to differ from such forward-looking statements, see also [Risk management, starting on page 87](#).

Third-party market share data

Statements regarding market share, contained in this document, including those regarding Philips' competitive position, are based on outside sources such as specialized research institutes, industry and dealer panels in combination with management estimates. Where

full year information regarding 2022 is not yet available to Philips, market share statements may also be based on estimates and projections prepared by management and/or based on outside sources of information. Management's estimates of rankings are based on order intake or sales, depending on the business.

Use of non-IFRS information

In presenting and discussing the Philips Group's financial position, operating results and cash flows, management uses certain non-IFRS financial measures. These non-IFRS financial measures should not be viewed in isolation as alternatives to the equivalent IFRS measure and should be used in conjunction with the most directly comparable IFRS measures. Non-IFRS financial measures do not have standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers. A reconciliation of these non-IFRS measures to the most directly comparable IFRS measures is contained in [Reconciliation of non-IFRS information, starting on page 246](#).

Fair value information

In presenting the Philips Group's financial position, fair values are used for the measurement of various items in accordance with the applicable accounting standards. These fair values are based on market prices, where available, and are obtained from sources that are deemed to be reliable. Readers are cautioned that these values are subject to changes over time and are only valid at the balance sheet date. When quoted prices or observable market values are not readily available, fair values are estimated using appropriate valuation models and unobservable inputs. Such fair value estimates require management to make significant assumptions with respect to future developments which are inherently uncertain and may therefore deviate from actual developments. Critical assumptions used are disclosed in the financial statements. In certain cases, independent valuations are obtained to support management's determination of fair values.

Statutory financial statements and management report

The chapters Group financial statements and Company financial statements contain the statutory financial statements of the company. The introduction to the chapter Group financial statements sets out which parts of this Annual Report form the management report within the meaning of Section 2:391 of the Dutch Civil Code.

^{*)} 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](#).

12.6 Investor information

12.6.1 Share information

Philips Group Share information at year-end 2022

Share listings	Euronext Amsterdam, New York Stock Exchange
Ticker code	PHIA, PHG
No. of shares issued	889 million
No. of shares issued and outstanding	881 million
Market capitalization	EUR 12 billion
Industry classification	
MSCI: Health Care Equipment	35101010
ICB: Medical Equipment	4535
Members of indices	AEX, NYSE, DJSI, STOXX Europe 600 Healthcare, MSCI Europe Health Care

The following information is based on a shareholder base analysis carried out for investor relations purposes by an independent provider in December 2022.

Philips Group Shareholders by region at year-end ¹⁾

	2022
United States	44%
United Kingdom	13%
Canada	5%
France	5%
Rest of Europe	15%
Retail and Other ²⁾	18%

¹⁾ Approximate split based on shareholders identified.

²⁾ No geography identified for Retail and Other.

Philips Group Shareholders by style at year-end ¹⁾

	2022
Value	32%
Growth	13%
GARP	18%
Index	15%
Retail	12%
Other	8%
Hedge Fund	2%

¹⁾ Approximate split based on shareholders identified.

12.6.2 Financial calendar

Financial calendar

Annual General Meeting of Shareholders	
Record date 2023 AGM	April 11, 2023
2023 AGM	May 9, 2023
Quarterly reports ¹⁾	
First quarter results 2023	April 24, 2023
Second quarter results 2023	July 24, 2023
Third quarter results 2023	October 23, 2023
Fourth quarter results 2023	January 29, 2024

¹⁾ Subject to updates of the financial calendar as published on the company's website

2023 Annual General Meeting of Shareholders

The Agenda and the explanatory notes to the Agenda for the Annual General Meeting of Shareholders on May 9, 2023, will be published on the company's website.

For the 2023 Annual General Meeting of Shareholders, a record date of April 11, 2023 will apply. Those persons who, on that date, hold shares in the company, and are registered as such in one of the registers designated by the Board of Management for the Annual General Meeting of Shareholders, will be entitled to participate in, and vote at, the meeting.

12.6.3 Investor contact

Shareholder services

Shareholders and other interested parties can make inquiries about the Annual Report 2022 to:

Royal Philips
Annual Report Office
Philips Center
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International direct investment program

Royal Philips offers a Dividend Reinvestment and Direct Stock Purchase Plan designed for the US market. This program provides existing shareholders and interested investors with an economical and convenient way to purchase and sell Philips New York Registry shares (listed at the New York Stock Exchange) and to reinvest cash dividends. Deutsche Bank (the registrar of Philips NY Registry shares) has been authorized to implement and administer both plans for registered shareholders of and new investors in Philips NY Registry shares. Philips does not administer or sponsor the Program and assumes no obligation or liability for the operation of the plan. For further information on this program and for enrollment forms, contact:

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Analysts' coverage

Royal Philips is covered by approximately 20 analysts. For a list of our current analysts, please refer to: www.philips.com/a-w/about/investor/stock-info/analyst-coverage.html

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12.7 Definitions and abbreviations

Brominated flame retardants (BFR)

Brominated flame retardants are a group of chemicals that have an inhibitory effect on the ignition of combustible organic materials. Of the commercialized chemical flame retardants, the brominated variety are most widely used.

CO₂-equivalent

CO₂-equivalent or carbon dioxide equivalent is a quantity that describes, for a given mixture and amount of greenhouse gas, the amount of CO₂ that would have the same global warming potential (GWP), when measured over a specified timescale (generally 100 years).

Circular economy

A circular economy aims to decouple economic growth from the use of natural resources and ecosystems by using those resources more effectively. By definition it is a driver for innovation in the areas of material, component and product reuse, as well as new business models such as solutions and services. In a Circular Economy, the more effective use of materials makes it possible to create more value, both by cost savings and by developing new markets or growing existing ones.

Circular Material Management

Circular Material Management has replaced the recycling percentage at Philips, as we endeavor to reduce total material use. The Circular Material Management percentage includes circular measures such as waste prevented, reuse and other recovery, but excludes waste delivered to landfill and incineration (with and without energy recovery) due to regulatory requirements.

Circular Revenues

Circular Revenues are defined by revenues generated through products and solutions that meet specific Circular Economy requirements. These include performance and access-based business models, refurbished, reconditioned and remanufactured products and systems, refurbished, reconditioned and remanufactured components, upgrades or refurbishment on site or remote, and products with a recycled plastics content of >25% post-consumer recycled plastics or >30% post-industrial/post-consumer recycled plastics by total weight of eligible plastics.

Dividend yield

The dividend yield is the annual dividend payment divided by Philips' market capitalization. All references to dividend yield are as of December 31 of the previous year.

EcoHeroes

Philips' 'EcoHeroes' concept aims to drive innovation beyond our EcoDesign requirements, delivering solutions that are demonstrably setting the pace in terms of environmental impact. EcoHeroes outperform the relevant benchmark in at least one of the focal areas; any comparative sustainability claim is underpinned by a quantitative analysis. Our target is to have 25% of total hardware revenue coming from EcoHeroes by 2025.

Employee Engagement Index (EEI)

The Employee Engagement Index (EEI) is the single measure of the overall level of employee engagement at Philips. It is a combination of perceptions and attitudes related to employee satisfaction, commitment and advocacy.

Energy-using Products (EuP)

An energy-using product is a product that uses, generates, transfers or measures energy (electricity, gas, fossil fuel). Examples include boilers, computers, televisions, transformers, industrial fans and industrial furnaces.

Full-time equivalent employee (FTE)

Full-time equivalent is a way to measure a worker's involvement in a project. An FTE of 1.0 means that the person is equivalent to a full-time worker, while an FTE of 0.5 signals that the worker works half-time.

Global Reporting Initiative (GRI)

The Global Reporting Initiative (GRI) is a network-based organization that pioneered the world's most widely used sustainability reporting framework. GRI is committed to the framework's continuous improvement and application worldwide. GRI's core goals include the mainstreaming of disclosure on environmental, social and governance performance.

Green/EcoDesigned Innovation

Green/EcoDesigned Innovation comprises all R&D activities directly contributing to the intended development of Green/EcoDesigned Products or Green/EcoDesigned Technologies. Innovation projects are characterized as Green/EcoDesigned based on the innovation brief; this designation is not revised during the project lifetime.

Green/EcoDesigned Products

Green/EcoDesigned Products offer a significant environmental improvement in one or more Green Focal Areas: Energy efficiency, Packaging, Hazardous substances, Weight, Circularity, and Lifetime reliability. The life cycle approach is used to determine a product's overall environmental improvement. It calculates the environmental impact of a product over its total life cycle (raw materials, manufacturing, product use and disposal). Green/EcoDesigned Products need to prove leadership in at least one Green Focal Area compared to industry standards, which is defined by a segment-specific peer group. This is done either by

outperforming reference products (which can be a competitor or predecessor product in the particular product family) by at least 10%, by outperforming product-specific eco-requirements or by being awarded with a recognized eco-performance label. Because of different product portfolios, businesses have specified additional criteria for Green/EcoDesigned Products, including product specific minimum requirements where relevant.

Green/EcoDesigned Revenues

Green/EcoDesigned Revenues are generated through products and solutions which offer a significant environmental improvement in one or more of the Green Focal Areas: Energy efficiency, Packaging, Hazardous substances, Weight, Circularity, and Lifetime reliability. Green/EcoDesigned Revenues are determined by classifying the environmental impact of the product or solution over its total life cycle. Philips uses Green/EcoDesigned Revenues as a measure of social and economic performance in addition to its environmental results. The use of this measure may be subject to limitations as it does not have a standardized meaning and similar measures could be determined differently by other companies. A product or solution that has been determined to contribute to Green/EcoDesigned Revenues will continue to do so until it is decommissioned.

Growth geographies

Growth geographies are the developing geographies comprising of Asia Pacific (excluding Japan, South Korea, Australia and New Zealand), Latin America, Central & Eastern Europe, Middle East & Turkey (excluding Israel) and Africa.

Hazardous substances

Hazardous substances are generally defined as substances posing imminent and substantial danger to public health and welfare or the environment.

Income from operations (EBIT)

Income from operations as reported on the IFRS consolidated statement of income. The term EBIT (earnings before interest and tax) has the same meaning as Income from operations.

Income from continuing operations

Income from continuing operations as reported on the IFRS consolidated statement of income, which is net income from continuing operations, or net income excluding discontinued operations.

Large medical equipment

MRI systems, CT scanners, NM systems, DXR equipment, and IGT Fixed systems. This includes all Main Article Groups (MAGs) in the portfolio of these business units, except for the MAGs that represent non-life-extending upgrades: 'T82', 'Q72', 'I66', 'X19', 'Q71', 'W62', 'P10', 'S08', 'S14', 'Q74', 'S47', 'S33', 'Z44', 'S66', 'Q76', 'B19'.

Lean

The basic insight of Lean thinking is that if every person is trained to identify wasted time and effort in their own job and to better work together to improve processes by eliminating such waste, the resulting enterprise will deliver more value at less expense.

Lives improved by Philips

To calculate how many lives we are improving, market intelligence and statistical data on the number of people touched by the products contributing to the social or ecological dimension over the lifetime of a product are multiplied by the number of those products delivered in a year. After elimination of double counts – multiple different product touches per individual are only counted once – the number of lives improved by our innovative solutions is calculated.

Long-term strategic partnership

Multi-year contractual agreement that represents a partnership to enable long-term collaboration.

Market/Market Group

A Market consists of one or more countries operating as a single organization under a Market Leader. Our 17 Market organizations are organized in three market groups: North America, Greater China and International Markets.

Mature geographies

Mature geographies are the highly developed markets comprising of Western Europe, North America, Japan, South Korea, Israel, Australia and New Zealand.

Net Promoter Score

Net Promoter Score®, or NPS®, measures customer experience and predicts business growth. NPS is calculated by taking the answer to a key question on a 0-10 scale: How likely is it that you would recommend [brand] to a friend or colleague?

Respondents are grouped as follows:

- Promoters (score 9-10) are loyal enthusiasts who will keep buying and refer others, fueling growth.
- Passives (score 7-8) are satisfied but unenthusiastic customers who are vulnerable to competitive offerings.
- Detractors (score 0-6) are unhappy customers who can damage the brand and impede growth through negative word-of-mouth.

Subtracting the percentage of Detractors from the percentage of Promoters yields the Net Promoter Score, which can range from a low of -100 (if every customer is a Detractor) to a high of 100 (if every customer is a Promoter).

Operational carbon footprint

A carbon footprint is the total set of greenhouse gas emissions caused by an organization, event, product or person; usually expressed in kilotonnes CO₂-equivalent. Philips' operational carbon footprint is calculated on a monthly basis and includes industrial sites (manufacturing and assembly sites), non-industrial sites (offices, warehouses, IT centers and R&D facilities), business travel (lease and rental cars and airplane travel) and logistics (air, sea and road transport).

Philips Lighting/Signify

References to 'Signify' in this Annual Report relate to Philips' former Lighting segment (prior to deconsolidation as from the end of November 2017 and when reported as discontinued operations), Philips Lighting N.V. (before or after such deconsolidation) or Signify N.V. (after its renaming in May 2018), as the context requires.

Polyvinyl chloride (PVC)

Polyvinyl chloride, better known as PVC or vinyl, is an inexpensive plastic so versatile it has become completely pervasive in modern society.

Quadruple Aim

At Philips, we make value-based care principles actionable by addressing the Quadruple Aim – better health outcomes, improved patient experience, improved staff experience, and lower cost of care.

REACH

Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) is a European Union regulation that addresses the production and use of chemical substances, and their potential impact on both human health and the environment.

Responsible Business Alliance (RBA)

The Responsible Business Alliance (formerly known as The Electronic Industry Citizenship Coalition (EICC)) was established in 2004 to promote a common code of conduct for the electronics and information and communications technology (ICT) industry. EICC now includes more than 100 global companies and their suppliers.

Restriction on Hazardous Substances (RoHS)

The RoHS Directive prohibits all new electrical and electronic equipment placed on the market in the European Economic Area from containing lead, mercury, cadmium, hexavalent chromium, poly-brominated biphenyls (PBB) or polybrominated diphenyl ethers (PBDE), except in certain specific applications, in concentrations greater than the values decided by the European Commission. These values have been established as 0.01% by weight per homogeneous material for cadmium and 0.1% for the other five substances.

Solution

A combination of Philips (and 3rd-party) systems, devices, software, consumables and services, configured and delivered in a way to solve customer (segment)-specific needs and challenges.

Sustainable Development Goals

The Sustainable Development Goals (SDGs) are a collection of 17 global goals set by the United Nations. The broad goals are interrelated though each has its own targets. The SDGs cover a broad range of social and economic development issues. These include poverty, hunger, health, education, climate change, water, sanitation, energy, environment and social justice.

Sustainable Innovation

Sustainable Innovation is the Research & Development spend related to the development of new generations of products and solutions that address the United Nations Sustainable Development Goals 3 (*Ensure healthy lives and promote well-being for all at all ages*) or 12 (*Ensure sustainable consumption and production patterns*). This includes all Diagnosis & Treatment and Connected Care innovation spend. In addition, innovation spend that contributes to Green Products and healthy living at Personal Health is included. Finally, innovation spend at Other that addresses the SDGs 3 and 1 is included.

VOC

Volatile organic compounds (VOCs) are organic chemicals that have a high vapor pressure at ordinary room temperature. Their high vapor pressure results from a low boiling point, which causes large numbers of molecules to evaporate or sublime from the liquid or solid form of the compound and enter the surrounding air, a trait known as volatility.

Voluntary turnover

Voluntary turnover covers all employees who resigned of their own volition.

Waste Electrical and Electronic Equipment (WEEE)

The Waste Electrical and Electronic Equipment Directive (WEEE Directive) is the European Community directive on waste electrical and electronic equipment setting collection, recycling and recovery targets for all types of electrical goods. The directive imposes the responsibility for the disposal of waste electrical and electronic equipment on the manufacturers of such equipment.

Weighted Average Statutory Tax Rate (WASTR)

The reconciliation of the effective tax rate is based on the applicable statutory tax rate, which is a weighted average of all applicable jurisdictions. This weighted average statutory tax rate (WASTR) is the aggregation of the result before tax multiplied by the applicable statutory tax rate without adjustment for losses, divided by the group result before tax.

13 ESG statements

13.1 Approach to ESG reporting

Philips has a long tradition of Environmental, Social and Governance (ESG) reporting, beginning with our first Environmental Annual Report published in 1999. We expanded the Environmental Annual Report with the launch of our first Sustainability Annual Report in 2003. This report provided details of our social and economic performance in addition to our environmental results. In 2008, we decided to publish an integrated financial, social and environmental report. This is our 15th annual integrated financial, social and environmental report. For more information, please refer to the [company's website](#).

Royal Philips publishes its integrated Annual Report with the highest (reasonable) assurance level on the financial, social and environmental performance. With that overall reasonable assurance level, Philips is a front-runner in our industry.

Our sustainability e-mail account (philips.sustainability@philips.com) enables stakeholders to share their issues, comments and questions, also about this Annual Report, with the sustainability team. The following table provides an overview of the different stakeholder groups, examples of those stakeholders and the topics discussed, used for our materiality analysis.

13.1.1 Tracking trends

We follow external trends continuously to determine the issues most relevant for our company and where we can make a positive contribution to society at large. In addition to our own research, we make use of a variety of sources, including the United Nations Environmental Programme (UNEP), World Bank, World Economic Forum, IFRS, EFRAG, World Health Organization, and the World Business Council for Sustainable Development (WBCSD). Our work also involves tracking topics of concern to governments, non-governmental organizations (NGO), regulatory bodies, academia, and following the resulting media coverage.

13.1.2 Stakeholders

We derive significant value from our diverse stakeholders across all our activities and engage with, listen to and learn from them. Working in partnerships is crucial to delivering on our purpose to improve people's health and well-being through meaningful innovation. We incorporate their feedback on specific areas of our business into our planning and actions. In addition, we participate in meetings and task forces as a member of organizations including the World Economic Forum, WBCSD, Responsible Business Alliance (RBA), EFRAG, Dutch Sustainable Growth Coalition, the Ellen MacArthur Foundation, European Round Table for Industry, Platform for Accelerating the Circular Economy (PACE) and the European Partnership for Responsible Minerals.

Furthermore, we engage with the leading Dutch labor union (FNV) and a number of NGOs, including Enough, GoodElectronics, the Chinese Institute of Public and Environmental Affairs, UNICEF, Amnesty International, Greenpeace, WageIndicator and Friends of the Earth, as well as a variety of investors and analysts.

Stakeholder overview (non-exhaustive)			
	Examples	Processes	Results
Employees	<ul style="list-style-type: none"> European Works Council Local Works Councils Individual employees 	Regular meetings, quarterly Employee Survey, employee development process, quarterly update webinars. For more information refer to Social performance, starting on page 62 Regular mail updates, team meetings, webinars	Engaged and informed employees, action plans, policies
Customers	<ul style="list-style-type: none"> Hospitals Retailers Consumers 	Joint (research) projects, business development, Lean value chain projects, strategic partnerships, consumer panels, Net Promoter Scores, Philips Customer Care centers, Training centers, social media	New technologies and processes, Frustration Free Packaging solutions, green consumer propositions, Life Cycle Analysis of products, EU Product Environmental Footprint pilots
Suppliers	<ul style="list-style-type: none"> Chinese suppliers in the Supplier Development program Randstad, Lenovo 	Supplier development activities (including topical training sessions), supplier forums, supplier website, participation in industry working groups like COCIR and RBA. For more information refer to Supplier indicators, starting on page 286 .	Supplier improvement projects, supplier commitments to Science Based Targets to reduce CO ₂ emissions
Governments, municipalities, etc.	<ul style="list-style-type: none"> European Commission US government 	Topical meetings, research projects, policy and legislative developments, business development, multi-stakeholder projects	Feedback on proposed legislation, investment plans, transition plans to a circular and low carbon society
NGOs	<ul style="list-style-type: none"> UNICEF, International Red Cross Friends of the Earth, Greenpeace 	Topical meetings, multi-stakeholder projects, joint (research) projects, innovation challenges, renewables projects, social investment program and Philips Foundation	Projects to increase access to care in underserved communities, action plans, policies
Investors	<ul style="list-style-type: none"> Mainstream investors ESG investors 	Webinars, roadshows, capital markets day, Investor relations and Sustainability accounts	Green and Sustainability Innovation Bonds

13.1.3 Reporting standards

We have prepared this integrated annual report in line with the International Integrated Reporting Council (IIRC) Integrated Reporting [framework](#), and complying with the EU Non Financial Reporting decree (2014/95/EU) and the 'EU Taxonomy'. We have also included a visualization of our [value creation](#) process.

This integrated annual report has been prepared with reference to the GRI Universal Standards 2021. A detailed overview of the GRI indicators can be found in the GRI content index on our [sustainability website](#). Next, we developed additional company-specific indicators and started to measure the impact we are having on society. The information on definition, scope and measurement can be found in this chapter.

We signed up to the United Nations Global Compact in March 2007 to advance 10 universal principles in the areas of human rights, labor, the environment and anti-corruption. Our General Business Principles, Human Rights, Sustainability and Environmental Policies, and our Supplier Sustainability Declaration are the cornerstones that enable us to live up to the standards set by the Global Compact. This is closely monitored and reported, as illustrated throughout this report, which is also our annual Communication on Progress (COP) submitted to the UN Global Compact Office.

At the World Economic Forum in January 2017 Philips signed the Compact for [Responsive and Responsible Leadership](#). The Compact is an initiative to promote and align the long-term sustainability of corporations and the long-term goals of society, with an inclusive approach for all stakeholders. In this Annual Report we also included the WEF's International Business Council new ESG framework.

We use this report to communicate on our progress towards the relevant Sustainable Development Goals (SDGs), in particular SDG 3 (*Ensure healthy lives and promote well-being for all at all ages*), SDG 12 (*Ensure sustainable consumption and production patterns*) and SDG 13 (*Take urgent action to combat climate change and its impacts*). Please refer to [Stakeholder engagement, starting on page 293](#) for more details.

13.1.4 Material topics and our focus

Every year, we identify the environmental, social, and governance topics which have the greatest impact on our business and the greatest level of concern to stakeholders along our value chain. Please refer to [Materiality analysis, starting on page 13](#) for more details on this process and the results for 2021. Below you will find an overview of the Key material topics, further references, KPIs and the boundaries of these topics.

Key material topics

	Reference	KPI	Boundaries
Environmental			
- Climate change	Message from the CEO, starting on page 5 Strategy and Businesses, starting on page 9 Environmental performance, starting on page 52 Environmental statements, starting on page 274	Operational Carbon Footprint, Green Revenues	Supply chain, operations, use phase
- Circular Economy	Green/EcoDesigned Innovation, starting on page 54 Environmental performance, starting on page 52 Circular Economy, starting on page 274 Supplier indicators, starting on page 286	Circular Revenues, Waste to Landfill, Closing the Loop	Supply chain, operations, use phase
- Energy efficiency	Message from the CEO, starting on page 5 Environmental performance, starting on page 52 Green/EcoDesigned Innovation, starting on page 54 Sustainable Operations, starting on page 277	Operational Carbon Footprint, Green Revenues	Supply chain, operations, use phase
Societal			
- Access to (quality & affordable) care	Message from the CEO, starting on page 5 Diagnosis & Treatment businesses in 2022, starting on page 15 Connected Care businesses in 2022, starting on page 17 Social performance, starting on page 62	Lives Improved, Lives improved in underserved health communities	Use phase
- Public health risk	Message from the CEO, starting on page 5 Strategy and Businesses, starting on page 9 Health and Safety, starting on page 68 Factors impacting performance, starting on page 28	Lives Improved, Lives improved in underserved communities	Supply chain, operations, use phase
- Employee rights	Human rights, starting on page 68 Living wage, starting on page 68 Equal opportunities and equal pay, starting on page 68 General Business Principles, starting on page 73	Philips pays its employees at least a living wage	Supply chain, operations, use phase
- Employee well-being, Health & Safety	Message from the CEO, starting on page 5 Health and Safety, starting on page 68 Supplier indicators, starting on page 286	Total Recordable Case rate, Suppliers participating in Supplier Development program	Supply chain, operations
- Human Rights	Supply chain and procurement, starting on page 24 Social performance, starting on page 62 ESG statements, starting on page 266	Suppliers participating in Supplier Development program	Supply chain, operations
- Fair & Inclusive workplace	Inclusion & Diversity, starting on page 65 Equal opportunities and equal pay, starting on page 68 Supplier indicators, starting on page 286	Females in leadership positions	Supply chain, operations
- Talent & development	Social performance, starting on page 62 People development, starting on page 282 Talent attraction, starting on page 283		Supply chain, operations
- Responsible & resilient supply chains	Supply chain and procurement, starting on page 24 Human rights, starting on page 68 Health and Safety performance, starting on page 284 Supplier indicators, starting on page 286	Suppliers participating in Supplier Development program	Supply chain, operations

	Reference	KPI	Boundaries
Governance			
- Business ethics & General Business Principles	Compliance risks, starting on page 103 General Business Principles, starting on page 73	Employees trained in GBP	Supply chain, operations, use phase
- Product responsibility & safety	Message from the CEO, starting on page 5 About Other, starting on page 20 Quality & Regulatory and patient safety, starting on page 70 Compliance risks, starting on page 103 ESG statements, starting on page 266	Employees trained in Patient Safety and Quality	Supply chain, operations, use phase
- Competition & market access	Our geographies, starting on page 22 Social performance, starting on page 62 Quality & Regulatory and patient safety, starting on page 70		Supply chain, operations, use phase
- Governance	Governance, starting on page 69 Compliance risks, starting on page 103	Tax transparency	Supply chain, operations
- Big data, AI & Privacy	Strategy and Businesses, starting on page 9 Quality & Regulatory and patient safety, starting on page 70 Human rights, starting on page 68 Operational risks, starting on page 96		Supply chain, operations, use phase
- Innovation & research	Strategy and Businesses, starting on page 9 Strategic risks, starting on page 93 Human rights, starting on page 68 Green/EcoDesigned Innovation, starting on page 54	EcoDesigned innovation	Supply chain, operations, use phase, disposal
- Sustainable value creation	Message from the CEO, starting on page 5 Strategy and Businesses, starting on page 9 Strategic risks, starting on page 93	Various KPIs in How we create value	Supply chain, operations, use phase

13.1.5 Programs and targets

In 2020, as we ended the 5-year 'Healthy people, Sustainable planet' program, Philips' ESG commitments were introduced. An overview of these commitments has been provided in [Philips' ESG commitments, starting on page 50](#) and more detailed targets can be found in the respective sections.

All of our programs are guided by the Philips General Business Principles, which provide the framework for all of our business decisions and actions.

Philips Group ESG commitment

	baseline year 2020	target 2025	2022 actual
Environmental			
Green / EcoDesigned revenues	73.2%	100%	71.7%
Circular revenues	14.6%	25%	18.1%
Circular Materials Management	90%	95%	91%
Zero waste to landfill as a percentage of total regular waste	2.6%	less than 0.5%	0.0%
Net operational carbon footprint	0 KTonnes	0 KTonnes	0 KTonnes
% of suppliers committed to Science Based Target		50%	41%
Social			
Lives Improved	1.53 billion	2 billion	1.81 billion
Lives improved in underserved communities	127 million	300 million	202 million
Females in leadership positions	27%	35%	30%
Total Recordable Case (TRC) rate	0.24		0.23
Human Rights impact assessments at our at-risk sites	60%	100%	60%
Supplier Development Program	302,000 employees impacted	1,000,000 employees impacted	459,000 employees impacted
Governance			
General Business Principles training completion	65,000 staff trained		62,000 staff trained

13.1.6 Boundaries of ESG reporting

Our ESG performance reporting encompasses the consolidated Philips Group activities in the Environmental, Social and Governance Performance sections, following the consolidation criteria detailed in this section. As a result of impact assessments of our value chain we have identified the material topics, determined their relative impact in the value chain (supply chain, our own operations, and use phase of our products) and reported for each topic on the relevant parts of the value chain. More details are provided in the relevant sections in the ESG Statements.

The consolidated selected financial information in this ESG statements section has been derived from the Group Financial Statements, which are based on IFRS.

Lives improved by the Philips Foundation have been consolidated.

13.1.7 Comparability and completeness

We used expert opinions and estimates for some parts of the Key Performance Indicator calculations. There is therefore an inherent uncertainty in our calculations, e.g. Lives Improved, Environmental Profit and Loss account and Social Impact calculations. The figures reported are Philips' best estimate. As our insight increases, we may enhance the methodology in the future.

We have excluded the data from Domestic Appliances from the E, S and G information wherever possible. In a limited number of cases, for example for road logistics emissions, we have used proxies for previous years. If Domestic Appliances information was not available for past years, and could therefore not be excluded, we have indicated this in the respective section. The EEI and GBP results have not been restated.

In 2020, Philips has made changes to the EP&L use case scenario, the energy mix of the use phase of its products and added the full Sleep & Respiratory Care portfolio to the EP&L scope. For more information we refer to [Environmental performance, starting on page 52](#) and our methodology document.

In 2019, Philips **re-aligned** its 'Lives Improved' target with the UN 2030 Sustainable Development Agenda following the completion of its portfolio transformation. Philips targets an ambitious, average annual Lives Improved growth rate of around 6% for the 2019 – 2030 period.

In order to report on our corporate scope 2 emissions, Philips follows the [Scope 2 Greenhouse Gas Reporting Guidance](#). This guidance requires that companies operating in liberalized electricity markets, where renewable energy certificates (also referred to as "contractual instruments" and "energy attribute certificates) such as Guarantees of Origin (GO), RECs, etc. are available, shall report two Scope 2 totals based on the following methods; the location-based method and the market-based method. In short, the location-based method total can only be reduced by decreasing the activity data (or electricity consumption) since the grid average emission factor is largely outside of corporate control and more in control by governments and utilities. By contrast, the market-based method is designed to highlight supply choices, including low-or zero carbon supply from renewable sources like wind or solar. In 2021, the emission factor set for our scope 2 market-based and location-based have been updated. For our market-based scope 2 calculations in Europe and the US, we apply the Reliable Disclosure (RE-DISS) and AIB European Residual Mixes 2019 Version 1.1 (GWP Applied) and 2020 Green-e® Residual Mix Emissions Rates (2018 Data)

where residual mix factors are available and for all other countries we apply the International Energy Agency (IEA) 2020 v1.1 (AR4 Applied) emission factors. For our location-based scope 2 calculations, we apply the US Environmental Protection Agency eGRID (Sub Region & US Average) - 2018 (Released Jan 2020) v1.1 and the International Energy Agency (IEA) 2020 v1.1 (AR4 Applied) emission factors.

The emissions of substances data is based on measurements and estimates at manufacturing site level. The figures reported are Philips' best estimate.

The integration of newly acquired activities is scheduled according to a defined integration timetable (in principle, the first full reporting year after the year of acquisition) and subject to the integration agenda. Data for activities that are divested during the reporting year are not included in full-year reporting. Environmental data are reported for manufacturing sites with more than 50 industrial employees.

13.1.8 Scope

Lives improved

The Key Performance Indicator on 'lives improved' and the scope are defined in the methodology document that can be found in [Methodology for calculating Lives Improved](#). We used opinions from Philips experts and estimates for some parts of the Lives Improved calculations. Philips has made strong commitments to improve people's health and well-being. To track our impact, Philips identifies countries where the need for access to healthcare is highest. This is determined by four selected health indicators, as provided by United Nations Sustainable Development Goal 3, which focuses on health and well-being. The specific methodology for how we determine an underserved health community can be found in the same document.

Health and safety

Health and safety data is reported by sites with over 50 FTEs (full-time equivalents) and is voluntary for smaller locations. The data are reported and validated each month via an online centralized IT tool. The Total Recordable Cases (TRC) rate is defined as a KPI for work-related cases where the injured employee is unable to work one or more days, or had medical treatment, or sustained an industrial illness. We also provide the Lost Workday Injury Cases (LWIC) rate, which measures work-related injuries and illnesses that predominantly occur in manufacturing operations and Field Services Organizations where the incident leads to at least one lost workday. Fatalities are reported for staff, contractors and visitors. The TRC and LWIC KPIs refer to all reported cases.

General Business Principles

Alleged GBP violations are registered in our web-based reporting and validation tool.

Environmental data

All environmental data from manufacturing operations, except process chemicals, are reported on a monthly basis in our sustainability reporting and validation tool, according to company guidelines that include definitions, procedures and calculation methods. Process chemicals are reported on a half-yearly basis.

Internal validation processes have been implemented and peer audits performed to ensure consistent data quality and to assess the robustness of data reporting systems.

These environmental data from manufacturing are tracked and reported to measure progress against our Sustainable Operations targets.

A manufacturing site is classified as "Zero Waste to Landfill" if less than or equal to 0.5% of the total regular waste reported by the site is sent directly to landfill via an external contractor. This excludes waste that is landfilled due to a regulatory requirement and One-time waste. A site needs to meet these requirements at least two consecutive reporting periods.

Reporting on ISO 14001 certification is based on manufacturing units reporting in the sustainability reporting system.

Environmental Profit & Loss account

The Philips Environmental Profit & Loss (EP&L) account measures our environmental impact on society at large. The EP&L account is based on Life Cycle Analysis methodology in which the environmental impacts are expressed in monetary terms using specific conversion factors. For more information we refer to our methodology [report](#).

Operational carbon footprint

Philips reports in line with the Greenhouse Gas Protocol (GHGP). The GHGP distinguishes three scopes, as described below. The GHGP requires businesses to report on the first two scopes to comply with the GHGP reporting standards. As per the updated GHGP Scope 2 reporting guidance, from 2015 onward our scope 2 emissions reporting includes both the market-based method and the location-based method. The market-based method of reporting will serve as our reference for calculating our total operational carbon footprint. As part of our operational carbon footprint, Philips also reports on two scope 3 categories that can be influenced by operational choices, namely our scope 3 emissions from business travel and scope 3 emissions from transportation and distribution.

- Scope 1 – direct CO₂e emissions – is reported on in full, covering the direct emissions from all sites that Philips manages. This includes all so-called industrial and non-industrial sites, both leased and owned. Our scope 1 emissions reflect the direct emissions resulting from fossil fuel combustion and use of refrigerants on our sites. All direct energy and

refrigerant consumption is reported in the sustainability reporting system. The data for our industrial sites is always reported in full. The direct energy consumption and refrigerant use in non-industrial sites are based on actual data where available. If this is not the case, they are estimated based on average energy usage per square meter, taking the geographical location and building type of the site into account.

- Scope 2 - indirect CO₂-e emissions is reported using the market-based method that is designed to highlight supply choices, including low-or zero carbon supply from renewable sources like wind or solar. It includes emissions from purchased heating, cooling and steam. The emission factor used under this method is (where available) the residual-mix emission factor, reflecting only the emissions from fossil-fuel-based electricity production in a country in a given year. For instance, if a corporate like Philips sources renewable electricity globally, the emissions from its electricity consumption will be zero under this method. All renewable electricity claimed by Philips is sourced from the same energy market where the electricity-consuming operations are located, and is tracked and redeemed, retired, or cancelled solely on behalf of Philips. All certificates were obtained through Green-e certified Renewable Energy Certificates (RECs) in the United States, European Guarantees of Origin (GOs) from the Association of Issuing Bodies (AIB) of the European Energy Certificate System (EECS) and i-RECs for our ASEAN operations. To ensure additionality, all certificates were generated in 2022 – or maximum 6 months prior – in the country of consumption and are retired on behalf of Philips. To quantify our emissions, we have used the residual mix emission factors derived from the Association of Issuing Bodies (AIB) and Green-e where available. For our market-based scope 2 calculations in Europe and the US, we apply the Reliable Disclosure (RE-DISS) and AIB European Residual Mixes 2019 Version 1.1 (GWP Applied) and 2020 Green-e® Residual Mix Emissions Rates (2018 Data) where residual mix factors are available. For all other countries, we apply the International Energy Agency (IEA) 2020 v1.1 (AR4 Applied) emission factors.
- Scope 3 – 'Transportation & Distribution' covers all emissions from our logistics operations, where we measure the CO₂e impact from all distribution flows that Philips is responsible for, covering all modes of transport: air freight, ocean freight, road freight and parcel shipments. Emissions are calculated based on the number of tonne-kilometers (or TEU.km for ocean freight) transported. A tonne.km is a measurement unit corresponding to the transport of one metric ton over one kilometer. For ocean freight, we measure the twenty-foot equivalent unit (TEU) over a distance of one kilometer (TEU.km). Distances differ per mode of transport as a plane (for air freight or medium- to long-distance parcels) flies in a direct line, a container vessel can only take sea routes and a truck can only use the existing road networks. All distances are calculated mode-specific, and DEFRA 2020 and Clean Cargo Working Group (CCWG) emission factors are assigned to convert tonne.km or TEU.km to CO₂e emissions. The CCWG emission factors have been implemented from 2020 onwards only. For ocean freight and air freight we apply an additional 3% of 'last leg' emissions, estimating the additional impact from/to the airport or port. For air freight and parcel shipments, we define the haul types

(distinguishing between short, medium and long-haul shipments), as emissions differ per tonne.km depending on the haul type, as typically more fuel is consumed per kilometer over shorter distances compared to long distances as a result of high fuel consumption during take-off versus flying idle at high altitudes. Due to the complexity of distinguishing between upstream and downstream logistic movements we report both under the GHG protocol Category 9 - Downstream Transportation & Distribution.

Emissions from non-Philips-managed warehouses and emissions from returns of vehicles and/or vessels are out of scope.

- Scope 3 – Business Travel covers any mode of transportation that is used by employees for business purposes and operated by a third party, excluding commuting. To calculate business travel emissions, we distinguish air travel and automobile travel. For automobile travel, we include leased vehicles and rented vehicles. All other modes of transportation are not considered due to their minimal usage for business purposes and negligible total impact (e.g. trains in the Netherlands run on renewable electricity).

One input for the calculation of CO₂ emissions from 'Transportation & Distribution' is distances travelled for shipments. We calculate the distances of shipment lanes using third party input, which is based on port coordinates for ocean freight, airport coordinates for air freight and city-to-city distances for road and parcel freight. For road and parcel freight we use city-to-city distances for the majority of lanes. When city-to-city distances are not available, we use average distances.

Scope 3 emissions from employee commuting, upstream transportation and distribution, outsourced warehousing activities, purchased goods and services and product use by our customers are not included in our operational carbon footprint. For more information on our scope 1,2 and 3 calculation method, please refer to our [ESG download section](#).

Employee Engagement Index (EEI)

The Employee Engagement Index (EEI) is the single measure of the overall level of employee engagement at Philips. It is a combination of perceptions and attitudes related to employee satisfaction, commitment and advocacy.

The reported figures are based on the Employee Survey. The total score of the employee engagement is an average of the quarterly results of the survey. The results are calculated by taking the average of the answered questions of the surveys.

13.1.9 ESG governance

ESG is strongly embedded in our core business processes, like innovation (EcoDesign), sourcing (Supplier Sustainability Program), manufacturing (Sustainable Operations), logistics (Green Logistics) and programs like the Circular Economy initiative.

In Royal Philips, the ESG Committee is the highest governing ESG body and is co-chaired by the Chief Executive Officer and the Chief ESG & Legal Officer, who are both members of the Board of Management. Five other Executive Committee members, our Chief Operating Officer, our Chief Strategy & Innovation Officer, our Chief Human Resources Officer, our Chief Business Leader Precision Diagnosis and our Chief International Markets Market Leader, sit on the ESG Committee together with functional executives. The ESG Committee normally convenes four times per year, defines Philips' ESG strategy, commitments, programs and policies, monitors progress and takes corrective action where needed.

Progress on ESG is communicated internally and externally (www.results.philips.com) on a quarterly basis and at least annually in the Executive Committee and Supervisory Board.

13.1.10 External assurance

EY has provided reasonable assurance on whether the information in [Materiality analysis, starting on page 13](#), [ESG statements, starting on page 266](#) and [Environmental, Social and Governance, starting on page 45](#), except for sections EU taxonomy framework in [ESG reporting framework, starting on page 46](#), [Remuneration policy, starting on page 73](#) and [Risk management approach, starting on page 74](#) presents fairly, in all material respects, the sustainability performance in accordance with the reporting criteria. Please refer to [Assurance report of the independent auditor, starting on page 296](#)

13.2 Economic indicators

This section provides summarized information on contributions made on an accruals basis to the most important economic stakeholders as a basis for driving economic growth. For a full understanding of each of these indicators, see the specific financial statements and notes in this report.

Philips Group
Distribution of direct economic benefits in millions of EUR

	2020	2021	2022
Suppliers: goods and services	9,493	9,988	10,633
Employees: salaries and wages	5,204	5,129	5,698
Shareholders: distribution from retained earnings	758	773	741
Government: corporate income taxes	212	(103)	(113)
Capital providers: net interest	160	141	210

Total purchased goods and services as included in cost of sales amounted to EUR 10.6 billion, representing 59.6% of total revenues of the Philips Group. Of this amount, approximately 53% was spent with global suppliers, the remainder with local suppliers.

In 2022, salaries and wages totaled EUR 5.7 billion, an increase of 11% compared to 2021, mainly driven by unfavorable foreign currency impact and wage inflation. See [Income from operations, starting on page 162](#) for more information.

Philips' shareholders were given EUR 741 million including costs in the form of a dividend.

Income taxes amounted to a benefit of EUR 113 million. The effective income tax rate in 2022 was 6.5%, compared to (20.0)% in 2021, mainly due to a non-deductible goodwill impairment in the Sleep & Respiratory Care business and other non-deductible expenses such as share based compensation expenses, partly offset by recurring favorable tax incentives related to R&D investments, the innovation box regime in the Netherlands and export activities. For more information, see [Income taxes, starting on page 168](#).

Philips supports global initiatives of the OECD (Organization for Economic Cooperation and Development) and UN (United Nations) to promote tax transparency and responsible tax management, taking into account the interests of various stakeholders, such as governments, shareholders, customers and the communities in which Philips operates. For more information, please refer to [Our approach to taxes](#).

13.3 Environmental statements

In 2020, Philips further reinforced its commitments as a purpose-driven company with the announcement of an enhanced and fully integrated approach to doing business responsibly and sustainably. This section provides additional information on (some of) the environmental performance parameters reported in [Environmental performance, starting on page 52](#).

13.3.1 Circular Economy

The transition from a linear to a circular economy is essential to create a sustainable world that functions within the constraints of our one planet. A circular economy aims to decouple economic growth from the use of natural resources and ecosystems by using these resources more effectively. In addition to the use of renewable resources and energy efficiency, the transition to a circular economy will be essential to meet our global climate goals.

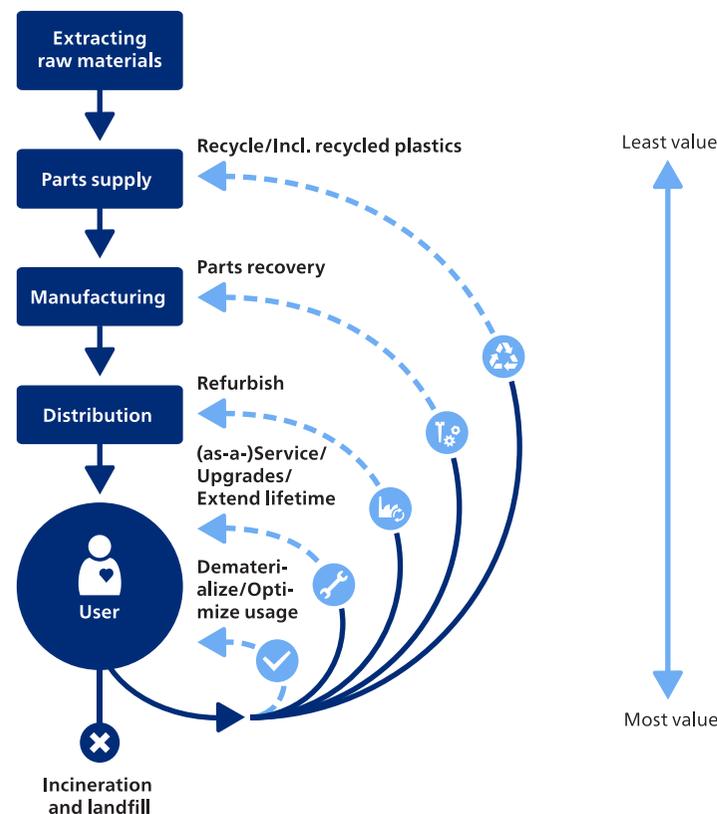
Circular Economy program

The Circular Economy program at Philips ran for the tenth year in 2022. It consists of the following strategic pillars:

- Circular design
- Circular manufacturing and supply
- Circular customer needs and business models
- Circular lifetime asset management
- Collect and ensure responsible end-of-use management, including Closing the loop
- Partnering to drive global change
- Transforming our organization, including embedding circular practices in our standard way of working

At Philips, we see huge opportunities for businesses to provide greater value to customers and our planet through innovative service models, smart upgrade paths, product take-back, refurbishing and remanufacturing programs, and software driving resource optimization, e.g. in the form of migration to the cloud, improved utilization rates and telehealth offerings.

This visual illustrates the different circular strategies that Philips is applying to move away from the take-make-waste economy towards more circular business models.



Partnerships and global outreach

Philips leverages partnerships to help scale the circular economy globally. For example, our CEO is co-chair of the public-private [Platform for Accelerating the Circular Economy](#), and is hosted by the World Resource Institute in The Hague. PACE's mission is to catalyze global leadership from business, government, and civil society to accelerate the transition from a linear to a circular economy that will improve human and environmental well-being for current and future generations.

As one of the key pillars under PACE, Philips has spearheaded the [Circular Equipment Coalition](#), a group of front-running large equipment manufacturers, who all have committed to applying circular economy principles to preserve and recover value across the lifecycles of their respective products. The Capital Equipment Coalition consists of 16 organizations, with regional groups in Europe and North America. In 2022, knowledge was exchanged on regulatory barriers, procurement, raw materials, and circular metrics. A paper

“Measuring Circularity for Capital Equipment” was published as a guideline for metrics developers and standardization bodies to point at current omissions in the way circularity is measured.

Philips is a strategic partner of the Ellen MacArthur Foundation (EMF). This year, we successfully integrated the EMF developed ‘Basic Course for a Circular Economy’ into our Philips University curriculum, which employees across Philips have access to. Next, Philips is also partnering with other leading organizations to drive action at scale, such as Healthcare without Harm, the World Business Council for Sustainable Development, and the Dutch Circular Transition Teams.

In 2022, Philips supported the global launch of “[Going Circular](#)” a feature documentary showcasing an inspiring vision for a circular future.

Circular Revenues

The Circular Revenues percentage reflects our revenues as a percentage of total Philips revenues from validated products, services and solutions that contribute to circular practices. The validation is based on the Philips circularity requirements for different business models listed below.

In 2022, we reached 18% circular revenues compared to 16% in 2021.

Performance and Access-based models

Revenues from hardware where ownership remains with Philips or an affiliated financing company.

Upgrades/lifetime extension on site or remote

Revenues from hardware which is upgraded to better functionality and/or extended lifetime, e.g. through lifetime extension services or a software upgrade that enables the hardware to deliver more value with same amount of materials.

Refurbished/Remanufactured products/systems

Revenues from selling refurbished or remanufactured products/systems with re-used content >30% by total weight.

Refurbished/Remanufactured parts/elements

Revenues from used components that must be refurbished/remanufactured or tested/ repaired in such a way that they are fit for use again and contain >30% re-used parts or materials by total component weight. The component can either be a stand-alone component or part of a new product/system.

Products with recycled plastics content

Revenues from products with a recycled plastics content of >25% post-consumer recycled plastics or >30% post-industrial/post-consumer recycled plastics by total weight of eligible plastics.

Software optimizing resource use

Revenues from software that enables resource efficiency, such as remote interaction, increased hardware utilization and cloud computing.

Analog to digital

Revenues from products that have been designed to connect to generic hardware rather than dedicated hardware, e.g. transducers that can connect directly to a hospital worker’s mobile device, instead of requiring a dedicated monitor.

Circular Design

Our EcoDesign program is a key enabler to lower our overall environmental footprint and is thus a key driver for our Climate Action and Circular Economy programs. By 2025, we aim for all our new products introductions to be EcoDesigned according to our EcoDesign requirements. In 2022, we sharpened our Circular Design requirements, which will be further implemented in 2023.

Circular practices at our sites

At our sites, we also aim to continuously increase our circularity. We do this by implementing Circular Materials Management and sending zero waste to landfill. In 2022, we ran an employee initiative leveraging the collective expertise of our workforce across 13 sites around the globe with the shared ambition to reduce waste. Over 90 employees participated, resulting in over 10 ideas now put into motion. For more information on our programs, please refer to [Sustainable Operations, starting on page 56](#).

Closing the loop for professional medical equipment

Closing the loop plays an important role on our road towards a circular economy. By reclaiming medical systems, Philips can responsibly offer pre-owned equipment in the most effective and efficient way possible. As the designer and legal manufacturer, Philips has the know-how, data, analytics and possibilities to perform an optimal triage to maximize the value of customers’ systems. When closing the loop, Philips ensured that these systems do not end up in landfill, but are made available for refurbishment or parts harvesting/recovery. If that is not possible, materials are recycled in a certified way.

Pre-owned systems and parts that are refurbished and/or remanufactured or recovered are brought back to customers by Philips as either circular systems or spare parts. As this creates new value for Philips, it enables Philips to offer customers an attractive trade-in value. In

2022, we have seen some 2% more returns compared to 2021, and have closed the loop on more than 3,400 systems.

Philips will continue its journey to close the loop for all professional medical equipment by 2025 and to address categories of equipment or situations that it has not yet covered.

Personal Health businesses

B2C products and solutions that contribute to circular practices include rental of products such as breast pumps and IPL (Intense Pulsed Light) devices as well as re-use of commercial returns. Building on long-standing experience of recycled plastics in consumer products, we have expanded this to our Grooming and Beauty business with the introduction of hairdryers BHD356 and BHD308 containing >25% recycled plastics.

Diagnosis & Treatment businesses

Our Circular Editions offers: refurbished imaging systems for sale; system upgrades such as SmartPath at customer premises to enhance performance and extend lifetime; and re-use of spare parts in maintenance services. Our Lumify portable ultrasound solution can be accessed by our customers through a subscription model. We also provide services for system upgrades such as Technology Maximiser that help keep systems in state-of-the-art condition and software upgrades like SmartSpeed, helping customers to scan more patients per day while using the same equipment.

One of our flagship products is the BlueSeal magnet, the industry's first and only 1.5T fully sealed magnet, relieving our customers from helium-related complications and unpredictability. BlueSeal magnet requires only 0.5% of helium compared to a conventional Philips MR system. Addressing helium scarcity through innovating with purpose to secure the future for all MR patients.

Connected Care businesses

A number of businesses offer performance and access-based models, such as ventilators, Monitoring-as-a-Service and mobile cardiac telemetry monitoring where monitors and wearable sensors are returned and processed to be used again; software revenues include telehealth solutions such as eICU and Tasy Electronic Medical Record (EMR) running on the cloud. We also provide Software Evolution services for our patient monitors where the software upgrades helps to extend their lifetime.

Closing material loops on products and materials

In addition to tracking circular revenue, we are also working to achieve transparency on the material flows connected with the Philips businesses. In 2022, Philips put an estimated total of some 62,000 tonnes of products on the market. This assessment is based on sales data combined with product-specific weights. 48% of the total product weight was delivered

through our Personal Health businesses and 52% through our Diagnosis & Treatment businesses and Connected Care businesses.

We can account for some 7,000 tonnes or approximately 11% of these products being collected, re-used or recycled globally. Europe has advanced collection systems in place. In these countries we have an average return rate of around 40-50%. National legislation is required to create the level playing field needed to set up efficient recycling systems beyond the EU. The main pathways and quantities for material re-use in 2022 were:

- Trade-in and return for resale as refurbished products and for spare parts harvesting (Diagnosis & Treatment and Connected Care): some 1,374 tonnes, a decrease compared to 1,711 tonnes in 2021, mainly caused by material shortages and a different product mix in the refurbished product portfolio.
- Collective collection and recycling schemes in accordance with the EU Waste Electrical and Electronic Equipment (WEEE) collection schemes. These products are broken down into the main material fractions and provided to the market via our recycling partners
 - 850 tonnes (estimated) from Diagnosis & Treatment and Connected Care field returns, following the WEEE category 8 classification, indicating a slight decrease compared to the previous year (800 tonnes)
 - 5,200 tonnes (estimated) from Personal Health, following the WEEE category 2 classification

More information can be found on the [Philips circular economy website](#).

13.3.2 Biodiversity and Ecosystem Services

Philips recognizes the importance of healthy ecosystems and biodiversity for our company, our employees, and society as a whole. Therefore, Philips launched the Natural Capital program which is an addition to existing sustainability programs. This program is dedicated to reducing Philips' chemicals footprint and water consumption and improving Biodiversity. By systematically quantifying, and reducing the environmental impact of our operations, supply chain and the use phase of our products, we actively aim to protect and restore biodiversity. Philips acknowledges its dependency and impact on Natural Capital and aims to iteratively improve its understanding to drive regenerative decisions.

Philips aims to restore and enhance biodiversity and ecosystem services (BES) at our sites and to actively promote ecosystem restoration activities through partnerships with, among others, NGOs, local communities, and governments. Philips created a BES community and trained employees on all manufacturing sites in ecosystem services. As a result, the ecosystem services of Philips global manufacturing sites have been mapped and quantified. Based on this data, each manufacturing site delivered a list of potential measures to enhance biodiversity on-site. Philips aims to implement biodiversity improvement measures on sites globally in 2023. Improving BES at our sites and thereby also improving the working

environment, is a contributor to making Philips the 'best place to work', one of the ESG commitments Philips announced in 2020.

As can be derived from our Environmental Profit & Loss (EP&L) account, the environmental impact of Philips' sites is limited as they are not very energy-intensive, are 100%-powered with electricity from renewable sources, do not emit large quantities of high-impact substances, and are not water-intensive. At the same time, Philips is aware that the total environmental impact of the full value chain is substantial, especially upstream in the mining industry. Philips considers improving biodiversity on its own land as a first important step towards reducing biodiversity impact over the full value chain.

Having become carbon-neutral in our operations by year-end 2020, and with our drive to send zero waste to landfill, focus on circular materials management, and enhanced BES, the environmental impact of our sites will be further optimized.

13.3.3 Sustainable Operations

Our Sustainable Operations programs relate to **improving the environmental performance** of our manufacturing facilities and focus on most of the contributors to climate change, but also address water, recycling of waste and chemical substances.

Philips Group Sustainable Sites

	baseline year 2020	target 2025	2022 actual
Total CO ₂ from manufacturing	0 Ktonnes	0 Ktonnes	0 Ktonnes ¹⁾
Water withdrawal	710,108 m ³ ²⁾	5% reduction	677,632 m ³
Zero waste to landfill	2.6%	less than 0.5%	0.0%
Circular Material Management	90%	95%	91%
Hazardous substances emissions	2,465 kilos	25% reduction	1,548 kilos
VOC emissions	79 tonnes	10% reduction	77 tonnes

¹⁾ Net carbon footprint, includes offsets

²⁾ baseline 2019

Energy use in manufacturing

Total energy consumption in manufacturing amounted to 338.1 gigawatt hours (GWh) in 2022, which is a 4% reduction compared to the 350.8 GWh in 2021. Diagnosis & Treatment accounted for about 50% and Personal Health 37% of the consumption. Diagnosis & Treatment energy consumption decreased by 3%, mainly due to energy savings plans in our large sites and operational changes mitigated by the increased production volumes in India. Connected Care reported a 7% reduction due to changes in the production volumes. Energy

consumption at Personal Health decreased by 3%, mainly driven by the reduced consumption volumes in Europe due to the good weather conditions and operational changes.

Philips Group Total energy consumption in manufacturing ¹⁾ in gigawatt hours (GWh)

	2018	2019	2020	2021	2022
Diagnosis & Treatment	164.7	151.9	161.1	175.3	169.9
Connected Care	79.7	78.1	63.6	44.7	41.5
Personal Health	135.3	134.7	114.4	130.8	126.7
Philips Group	379.7	364.7	339.2	350.8	338.1

¹⁾ This table reflects Philips energy consumption, excluding potential heat and transmission losses from electricity generation and transport

Operational carbon footprint and energy efficiency – 2022 details

Philips has been carbon neutral in its operations from 2020 onwards, after having reduced our operational carbon footprint significantly during the past years (50% decrease in CO₂ emissions in 2022 compared to 2017). In 2022, our carbon footprint decreased by 16% compared to 2021, resulting in a total of 438 kilotonnes CO₂.

Philips Group Operational carbon footprint in kilotonnes CO₂-equivalent

	2018	2019	2020	2021	2022
Logistics	540	470	415	417	327
Business travel	147	152	70	72	86
Non-industrial operations	39	25	15	14	11
Manufacturing	23	21	18	16	14

The 2022 results can be attributed to several factors:

- Accounting for 3% of our total footprint, total CO₂ emissions from our manufacturing sites decreased by 13% due to lower overall energy consumption as a result of our efforts to reduce overall energy consumption and phase-out fossil fuels from our operations. All global manufacturing sites have been running on 100% renewable electricity since 2019, sourcing an overall 78% renewable energy in 2022, covering all energy carriers, up from 75% in 2021.
- CO₂ emissions from non-industrial operations (offices, warehouses, etc.), representing 2% of total emissions, decreased by 21% in 2022 due to lower energy consumption resulting from hybrid working policies and implemented energy efficiency projects. All sites continue to run on 100% renewable electricity from 2020 onwards. Overall, our non-industrial sites sourced 70% renewable energy in 2022, an increase of 5% compared to 2021. Moving forward, we will continue to phase-out fossil fuels from our operations,

reducing the overall need for energy, and gradually increase our overall renewable energy share.

- Total CO₂ emissions related to business travel, accounting for 20% of our operational carbon footprint, showed an increase of 20% compared to 2021, mainly resulting from the increased air travel and mileage in our lease fleet compared to 2021.
- Overall CO₂ emissions from logistics, representing 75% of the total, decreased with 22% compared to 2021. Various measures have been introduced to drive down emissions from air freight, such as multi-modal shipments, a transition from air to ocean freight, a stricter air freight policy, and optimization of our warehouse locations. Our ocean freight emissions decreased as a result of an improved measurement approach, whereby carrier-specific emission factors are leveraged from the Clean Cargo Working Group (CCWG). This has only been applied to the years 2020 and 2021, which have been restated accordingly. Next, emissions in 2021 from ocean and road freight included combined shipments of our Domestic Appliances business as well as Philips business. We were not able to exclude all the Domestic Appliances businesses part from our datasets completely. In 2022, however, this has been fully resolved.

Philips Group
Operational carbon footprint for logistics in kilotonnes CO₂-equivalent

	2018	2019	2020	2021	2022
Air transport	353	279	262	252	214
Road transport	66	71	64	55	27
Ocean transport	84	75	43	39	22
Parcel shipments	37	45	46	71	64
Philips Group	540	470	415	417	327

Carbon emissions in manufacturing

Greenhouse gas emissions from our manufacturing operations totaled 14 kilotonnes CO₂-equivalent in 2022, 12% lower than in 2021. Direct CO₂ emissions decreased by 14% mainly driven by the energy saving projects, decreased natural gas consumption in European sites and operational changes in different locations. Indirect CO₂ emissions remained at a low level due to the use of 100% electricity from renewable sources. Emissions from other greenhouse gases remained at the same level.

Philips Group
Total carbon emissions in manufacturing in kilotonnes CO₂-equivalent

	2018	2019	2020	2021	2022
Direct CO ₂	18	17	15	14	12
Indirect CO ₂	2	1	1	1	1
Other greenhouse gases	3	3	2	1	1
Philips Group	23	21	18	16	14

Philips Group
Total carbon emissions in manufacturing per segment in kilotonnes CO₂-equivalent

	2018	2019	2020	2021	2022
Diagnosis & Treatment	11	9	9	9	7
Connected Care	6	5	4	2	2
Personal Health	6	7	5	5	5
Philips Group	23	21	18	16	14

CO₂ emissions in 2022 reduced to 14 kilotonnes CO₂-equivalent. This was driven by changes in our operations, fossil fuel reduction, and product mix in various regions. Diagnosis & Treatment CO₂ emissions decreased by 2 kilotonnes CO₂-equivalent due to the less natural gas consumption in 2 sites in Europe. Connected Care reported a slight increase. At Personal Health, CO₂ emissions remained at the same level.

In 2022, all manufacturing sites received 100% of their electricity from renewable sources. Our operations in the US have been powered by wind energy since 2017 from the Los Mirasoles windfarm. Additionally, our operations in the Netherlands have received electricity from the Bouwdokken and Krammer wind farms since 2019, all helping to deliver on the ambition to remain carbon-neutral in our operations.

Task Force on Climate-related Financial Disclosures (TCFD)

Philips recognizes the importance of identifying, assessing and mitigating climate-related risks to ensure business continuity and resilience. This 2022 integrated financial, social and environmental report aims to follow the recommendations of the TCFD.

In 2022, relevant risks and opportunities have been quantified by applying Philips' internal risk assessment methodology. This ensures alignment with the risk management team, increasing cross-business comparability and integration with already existing risk screening procedures. Moreover, physical risk factors were evaluated on a site-specific level by exploring 25 of our financially material sites in more detail. Transition risks on the other hand, were assessed on a company level and by subject matter experts. The reason for this differentiation is because physical risks vary on a regional level while transition forces generally apply on a global scale.

The site-specific analysis leveraged both the external Munich RE NATHAN tool and internal site experts. While RE NATHAN uses scientific models to determine how exposed different regions are to climate risk factors, the site-specific experts have access to specialized knowledge on the climate change preparedness of the sites. Combining both internal and external expertise ensured we have a holistic view that considers both regional implications and Philips specific implications. RE NATHAN assessed which of the following hazards are most threatening in the medium-term accounting for four global warming scenarios (RCP 1.9, RCP 2.6, RCP 4.5, and RCP 8.5): drought, heat stress, precipitation, river flood, and tropical

cyclones. In case one or multiple risk factors seemed impactful in the future we then asked site specific experts to provide us with a more detailed impact and control measure evaluation. This thereby provided us with a good overview on how exposed we currently are to extreme or chronic weather conditions and highlighted key action points.

We also further assessed internal and external forces pushing Philips to a low carbon future considering three global warming scenarios. In our 1.5 and 2 °C model (RCP 1.9 and 2.6) we assumed that strong cross sector pressures exist. Governments enforce strict environmental rules, society is environmentally conscious, and the private sector invests in collaborative innovations. In contrast, the 4 °C global warming scenario (RCP 4.5) assumed short-sighted governments focused on protectionism, customers with a cost orientation, and a private sector focused on product innovation. For each scenario, experts were then consulted to determine the potential likelihood of the predefined transition risks/opportunities becoming material. We, furthermore, assessed the potential impact of the risks/opportunities unraveling and to what extent we can control the underpinning risk or exploit the opportunity.

Through our ambition to reduce CO₂ emissions in our entire value chain in line with a 1.5 °C global warming scenario, we are reducing our exposure to transition risks, such as changing legislation, changing customer demands and carbon pricing. Nonetheless, strong government policies in line with the Paris Agreement could result in higher carbon pricing impacts for Philips, its supply chain, and its customers. Furthermore, a global financial downturn could also promote inertia in the field of environmentally friendly innovations. Hence, our Science Based Targets are a key factor in mitigating the risk associated with the changing legislation, customer preferences and preventing inertia.

In 2023, we plan to further assess the impact of climate change on our value chain and continue to standardize our assessment process. More information on Philips' climate action program can be found in [Sustainable Operations, starting on page 56](#).

More detailed information on our TCFD analysis can be found on the [Sustainability](#) website.

Hazardous substances emissions

Compared to heavy industry, our sites have relatively few chemical emissions and we have voluntary targets to reduce them. However, most of our manufacturing operations have processes that result in some emissions to air and water. Therefore, we carefully monitor all emissions and are working to limit hazardous chemical and VOC emissions. Many of these decisions happen at the product and process design stage.

Philips Group Hazardous substances emissions

	2018	2019	2020	2021	2022
Diagnosis & Treatment	636	104	92	181	175
Connected Care	63	46	20	1,239	863
Personal Health	360	336	455	1,242	510
Philips Group	1,059	486	567	2,662	1,548

At Philips, we want to track the impact of chemical substances on a life-cycle basis and, based on a risk-level classification and precautionary principle, to ensure implementation in an active and practical way. The Classified Substances List (CSL) has been set up to manage, restrict, control and/or monitor chemical substances according to regulation requirements and/or known risks. In its CSL, Philips captures all substances with no current legislative restriction, but a foreseen, future indication as 'Risk Level II', requiring action to evaluate the measures to reduce exposure and emissions and, if possible, to evaluate and implement less harmful alternatives. For its chemicals reduction program ending in 2020, Philips used the CSL from 2015. In 2021, with the start of the new 5-year program, we applied the latest CSL, which includes many more chemicals. Therefore, the 2021 results are significantly higher than the 2020 results. In 2022, we continued to phase out and replace hazardous substances at our industrial sites. The hazardous substances emissions amounted to 1,548 kg in 2022, which is a 42% reduction compared to the 2,662 kg in 2021. In the Diagnosis & Treatment businesses segment the emissions slightly decreased. The emissions in the Connected Care businesses segment amounted to 863 kg, which is a 30% reduction compared to the prior year caused by replacing harmful chemicals and lower production volumes in a factory in Asia. In the Personal Health businesses segment the hazardous substances emissions were 510 kg in 2022, a significant 59% reduction due to more efficient processes.

VOC emissions

Philips Group VOC emissions in tonnes

	2018	2019	2020	2021	2022
Diagnosis & Treatment	44	46	44	42	38
Connected Care	6	6	3	3	2
Personal Health	69	54	32	33	37
Philips Group	119	106	79	78	77

Volatile Organic Compounds (VOC) can react with nitrogen oxides (NO_x) and other harmful compounds to create highly toxic particulates (PM 2.5), often referred to as ground-level harmful smog, which stimulate disease in plants, inhibit seed production, and hinder fertilization. Philips is focused on reducing direct exposure impact and atmospheric

photochemical reactions for the benefit of exposed employees, the general public and local and global ecosystems.

VOC emissions remained at the same level in 2022, 77 tonnes compared to 78 tonnes in 2021. The Diagnosis & Treatment businesses, which represent 49% of total VOC emissions, decreased by 10% due to process optimizations and changes in production. VOC emissions in the Connected Care businesses decreased due to lower production levels, and VOC emissions in the Personal Health businesses (representing 48% of total VOC emissions) increased by 12% compared to 2021, mainly driven by the increased production volume in a factory in Asia.

ISO 14001 certification

The Philips manufacturing sites are certified individually. In 2022, 96% of reporting manufacturing sites were certified, compared to 92% in 2021. The increase is caused by the organizational changes. The one site which is not certified yet, is planning to have the certificate in 2023. The integration of newly acquired companies is in progress; smaller sites are required to maintain robust environmental management systems while external certification is not mandatory.

Philips Group
ISO 14001 certifications as a % of all reporting organizations

	2018	2019	2020	2021	2022
Philips Group	83%	79%	81%	92%	96%

Environmental incidents

In 2022, three environmental incidents were reported at a Diagnosis & Treatment site. These incidents are related to water leakages in different parts of the factory and these have been fixed. Furthermore, two sites reported non-compliances which were related to water discharge requirements and labelling waste; these violations were corrected immediately and no fines were issued.

Two environmental incidents related to a water leakages were reported at two Connected Care sites. The water leakages were investigated and fixed.

In Personal Health, two sites reported three environmental incidents. One site reported a water leakage which was fixed. The other site reported two incidents: one was related to emissions to air due to a refrigerant leak. Immediate corrective action was taken, no fine was imposed. The other incident related to a soil contamination due to a leakage. After investigation it was concluded that remediation action was not required and no fine was imposed. Furthermore, non-compliances were reported which were related to noise and water discharge requirements, and no fines were issued.

To find out about our sustainability results at global and regional and market level, go to [the Philips results hub](#).

Philips Group

Market	Manufacturing sites	Total Recordable Case rate ¹⁾	CO ₂ emitted (tonnes CO ₂)	Total waste		Water (m ³)	Emission	
				Waste (tonnes)	Circular Material Management		Hazardous substances (kg)	VOC substances (tonnes)
Africa	-	0.00	-	-	-	-	-	-
ASEAN & Pacific	1	0.00	1,913	3,082	98%	100,197	120	27
Benelux	2	0.12	4,265	8,074	87%	82,419	280	13
Central & Eastern Europe	-	0.00	-	-	-	-	-	-
Germany, Austria & Switzerland	3	0.32	3,031	2,653	93%	36,754	48	6
France	-	0.11	-	-	-	-	-	-
Greater China	5	0.14	562	2,485	92%	192,594	1,053	6
Iberia	-	0.34	-	-	-	-	-	-
Indian Subcontinent	1	0.03	104	213	100%	15,850	19	0
Italy, Israel & Greece	1	0.49	200	509	74%	8,613	0	0
Japan	-	0.09	-	-	-	-	-	-
Latin America	2	0.17	503	822	85%	65,240	0	14
Middle East & Turkey	-	0.00	-	-	-	-	-	-
Nordics	-	0.17	-	-	-	-	-	-
North America	8	0.51	3,755	4,964	92%	175,965	28	11
Russia & Central Asia	-	0.00	-	-	-	-	-	-
UK & Ireland	-	0.00	-	-	-	-	-	-

¹⁾ Includes manufacturing and non-manufacturing sites

13.4 Social statements

In 2020, Philips further reinforced its commitments as a purpose-driven company with the announcement of an enhanced and fully integrated approach to doing business responsibly and sustainably. This section provides additional information on (some of) the Social performance parameters reported in [Social performance, starting on page 62](#)

13.4.1 Measuring health impacts

In 2022, we continued our collaboration with the Harvard T.H. Chan School of Public Health to measure our social impact to assess the positive contributions to health effects offered by publicly traded companies related to medical devices. We further explored the granularity of the pilot methodology and, using a common ESG framework, linked the potential measurable impact of medical devices to targets in the United Nations Sustainable Development Goal 3 (*Good Health and Well-being*).

In an expanded use case, this study estimated the potential benefits of using ultrasound medical devices to detect health problems for patients in several countries and regions of the world as a case study to show how to link science-based impacts and specific SDG Targets. This study is expected to support and illustrate how to guide investments toward publicly traded companies that bring products and services into the market with quantifiable impacts linked to a common framework that fulfills the UN Sustainable Development Goals.

Case study^{*)}: Ultrasound medical devices

An analysis of 204 countries estimated the impact of ultrasound medical devices on reducing neonatal, cancer, liver disease, and cardiovascular mortality in different world areas, aligning with UN SDG targets 3.2 and 3.4:

- Ultrasound diagnosis prevents between 0.25 to 4.22 deaths per medical device per year, with a global geometric mean of 0.75 and 90% CI [0.25, 1.98].
- Cardiovascular mortality prevention benefits of using ultrasound medical devices are the highest in central and eastern European countries.
- African countries benefit most from using these medical devices to prevent neonatal mortality.
- Cancer mortality prevention is the highest in central Asian countries if ultrasound medical devices are used.
- Mortality prevention from the liver and endocrine diseases was the highest among Central Asian and Middle Eastern countries.

^{*)} Sanchez-Pina (2022), Assessment of Positive Contributions to Health of Publicly Traded Companies related to Medical Devices, Department of Environmental Health Harvard T.H. Chan School of Public Health

13.4.2 People development

Onboarding

Philips hires thousands of employees every year. In order to ensure that our colleagues feel a sense of belonging right from the start and have clarity on what is expected from them in their roles, we have established an effective, digitally enabled onboarding approach both for new hires and internal moves, ensuring alignment across all our businesses, markets and functions.

We also support our People Leaders through capability building and toolkits, since we believe onboarding is a key leadership accountability. We train new leaders (both new to the role and to the organization) on what it means to be a Philips leader and how to drive key people processes effectively.

In 2022, we incorporated mandatory role-based education into a new hire’s onboarding journey, underscoring the importance of patient safety and being compliant. We have also adopted a richer measurement approach to examine the impact of our onboarding interventions. 90% of new hire respondents rated their 6-month onboarding experience as positive in 2022.

Career development

We see our talent as our most differentiating enterprise asset. Our goal is to enable everyone to thrive at Philips, and we recognize that it is important to invest in strategic capabilities, and for both leaders and employees to share accountability for career development. We expect our leaders to scout for talent, develop people and upgrade capabilities, so that we can continue to build a diverse, future-oriented workforce where inclusion is key, and transparent, ongoing feedback enables all of our people to grow.

We support our people in navigating their own career and stimulate our managers to have meaningful career dialogues with their people. To this end, we continued our Continuous Feedback and Continuous Talent Dialog approach in 2022. We also implemented technology-enabled 'gig' working within Philips, giving employees the opportunity to build their skills in new areas outside of their core jobs.

Whilst continuing to focus on our goals in our People Performance Management, in 2022 we increased attention for how our people achieve those goals, to ensure they get feedback and develop themselves on both dimensions. There has also been more focus on how our employees progress against their development goals and demonstrate the Philips Behaviors (Leadership Asks for leaders). This more balanced view of performance will drive more holistic conversations between employee and manager throughout the year, with regular touchpoints for feedback built in along the way. We continue to stimulate cross-moves (across businesses, between markets or functions) to promote collaboration and give people challenging learning experiences.

Philips also gave meaningful work experience to 1,882 interns, offering 498 of them permanent employment after their internship.

Leadership

Our leaders play a crucial role in developing our people. To best support our leaders in this, we have invested in our company-wide leadership framework (Philips Leadership Asks), which is embedded in the Philips Business System, as well as a global portfolio of development assets such as Leadership Journeys, Leadership Programs, Masterclasses, Team Effectiveness solutions, Coaching & Mentoring, Development Centers and Assessments. The Leadership Journeys are facilitated multi-day immersive experiences, in which a selected senior management group focuses on core business challenges as well as the behavioral shifts needed to accelerate results. Masterclasses focusing on strategic capabilities are organized for our most senior managers. The content of these masterclasses has been made available for all our leaders through playlists to enable further cascading into our organization.

The learning programs were differentiated across target groups, aligned with our diversity objectives. All these programs consist of various elements, including assessments, (peer) coaching, workshops, action learning and individual learning based on pre-work and reflection exercises. The Philips continuous feedback process is embedded in these programs as part of the learning journey. Team effectiveness solutions offered include playbooks, team diagnostic tooling, and assessment tooling (including 180/360 feedback) for individual leaders.

Learning

Philips focuses on experience-based career development, giving our people the opportunity to identify and gain the experiences necessary to support our health technology strategy and strengthen their employability.

In 2022, we continued with experimental learning, enabling multiple ways of virtual/remote learning for our employees. Philips University continued to deliver on its mission of a lifetime of learning in Philips by further optimizing the way learning is created and offered. By mirroring learning requests to company-wide strategic priorities and introducing smarter ways of working and supporting processes, Philips University is committed to deliver learning solutions that truly impact our people and Philips as a whole.

By the end of 2022, more than 1,344,956 courses had been taken through Philips University (2021: 863,000), representing a total of nearly 1,880,416 training hours (2021: 830,000), with 1,009,459 training completions (2021: 835,000).

In 2022, seven dedicated trainings were deployed to all our employees to ensure we refreshed the fundamental Quality and Patient safety knowledge needed in the health technology environment across the whole of Philips.

13.4.3 Talent attraction

Through 2022 we filled over 16,000 positions across the organization, of which over 33% were internal appointments, up from 31% in 2021. Our two strategic external hiring channels are Direct-Sourcing and Referrals, which together delivered 43% of our external hires in 2022.

Through collaboration with the TENT partnership for refugees, we continue to offer opportunities to refugees across our operations. In 2022, we expanded our hiring commitment: our new goal is to provide 150 workplaces to refugees by 2025 (previous target: 100 by 2024). In addition, we committed to mentor 50 refugee women in Germany, the Netherlands and the UK over 3 years.

In 2022, we hired 52 refugees and kicked off the first round of the Refugee women mentorship program with 16 pairs of mentor-mentee matches.

We strengthened our focus on strategic Employer Branding and Recruitment Marketing initiatives as enablers of our organizational People Strategy priority to attract the best talent in increasingly competitive labor market conditions. We optimized our approach to media activity with targeted attraction campaigns focused on the most critical talent segments and strategic capabilities, such as informatics. This led to a 10-fold increase in leads in our talent pool and a 159% increase in applications compared to 2021.

We continued our always-on content program promoting our Employer Value Proposition across key career-related channels. We aim to strengthen our positioning as a people-centric, purpose-driven health technology company focusing on quality and patient -safety, and as an employer of choice for inclusion, diversity, equity and well-being.

Our combined efforts drove 2.6 million unique visitors to our Careers site, an increase of 50% compared to 2021. The apply clicks (intention to apply) and conversions on our website show a marked improvement of 85%, indicating a positive candidate experience.

13.4.4 Employee volunteering

At Philips, every employee can spend one volunteering day a year using their time and expertise to help create impact on global healthcare and environmental issues.

During the pandemic, it was less easy to have events where employees came together in big numbers. The structure of the volunteering program has since changed, with a stronger emphasis on skilled volunteering, which requires specific expertise and fewer hands-on team activities. Examples include:

- The support of Philips employees during the pandemic at the start of 2022, where volunteers transported, assembled, and installed donated equipment for India.
- Shared expertise of Philips employees during a conference with Philips Foundation Impact Investments B.V. in the Netherlands, which supported 10 entrepreneurs with challenges in IT, HR, laws and regulations, government relations, marketing, strategy, finance, etc.
- In the US, Philips employees in Alpharetta, Cambridge, and Bothell have participated in volunteer events to assemble over 3,000 clean birthing kits in partnership with MedShare. Clean birthing kits contain 13 essentials needed to deliver a baby in parts of the world where medical care is lacking, designed to support mothers and newborn babies in marginalized regions of the US as part of Philips Foundation's mission to provide access to quality healthcare for underserved communities.

When the conflict in Ukraine began to affect the population, there was a clear desire to assist the people of Ukraine with a practical mindset, which led to the collection, funding, transportation and distribution of many necessary health supplies (maternal and child care

products, blankets, medicines and food) to Ukraine, the Czech Republic, Poland and Romania.

13.4.5 Building employability

At Philips, our goal to offer the best place to work for people who share our passion is not limited to employees on our payroll. In the Netherlands, for example, we run a special employment program, WGP (Werkgelegenheidsplan, or Philips Employment Scheme), to offer vulnerable groups of external jobseekers a work experience placement, usually combined with training. Since the scheme's launch in 1983, over 13,365 people have participated, and around 70% found a regular job after taking part. In 2022, we had an inflow of 63 candidates bringing the number of participants in 2022 to 129. The WGP program is also accessible to refugees, and in 2022 we had 17 refugees participating.

A scientific study, published in 2020, into the long-term impact of the WGP program has shown that the chance of finding a job after participating in the WGP program improved by 18%.

13.4.6 Health and Safety performance

In 2022, as the COVID-19 entered the endemic phase, Philips continued to refresh and enhance the Health and Safety (H&S) program. As normal activities resumed, the H&S programs were re-deployed. Of note was the completion of the global audit program, with nine audits completed worldwide.

Policy, Procedures and Management Systems: Philips continued to build a comprehensive global Health & Safety Management System with the deployment of 10 updated Philips Corporate Safety Standards (PCSS) in 2022. A total of 71 PCSS were deployed by the end of 2022. The PCSS are supported with training materials in Philips University and Management Guidance notes. Management System Certifications ISO 45001 are in place for 24 manufacturing locations. Seven country organizations are certified to ISO 45001, with further certifications planned for 2023.

Compliance: In 2022, Philips continued the deployment of the Compliance tracking tool ENHESA at all operational sites and deployed it to the market locations where Philips has a significant presence. A review of applicable regulations and compliance status was in scope. In 2022, 9 H&S audits were performed in manufacturing and market organizations. An enhanced audit program is planned for 2023.

Structure and Responsibility: In 2022, the H&S organization supporting market activities continued to be improved and consolidated, and all markets now have an H&S structure in place reporting to Regional Leaders with the necessary resources allocated. Health and Safety reviews were completed with Market Operations leaders to raise the profile of H&S and drive safety programs with close leadership support.

In 2022, the Philips Health and Safety Assurance letter was completed. This process requires a full Health and Safety review at every level of the organization that verifies that the Philips H&S policy is understood, a verified H&S Management System is in place, compliance requirements are met, risk assessments have been completed with plans in place to control/reduce significant risks, and sufficient resources (including adequate staff) are in place. The process is initiated at the lowest organizational level and raised progressively to more senior leadership and finally to Executive level, with review and sign off at each stage.

Risk assessments: In 2022, Health and Safety continued to deploy the high-level risk assessment process to all operational sites and relevant markets to provide a strategic overview of the risk profile in Philips using the Philips Corporate Risk Assessment protocol. This process has identified exceptional risks at specific locations as well as systemic risks across Philips. In 2022, systemic risks were addressed through company-wide H&S campaigns to drive performance improvements. Risk assessments were also reviewed during the Assurance letter process, and sites and markets have a clearer understanding of the risks they face, and the controls needed to address them.

Training and Communication: In 2022 we offered an expanded library of Underwriters Ltd. (UL) safety e-learning courses (532 H&S courses in 17 languages) in the Philips University. Four new H&S campaigns were launched in 2022 – Infection Prevention/BBP, Electrical Safety, Lone Worker, and Safe/Unsafe Behaviors – and a series of 12 health awareness topics were circulated throughout our community (e.g. thyroid, colorectal cancer, stroke and kidney health, monkeypox and heat-related illnesses).

Occupational Health: In 2022, focus on COVID-19 management was gradually reduced, which allowed more time for other activities. At the end of August, it was communicated that outbreak management would shift from the central crisis management organization to local Market/Country management teams. Health and Safety would remain primarily responsible for maintaining all infection prevention guidance, periodic reporting, and organizational support.

Continued focus was placed on enhancing two critical programs, Ergonomics and Mental Health and Well-being. Due to the socio-economic and political issues and the personnel reductions announced at the end of the year, Mental Health and Well-being remained a topic of high attention. Mental Health Champions were trained across the globe and the program was further matured with structural support and training (close to 200 Champions by the end of 2022). Within the Ergonomics program there were some 112 trained Champions by the end of 2022. These Champions can support job analysis and incident investigations and help drive ergonomic improvements. With an increased focus on ergonomics during our field activities, the number of lost workday cases due to sprains and strains in North America customer-focused teams was 144 days, a significant improvement compared to 2021 (275). With the introduction of Ergonomics Champions, stretch programs,

ergonomic field assessments and dedicated injury investigations, these activities supported the improvement.

Together with Group Sustainability and the HazCom team at Philips Engineering Solutions, considerable effort was put into improving alignment across functions and management of chemicals in Philips. This resulted in a new Philips Excellence Process Framework process towards the end of 2022.

Metrics: Health and Safety metrics were further developed in 2022 to support existing metrics:

- **Recordable Accident Rate:** In 2022, we recorded 172 TRCs (213 in 2021), i.e. cases where the injured employee is unable to work for one or more days, received medical treatment or sustained an industrial illness.
- **Lost Workday Case Rate:** In 2022, we recorded 81 LWCs (114 in 2021), i.e. cases where the injured employee is unable to work (either his/her normal work or restricted work as determined by an occupational physician on any day after the day on which the injury occurred).

Proactive metrics: More emphasis was placed on proactive metrics whilst retaining the existing reportable accident rate. The metrics are aggregated into a scorecard, to provide one consolidated proactive performance metric, which is presented at business level. Specific proactive safety metrics include:

- Shop floor visits (Gemba walks) completed: 13,002 (target: 11,880)
- Safety problem-solving events (Kaizens) implemented: 6,186 (target: 5,940)
- Behavioral Safety Observations: 4,585 (target 2,467)
- Training: 46,701 trainings completed (target 20,219)
- Corrective action closure: Average days to Close: 74

Philips Group
Total recordable cases per 100 FTE

	2018	2019	2020	2021	2022
Diagnosis & Treatment	0.55	0.61	0.45	0.53	0.41
Connected Care	0.35	0.34	0.31	0.31	0.19
Personal Health	0.22	0.18	0.30	0.24	0.27
Other	0.22	0.24	0.16	0.21	0.17
Philips Group	0.30	0.32	0.24	0.29	0.23

Additionally, we recorded 81 Lost Workday Injury Cases (LWICs), i.e. occupational injury cases where the injured person is unable to work for one or more days after the injury. This represents a 29% decrease compared with 114 in 2021. The LWIC rate decreased to 0.11 per

100 FTEs, compared with 0.16 in 2021. The number of Lost Workdays caused by injury decreased by 216 days to 4,020 days in 2022.

Philips Group
Lost workday injuries per 100 FTEs

	2018	2019	2020	2021	2022
Diagnosis & Treatment	0.20	0.33	0.27	0.28	0.21
Connected Care	0.13	0.09	0.11	0.09	0.09
Personal Health	0.16	0.14	0.22	0.16	0.09
Other	0.11	0.09	0.06	0.12	0.08
Philips Group	0.14	0.14	0.12	0.16	0.11

Diagnosis & Treatment businesses

In the Diagnosis & Treatment businesses segment, the number of Health and Safety incidents decreased in 2022 to 31 LWICs compared to 43 in 2021. The LWIC rate decreased to 0.21 compared to 0.28 in 2021. The total number of recordable cases for the Diagnosis & Treatment businesses segment decreased to 59 (81 in 2021), mainly due to less recorded incidents in our factories North America.

Connected Care businesses

Health and Safety performance in the Connected Care businesses segment in 2022 improved compared to the prior year: 6 LWICs (6 in 2021). Correspondingly, the LWIC rate remained at the same level as 2021 (0.09). However, the total number of recordable cases for the Connected Care businesses segment decreased to 13 in 2022 (21 in 2021), mainly driven by our factories in North America.

Personal Health businesses

In the Personal Health businesses segment, Health and Safety incidents decreased in 2022, with 7 registered LWICs, compared to 12 in 2021. The LWIC rate decreased from 0.16 in 2021 to 0.09 in 2022. There were 21 recordable cases in the Personal Health businesses segment in 2022 (18 in 2021). This increase was mainly driven by more recorded incidents in North America and less cases in the Netherlands.

13.4.7 Philips Foundation

Philips Foundation is a registered non-profit organization established in 2014 – founded as the centralized corporate social responsibility platform of Philips. Meanwhile, its mission and focus are to provide access to quality healthcare for underserved communities, looking at lasting healthcare system change to make primary healthcare accessible and affordable for underserved populations and reduce healthcare inequality. In 2022, Royal Philips supported Philips Foundation with a contribution of EUR 6.7 million and provided the Foundation’s operational staff and the expert assistance of skilled Philips employees in the execution of Philips Foundation’s programs.

Philips Foundation fulfills its mission by deploying Philips' expertise in innovative healthcare technology and solutions, exploring viable and sustainable healthcare delivery models, and collaborating with key societal organizations and partners worldwide. The Foundation is increasingly working with social entrepreneurs on innovations in the healthcare space that enable underserved communities to get medical examinations for early detection of conditions and timely referral to the right medical services. Philips Foundation fosters innovations that are fit for purpose, address local needs, are accessible and affordable, are set up for scaling, and are financially sustainable to help ensure lasting healthcare provision.

Since the launch of Philips Foundation, over 300 initiatives have been completed or are in progress throughout the world – engaging employees, providing healthcare technologies and solutions, and overcoming healthcare challenges in close connection with organizations operating locally. Philips Foundation Impact Investments B.V., a subsidiary set up in 2021, invested in 8 ventures in 2022. Through its subsidiary, Philips Foundation aims to accelerate the development of potentially high-impact access-to-care opportunities and reduce healthcare inequality by nurturing early-stage social enterprises through investments and support. Selection starts with a thorough understanding of the local context and the actual needs of the end beneficiaries. In 2022, Philips Foundation's initiatives improved the lives of more than 2.2 million people and provided access to healthcare to over 26 million people in some of the most underserved regions across the globe.

Philips Foundation retains the ambition to provide access to quality healthcare for around 100 million underserved people annually by 2030.

In 2022, Philips Foundation continued its program of new and ongoing projects, mainly oriented towards the deployment of technology-based solutions, exploring and supporting scalable ways to strengthen community and primary care. With projects covering many phases of people's health journeys, Philips Foundation focused on addressing the increase in cardiovascular and respiratory diseases and cancers, improving maternal and child health, and strengthening acute and emergency care. Philips Foundation aims to relieve healthcare facilities and local health workers in underserved areas by leveraging Philips' expertise in telehealth solutions for early detection and rapid referral to the right doctor or specialist.

In 2022, Philips Foundation further built upon the expertise of Philips employees, social entrepreneurs, and other leading experts to explore innovative paths to strengthen healthcare access. Together with RAD-AID International, Philips Foundation announced a multi-year cross-continental partnership to promote access to diagnostic ultrasound services in 10 countries. The program aims to reach 50 million people by deploying hundred Philips ultrasound devices that support remote healthcare delivery for communities thousands of kilometers away. In Kenya, Philips Foundation is working with NCD Alliance and social enterprise iMedrix to develop a cardiovascular care model in primary care facilities that

improves capacity for triage, screening and testing of cardiovascular risks and facilitates treatment of cardiovascular diseases.

In total, 29 new initiatives have been rolled out globally in 2022, with Philips Foundation and its subsidiary working with Philips to improve access to, and availability of, healthcare solutions for vulnerable communities.

Since the start of the war in Ukraine, Philips Foundation has been committed to providing access to much-needed healthcare for the people in Ukraine who have limited or no access to medical services, due to the devastation. Philips Foundation has worked closely with Philips employees in Ukraine and the Ukrainian Ministry of Health to provide medical devices to hospitals, mobile medical brigades, and local institutions such as maternity clinics.

Philips Foundation has also been working with local humanitarian organizations, such as the Red Cross and local government agencies to provide support to Ukrainian refugees in Poland, Romania, and the Czech Republic. This includes the provision of patient monitors and handheld diagnostic ultrasound devices to assist in acute and emergency care, as well as products for child care. At Romania's border with Ukraine, Philips Foundation and the Italian Red Cross have stationed a mobile hospital ready for deployment in case of emergency.

For more information about the Philips Foundation, its purpose and scope, as well as its latest annual report, visit the [website](#).

13.4.8 Supplier indicators

Philips' purpose to improve people's health and well-being extends throughout our value chain. At Philips, we have a direct business relationship with approximately 5,300 product and component suppliers and 17,100 service providers. Our supply chain sustainability strategy is evaluated annually through a structured process, combined with multi-stakeholder dialogues. From this, we have developed multiple programs aimed at driving sustainable improvement. These programs cover compliance with our policies, improvement of our suppliers' sustainability performance, our approach towards responsible sourcing of minerals, and reducing the environmental impact of our supply base.

Supplier sustainability compliance

Two core policy documents form the basis of our supplier sustainability compliance approach: the Supplier Sustainability Declaration and the Regulated Substances List.

Supplier Sustainability Declaration (SSD)

The **SSD** sets out the standards and behaviors Philips requires from its suppliers. The SSD is based on the Responsible Business Alliance (RBA) Code of Conduct, in alignment with the UN Guiding Principles on Business and Human Rights and key international human rights standards, including the ILO Declaration on Fundamental Principles and Rights at Work and

the UN Universal Declaration of Human Rights. It covers topics such as Labor, Health & Safety, Environment, Ethics, and Management Systems. This year, we made several changes to the supplier code of conduct, adding multiple expected behaviors that go beyond the RBA Code of Conduct. The RBA is the world's largest industry coalition dedicated to responsible business conduct in global supply chains. As a Regular member of the RBA, Philips is required to commit publicly to the RBA Code of Conduct and actively pursue conformance to the Code and its standards, which must be regarded as a total supply chain initiative.

Regulated Substances List (RSL)

The RSL specifies the chemical substances regulated by legislation. Suppliers are required to follow all the requirements stated in the RSL. Substances are marked as restricted or declarable.

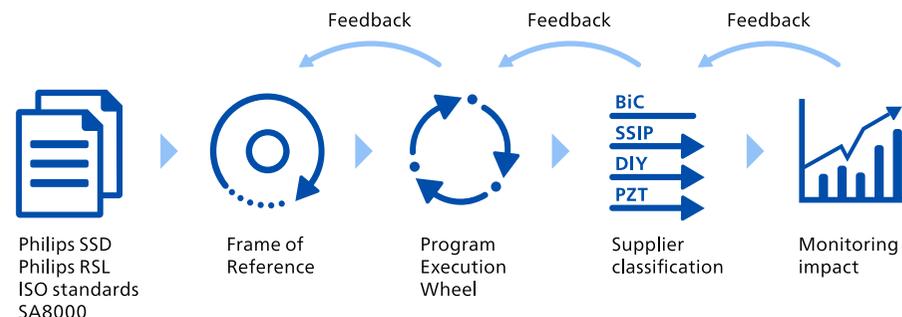
All suppliers are required to commit to the SSD and RSL. Through integration of a Sustainability Agreement in our General Purchase Agreement, suppliers declare compliance to both the SSD and RSL. Upon request, they provide additional information and evidence.

Supplier Sustainability Performance (SSP) - 'Beyond Auditing'

In 2016, Philips first piloted its 'Beyond Auditing' approach to engage suppliers on ESG matters, with a focus on:

- a systematic approach to improve the sustainability of our supply chain
- continuous improvement against a set of recognized and global references
- collaboration, increased transparency, clear commitments, and ensuring suppliers meet the agreed targets
- encouraging our suppliers, industry peers and cross-industry peers to adopt our approach

This systematic approach is shown in the figure below and is a high-level representation of the SSP program.



First, a set of references, international standards, and Philips requirements are used to develop the Frame of Reference, which covers management systems, environment, health & safety, business ethics, and human rights. For each, the maturity level of suppliers is identified in the Program Execution Wheel, which assesses suppliers against the Plan–Do–Check–Act (PDCA) cycle. Suppliers are then categorized through the Supplier Classification model, which differentiates on the basis of supplier maturity, resulting in supplier-specific proposals for improvement. The SSP process is monitored and adjusted through continuous feedback loops. The outcome of the SSP assessment is a supplier sustainability score ranging from 0 to 100. This score is based on supplier performance in environmental management, health & safety, business ethics, and human rights.

Supplier classification

Supplier selection for the program is based on criticality. Criticality of suppliers is determined through an assessment of the supplier's associated risks and opportunities, such as strategic importance of their components, annual spend, and substitutability. In 2022, 14% of our suppliers were considered critical. After this initial assessment, the engagement strategy is tailored based on the suppliers' current performance in terms of sustainability.

There are four different engagement approaches: BiC (Best in Class), SSIP (Supplier Sustainability Improvement Plan), DIY (Do It Yourself) and PZT (Potential Zero Tolerance). The PZT status is a temporary status and requires immediate attention and action. Depending on the categorization, suppliers are engaged in different ways to improve their sustainability performance.

If a (Potential) Zero Tolerance is identified, immediate action is taken. If the requested additional information and evidence lead to the conclusion that there is no structural Zero Tolerance, the supplier's status will be changed and the supplier will go back to the original track in the program. If the conclusion gives rise to a structural Zero Tolerance, the supplier is required to:

- propose a plan to mitigate and/or resolve the identified Zero Tolerance(s)
- commit to structurally resolving the Zero Tolerance
- provide regular updates and evidence
- avoid quick-fixing

Philips defines six Zero Tolerances:

- Fake or falsified records
- Child and/or forced labor
- Immediate threats to the environment
- Immediate threats to worker health and safety
- Failure to comply with regulatory and/or Philips requirements
- Workers' monthly income (covering salary for regular hours and overtime, tax deductions, social insurance) failing to meet regulatory requirements

For more details on the SSP process, refer to the [SSP brochure](#).

Our 2022 results

In 2022, three zero tolerances were found across the following categories: health and safety, labor, and environmental impact. Two of the three cases were successfully closed in 2022. The remaining zero tolerance was found in Q4 2022 and is still pending closure.

Philips measures the impact of SSP engagements through the number of lives improved in the supply chain. This is derived from the improvements that suppliers make in their performance. To determine improvements, we calculate the pro rata change in performance from one year to the next.

Philips Group

Lives improved in the Supply Chain (thousands of Lives)

	2020	2021	2022
Lives improved in the Supply Chain	302	430	459

In 2022, the overall year-on-year improvement in performance was 51% for suppliers that entered the program in 2021. The number of employees impacted at suppliers participating in the SSP program was approximately 459,000. This figure includes suppliers assessed in the last three years, for which the supplier has communicated their number of employees via the self-assessment questionnaire, which was validated during the on-site assessment. For those workers, labor conditions improved, the risk of serious injury reduced, and the negative environmental impact of suppliers was brought down. This includes the workers at suppliers of the Domestic Appliances business, for which Philips continued the sustainability engagement. For a detailed break-down of percentage improvements realized by active suppliers in the past year, by comparing the assessment in 2022 to their previous assessment, refer to the following table.

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SSP 2022 performance: pro-rata improvements in %

Topics	Policy	Procedures	Implementation	Management Responsibility	Communication	Risk control	Target Setting & Tracking	Corrective action approach	Supplier management
Environment	3%	10%	14%	9%	7%	29%	17%	15%	17%
Health and Safety	17%	22%	29%	2%	9%	25%	37%	23%	13%
Business Ethics	24%	19%	63%	86%	42%	551%	54%	141%	(10)%
Human Capital	19%	27%	48%	24%	13%	37%	1%	14%	6%

Categories which showed the biggest improvement are:

- Risk control of Environmental topics: improving the audit process to periodically assess conformance including compliance with applicable laws and regulations pertaining to environmental topics
- Target setting and tracking of Health & Safety topics: improving periodic evaluations of health and safety risk identification and control mechanisms, setting targets on occupational injury or illness, and progress reporting mechanisms
- Implementation for Human Capital: improving the approach to implement policies and procedures into formal records for the supplier's human capital management system.

In 2022, 47 suppliers were added to the SSP program. Of the population of suppliers that entered the program in the year before 2022 and have been assessed at least once in the past three years, 249 suppliers were still active in 2022. The combined group represents 39% of our critical suppliers who are in the program.

As part of the adoption of our ESG commitments, we have set the target to improve the lives of 1 million workers in our supply chain by 2025. To achieve this, we started to ramp-up our engagement since 2021, adding a higher number of 2nd tier suppliers due to changing risk profiles. We expect to roll out the program to additional manufacturing countries in the years to come.

Additional progress made in 2022

Philips started a collaboration with the Responsible Business Alliance (RBA) in 2021, to extend the reach of its Supplier Sustainability Performance program across the wider industry – and impact lives outside of its own supply chain. From 2022, cross-industry peers can access Philips' Supplier Sustainability Performance program tools and methodologies through the RBA's Responsible Factory Initiative (RFI), which helps companies to assess and develop supply chain partners. This means Philips' industry peers around the world will now benefit from proven approaches to supplier sustainability and are enabled to make their own rapid advances. As part of the launch of the RFI program, Philips had 15 of its own suppliers join. It plans to direct more suppliers towards the RFI program in the years to come.

Philips is actively applying the latest insights in data science and machine learning methods to make the SSP program more efficient in determining the sustainability maturity of suppliers, while also increasing the effectiveness of our supplier improvement approach.

In 2022, a software tool was launched that enables prediction of suppliers' actual performance, based on a limited number of survey questions. This tool is helping us to greatly reduce the time spent on assessments. This leaves more room for Philips experts to support suppliers in their capability building, by sharing best practices and creating business cases that enable improvements.

On an annual basis, Philips experts organize quality trainings in the sustainability area for suppliers in the scope of the SSP program.

Responsible sourcing of minerals

The supply chains for minerals are long and complex. Philips does not source minerals directly from mines as there are typically 7+ tiers between end-user companies like Philips and the mines where the minerals are extracted. The extraction of minerals can take place in conflict-affected and high-risk regions, where mining is often informal and unregulated and carried out at artisanal small-scale mines (ASM). These ASMs are vulnerable to exploitation by armed groups and local traders. Within this context, there is an increased risk of severe human rights violations (forced labor, child labor or widespread sexual violence), unsafe working conditions or environmental concerns.

Philips addresses the complexities of the minerals supply chains through a continuous due diligence process, combined with active participation in multi-stakeholder initiatives to promote the responsible sourcing of minerals.

Conflict minerals due diligence

Each year, Philips investigates its supply chain to identify smelters of tin, tantalum, tungsten and gold in its supply chain and we have committed to not purchasing raw materials, sub-assemblies, or supplies found to contain conflict minerals.

Philips applies collective cross-industry leverage through active engagement via the Responsible Minerals Initiative (RMI, formerly known as the Conflict Free Sourcing Initiative (CFSI)). RMI identifies smelters that can demonstrate, through an independent third-party audit, that the minerals they procure are conflict-free. In 2022, Philips continued to actively direct its supply chain towards these smelters.

The Philips Conflict Minerals Due Diligence framework, measures and outcomes are described in the Conflict Minerals Report that we file annually to the US Securities and Exchange Commission (SEC). The conflict minerals report is also publicly available on Philips' website.

Each year, we work with our suppliers on the quality of their due diligence reporting by setting minimum criteria for the Conflict Minerals Reporting Templates (CMRT). In addition, we strive to reduce the number of non-identified smelters. The quality of the CMRTs dropped 6 percentage points compared to the 2021 due diligence results. The number of non-listed smelters remained zero (2021: 0).

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Conflict Minerals Due Diligence results

Key performance indicator	2020	2021	2022
Response rate of suppliers	99%	99%	95%
CMRTs that satisfied minimum acceptance criteria	85%	84%	78%
Non-listed smelters in our supply chain	0	0	0

Responsible Sourcing approach of Philips

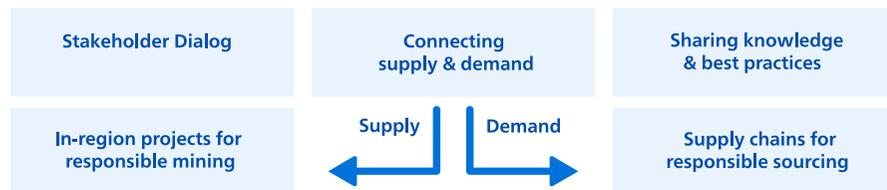
Multi-stakeholder initiatives

Working together with other stakeholders to apply leverage



Due diligence approach

OECD Five-Step Framework for Risk-Based Due Diligence in the Mineral Supply Chain



Cobalt

Philips has performed due diligence on cobalt since 2019. We use cobalt predominantly in lithium-ion batteries. As part of this initiative, we engaged suppliers that provide materials containing cobalt. In 2022, we again reached a 100% response rate (2021: 100%).

Case study: Responsible Peruvian Gold

Whilst legally registered and recognized by government bodies, Artisanal Small-scale Mining organizations (ASMOs) in Puno largely fail to meet the due diligence requirements of international buyers. The cause of this is the use of informal practices, poor productivity and exposure to health and safety risks including the use of mercury. For the same reason, these mines fail to receive lines of credit from formal lenders (e.g. banks), meaning they are less able to upgrade their production methods. This lack of formalization presents drawbacks, mainly that mines miss out on better terms of trade and finance, gold is at greater risk of sale into illicit markets, and that mines are less likely to pursue responsible mining practices and modern equipment, negatively impacting miners and the environment.

The Responsible Peruvian Gold (RPG) project will support target ASMOs to achieve Fairtrade certification and export Fairtrade certified gold. ASMOs will be supported to operate legally and formally, enabling them to access finance from formal lenders, uptake more responsible and productive mining practices, and access international markets on Fairtrade terms. Fairtrade (one of the world's leading certification schemes for responsible ASM) will work alongside FairCapital (a pioneering lender) and Valcambi (one of the world's largest precious metals refiners) in the delivery of project activities between 2021 and 2023.

Case study: Access to responsible markets in the lake Victoria region

In Kenya's and Uganda's artisanal and small-scale gold mining (ASGM) sector, miners' organizations are often unable to qualify for financing from formal lenders. This hinders ASGM's ability to invest into improving their productive and sustainability performance and instead perpetuates the cycle of poverty and associated negative social and environmental impacts. ASGM's are in many instances also unable to meet due diligence expectations of international off-takers. Meeting these due diligence standards is essential for maintaining local markets and their positive contributions to development, especially in light of the heightened due diligence standards

The LVGP is working towards a service-led approach to professionalize ASGM across the Lake Victoria region. Leveraging previous work by project partners in the region, the LVGP will provide formalization support to ASMOs, ensure access to formal markets and provide access to equipment to improve production and health & safety performance, by providing capacity development and technical assistance needed to enable this transition. In parallel, the project aims to integrate responsibly produced ASM gold into electronics supply chains, aiming to match production of responsibly produced ASM gold with downstream demand for ASM gold from conflict-affected and high-risk areas (CAHRAs).

Multi-stakeholder initiatives for responsible sourcing of minerals

We believe that multi-stakeholder collaboration in the responsible sourcing of minerals is the most viable approach for addressing the complexities of minerals value chains.

European Partnership for Responsible Minerals (EPRM)

Philips is a founding partner of EPRM and has been a strategic member since its inception in May 2016. EPRM is a multi-stakeholder partnership between governments, companies, and civil society actors working toward more sustainable minerals supply chains. The goal of EPRM is to create better social and economic conditions for mine workers and local mining communities by increasing the number of mines that adopt responsible mining practices in Conflict-Affected and High-Risk Areas (CAHRAs).

EPRM is an accompanying measure to the EU Conflict Minerals Regulation dedicated to making real change 'on the ground'. Through EPRM, Philips financially supports activities to improve responsible mining practices in mining areas in CAHRAs and shares our knowledge and practice in conducting due diligence. Since 2018, Philips has actively participated in several working groups focused on strengthening the responsible production of minerals, as well as improving responsible sourcing practices.

IRBC Responsible Gold Agreement

In June 2017 Philips signed the **Responsible Gold Agreement**, joining a coalition to work on improving international responsible business conduct across the gold value chain. Signees included goldsmiths, jewelers, recyclers, NGOs, electronics companies, trade unions, and the Dutch government. This partnership intends to bring about cooperation between companies, government, trade unions, and NGOs to prevent abuses within production chains. From September 2019, Philips represented gold and precious metal, recycling, and electronic companies in the steering committee of the Responsible Gold Agreement. The multistakeholder initiative concluded in June 2022. While not all of the initially set-out goals were met, the partnership achieved the following results:

- A large majority of participating companies improved their due diligence approach that helps ensure responsible sourcing
- Smaller participants joined forces in collective outreach to smelters, increasing the willingness to engage
- An impact project was started as part of this collective, that improved the situation for Artisanal Small Mines in Uganda

Green supply chain program

Since 2003, Philips has looked at ways to improve the environmental performance of its suppliers. When it comes to climate change, we have adopted a multi-pronged approach: reducing the environmental impact of our products, committing to carbon neutrality in our own operations, and engaging with our supply chain to reduce their carbon footprint. Through our partnership with the CDP supply chain program, Philips motivates its suppliers to disclose emissions, embed board responsibility on climate change, and actively work on reduction activities.

In October 2021, during COP26, **Philips announced its target** to have at least 50% of its suppliers (based on spend) committed to science-based targets for carbon reduction by 2025.

Philips Group
% of suppliers committed to science-based targets

	2021	2022
% of suppliers committed to Science Based Target	28%	41%

We consider suppliers to have committed to science-based targets when this is communicated via their CDP disclosures, public websites and announcements (on a Science Based Target, Net Zero Target, or equivalent), or the Science Based Targets Initiative website. Multiple activities have been deployed to support our achievement of this climate target. We consider spend to be relevant if it relates to product and component suppliers and relevant service providers, like logistics and information technology suppliers.

CDP engagement: Since 2011 we have been partnering with CDP Supply Chain, through which we invite suppliers to disclose their environmental performance and carbon intensity. In 2022, there was a response rate of 85% (2021: 87%). Part of the reason for the lower response rate is an increase in the number of invited suppliers by 62% compared to 2021. With more than 500 of our biggest suppliers included in the CDP engagement program in 2022, CDP confirmed Philips is in the top tier in terms of its supplier engagement coverage.

Of the group that responded, 59% engaged in emission-reduction initiatives (2021: 61%). In addition, 47% committed to carbon emission targets (2021: 56%). Our suppliers undertook projects in 2022 that resulted in savings on carbon emissions amounting to 27 million metric tonnes CO₂.

Philips Group
Supplier response rate to CDP questionnaire

	2020	2021	2022
	91%	87%	85%

Data-driven insights: Through accurate data insights, Philips' buyers are enabled to consider climate action in their supplier selection. In 2022, 41% of our purchases (in spend) were made at suppliers that have committed to science-based CO₂ reduction targets.

Capability building: We support suppliers in advancing their company approach to climate action, offering (online) guidance that is tailored to their climate action maturity. In 2022, we further grew the offering of tailored feedback and guidance for 76% of our suppliers to support their growth in capabilities and help improve their approach.

Opportunities for decarbonization: Through on-site assessments we identify energy efficiency opportunities that enable our suppliers to make cost-effective carbon reductions. Our team calculates for the supplier what the cost impact would be, and also the return. In 2022, 17 on-site assessments took place, which resulted in tailored plans for improvement.

13.5 Governance indicators

In 2020, Philips further reinforced its commitments as a purpose-driven company with the announcement of an enhanced and fully integrated approach to doing business responsibly and sustainably. This section provides additional information on (some of) the Governance parameters reported in [Governance, starting on page 69](#)

13.5.1 General Business Principles

In 2022, a total of 706 concerns were reported via Philips Speak Up (*Ethics Line*) and through our network of GBP Compliance Officers, an increase of 16% year-on-year (2021: 610 concerns). This is a continuation of the year-on-year upward trend. We believe the upward

trend in reporting remains in line with our multi-year efforts to encourage our employees to express their concerns, whilst realizing that the extraordinary business conditions of the past few years make it imprudent to draw any specific conclusions from these numbers.

Specifically in 2022, we once more focused on increasing awareness on Integrity and on the importance of speaking up, taking on board the outcome of the deep-dives executed after the 2021 biennial Business Integrity Survey. As in previous years, teams around the world participated in structured dialogues with their manager, where patient safety, quality, integrity and speaking up were discussed as part of a company-wide initiative. Furthermore, over 62,000 of our employees completed their yearly General Business Principles e-learning, and more than 18,000 customer-facing colleagues participated in dedicated compliance trainings, where possible in a face-to-face format.

In percentage terms, North America remains the region with the highest case inflow (2022: 49%; 2021: 51%). The percentage increase in reports is specifically visible in EMEA, which is now responsible for 21% of all reported concerns (2021: 14%). Latin America showed a decline to 9% (2021: 14%). The APAC region remained stable at 21% (2021: 21%).

Philips Group
Breakdown of reported GBP concerns in number of reports ¹⁾

	2018	2019	2020	2021	2022
Health & Safety	11	9	26	19	19
Treatment of employees	254	320	342	365	430
- Equal and fair treatment	63	55	52	31	53
- Employee development	8	9	5	20	29
- Employee privacy	6	10	8	11	6
- Employee relations	24	18	13	6	11
- Respectful treatment	102	163	160	226	255
- Remuneration	11	9	28	7	17
- Forced labor	-	-	1	-	-
- Conflict of interest	-	1	6	7	9
- Working hours	12	14	27	10	15
- HR other	28	41	42	47	35
Legal ²⁾	49	33	28	30	48
Quality	10	11	11	18	30
Business Integrity	96	138	127	112	114
Procurement	6	7	12	4	3
IT	4	3	5	8	9
Other	8	24	20	54	53
Total	438	545	571	610	706

¹⁾ Includes Domestic Appliances

²⁾ As of 1 October 2022 Philips has added Quality as a separate category, whereas these cases used to be reported under Legal. These numbers have been restated.

Most common types of concerns reported

Treatment of employees

As in previous years, the type of concern most commonly reported related to the category 'Treatment of employees'. In 2022 there were 430 reports in this category, compared to 365 in 2021. This represents 61% of the total number of concerns, slightly higher than in 2021 (60%).

The majority of the concerns reported in the 'Treatment of employees' category relate to 'Respectful treatment'. The 'Respectful treatment' sub-category generally relates to concerns about verbal abuse, (sexual) harassment, and hostile work environments. In the 'Treatment of employees' category, 54% of cases originated from North America, an increase compared to 2021 (51%).

Business integrity

The second most-reported type of concern relates to 'Business Integrity', which accounted for 16% of total cases reported in 2022, down from 18% in 2021. These concerns originated primarily from the APAC region (44%), followed by the EMEA region (25%), North America (22%), and Latin America (10%).

Substantiated/unsubstantiated concerns

In 2022, a total of 672 reports were closed. Of these 672 reports, 213 were substantiated (i.e. were found to constitute a breach of our General Business Principles), which represents 32% of the cases closed in 2022 (28% in 2021). 28% of 'Treatment of employees' cases were substantiated, compared to 24% in 2021 (2020: 28%). In addition, 49% of the 'Business integrity' reports were closed as substantiated, compared to 40% in 2021 (2020: 39%).

Follow-up action

Depending on the outcome of the investigation, appropriate follow-up action is taken. Follow-up action can be remedial and/or disciplinary in nature. Remedial action can vary from strengthening the business processes, training and coaching, to increasing awareness of the expected standard of business conduct. Disciplinary measures may include written warnings and termination of employment. In 2022, disciplinary action was taken in 105 cases, and remedial action in 194.

13.5.2 Stakeholder engagement

Philips constantly engages in a range of activities and interactions with key stakeholders. Meaningful, effective and informed stakeholder engagement is a cornerstone to achieving the company's commitment to doing business responsibly and sustainably.

Sustainable Development Goals

We look at sustainability within the overarching ESG framework of environmental responsibility, social value creation and corporate governance. Regarding its environmental responsibility, Philips focuses on making a material impact, which means prioritizing initiatives that deliver tangible value. Our strategy is in line with the UN's Sustainable Development Goals 12 (*Ensure sustainable consumption and production patterns*) and 13 (*Take urgent action to combat climate change and its impacts*).

In the social dimension, in line with the UN's Sustainable Development Goal 3 (*Ensure healthy lives and promote well-being for all at all ages*) and as part of our commitment to improve 2 billion lives by 2025, Philips aims to expand access to care for 300 million people in underserved communities, both in developing and developed countries. We team up with our partners to deliver sustainable value, drive global change, reduce our shared environmental footprint and increase our social impact, in line with the UN's Sustainable

Philips Group

Classification of the concerns investigated in number of reports

Category	2020		2021		2022	
	substantiated	unsubstantiated	substantiated	unsubstantiated	substantiated	unsubstantiated
Health & Safety	6	19	3	18	6	16
Treatment of employees	107	270	87	271	121	312
Legal	12	25	8	17	11	24
Quality	1	10	4	14	6	14
Business Integrity	54	86	60	90	52	54
Procurement	1	8	1	6	1	2
IT	3	4	5	4	2	4
Other	3	13	8	41	14	33
Total	187	435	176	461	213	459

Development Goal 17 (*Strengthen the means of implementation and revitalize the global partnership for sustainable development*).

Expanding Universal Health Coverage (UHC)

We can only achieve health for all, the commitment made by United Nations member states, if the public, private and non-profit sectors work together. The UHC2030 agenda is about ensuring that by 2030 all people can obtain the health services they need without suffering financial hardship. This will not only improve health and health equity, it will also help reduce poverty, create jobs, drive inclusive economic growth, promote gender equality, and protect populations from epidemics. As member of the [UHC2030 Private-Sector Constituency](#), Philips actively supports this mission.

Over the past year, Philips has continued its journey to improve access to care in underserved communities. Through shared-value partnerships and dedicated teams across the company's businesses and markets, Philips is developing innovative digital solutions and deploying new business and financing models that are both sustainable and scalable, to strengthen health systems while lowering costs and bringing care closer to those most in need.

Ultrasound, for example, is still not sufficiently available in many rural and remote areas. So, by leveraging its expertise in mobile ultrasound services, and in close collaboration with the [Bill & Melinda Gates Foundation](#), Philips is researching and developing AI-based applications that can assist frontline health workers to effectively capture and interpret ultrasound images.

Key collaborations enabling UHC

In 2022, Philips continued to be a Steering Committee member of the [Health Finance Coalition](#). This coalition consists of leading health donors, investors and technical partners seeking to scale blended finance solutions to achieve SDG3 and Universal Health Coverage in Africa. As part of this coalition, Philips committed to investing in the Transform Health Fund, a USD 100 million target fund that will invest in supply chain transformation and innovative care delivery models serving low-income patients.

Philips also extended its Memorandum of Understanding with the [UNFPA](#), the United Nations sexual and reproductive health agency. The parties commit to joining forces and improving the lives of 50 million women and children by 2025 by working together on large projects, such as in Congo Brazzaville, and developing innovative finance models.

Philips is a Commissioner at the High-Level Commission (HLC) on the [Nairobi Summit on ICPD25 Follow-up](#). The mission of the HLC is, among other things, to support acceleration of the implementation of the ICPD Programme of Action by providing global guidance and advocacy to advance the 12 global Nairobi commitments, which highlight the 'three zeros'

(zero unmet need for family planning, zero preventable maternal mortality, and zero sexual and gender-based violence including harmful practices).

The Partnership for Maternal and Newborn Child Health ([PMNCH](#)) continues to be an important platform for Philips in advocating for health and well-being. As the world's largest alliance for women's, children's and adolescents' health and well-being, the Partnership works across 10 constituency groups and is hosted by the World Health Organization.

Philips is also a participant in the United Nations Global Compact ([UNGC](#)), the world's largest corporate sustainability initiative. The UNGC calls on all companies to align strategies and operations with universal principles on human rights, labor, environment and anti-corruption, and to take actions that advance societal goals. Philips is active on both global and local levels, such as through its 'Green hospital' initiative with UN Global Compact Poland, and it chairs the UN Global Compact Netherlands network.

Together with [Philips Foundation](#) and [RAD-AID International](#), Philips is supporting the deployment of mobile ultrasound services to improve access to virtual care in hard-to-reach areas. The multi-year partnership is rolling out an intensive program in 10 countries to train a wide range of health workers and specialists through real-time distance education and simulated procedure demonstrations. The program aims to increase access to ultrasound services for 50 million people in underserved communities.

In Kenya, Philips is also working with Philips Foundation and social enterprise [iMedrix](#), innovating at local level, to improve the continuum of cardiac care in underserved areas. For the first time, community centers in Western Kenya will be connected to the iMedrix point-of-care solution in combination with Philips' mobile ultrasound to accelerate communication between the community and healthcare facilities in the event of emergencies.

Driving circular economy

At Philips, we engage with multiple stakeholders to drive circular practices worldwide. Through active collaboration with [PACE \(Platform for Accelerating the Circular Economy\)](#) and its Capital Equipment Coalition, representing a broad group of physical hardware products as diverse as servers, medical scanners, and chips, Philips is supporting industry, governments, and NGOs in formulating strategies for change, the development of circular metrics and assembling a coalition of like-minded companies to exchange learning and spearhead implementation and tangible progress at scale. In 2022, together with the Capital Equipment Coalition, key regulatory barriers specific to Capital Equipment were identified, including cross-border movement of systems and parts for repair, refurbishment, and recovery.

Together with other parties, Philips contributed to the Circularity Gap report issued by Circularity Gap Reporting Initiative, providing clarity on the gaps to close on a global scale, and on the necessary contribution and scaling of circularity to systematically address climate change. In 2022, Philips continued its strategic partnership with the Ellen MacArthur Foundation (EMF) and joined the global call for a [UN Treaty to address plastic pollution](#), harmonizing regulatory standards, mandating the development of national targets and action plans, defining common metrics and methodologies, and supporting innovation and infrastructure development. Philips also partners with EMF on its strategic design initiative to embed sustainable and circular design and drive systemic change across businesses.

Philips participates in the World Business Council for Sustainable Development ([WBCSD](#)), actively contributing to the development of the Circular Transition Indicators (CTI). In 2022, Philips became an official campaign sponsor of [‘Going Circular’](#) – the global independent film documentary exploring concrete solutions that individuals and communities are using to move toward a more circular society.

Driving climate action

We already source 100% of our electricity from renewable sources, and finance projects in developing regions to compensate unavoidable emissions. Thanks to our focused approach to drive down emissions, we have been carbon-neutral in our operations since 2020. We have been developing more and more products and services that are EcoDesigned and circular-ready, optimizing the design of our products and solutions to make them more energy-efficient. But to really mitigate climate change we need to speed up our efforts and drive scale beyond our own operations. In 2022, for the 10th year in a row, Philips received the prestigious ‘A List’ award from global environmental impact non-profit CDP, for our efforts to cut emissions, mitigate climate risks and develop the low-carbon economy.

In 2022, Philips received [approval from the Science Based Targets initiative](#) for its increased scope 1, 2 and 3 carbon-reduction goals, becoming the first health technology company to have its entire value-chain CO₂ emissions reduction targets approved by the Science Based Targets initiative (SBTi). Scope 3 is vitally important because responsible sourcing of goods and services has a positive knock-on effect within the healthcare value chain, as it also means that our customers’ environmental footprint becomes smaller.

Philips started a collaboration with the Responsible Business Alliance ([RBA](#)) in 2021 to extend the reach of its Supplier Sustainability Performance program across the wider industry – and impact lives outside of its supply chain. From 2022, cross-industry peers can access Philips’ Supplier Sustainability Performance program tools and methodologies through the RBA’s Responsible Factory Initiative, which helps companies to assess and develop supply chain partners. This means that Philips’ industry peers around the world can now benefit from proven approaches to supplier sustainability and make their own rapid advances.

In 2022, Philips joined the 2040 Ambition Statement by CoZEV (Cargo Owners for Zero Emission Vessels) to accelerate maritime shipping decarbonization and realize zero emission ocean shipping.

In 2022, we also continued to team up with key strategic stakeholders, partners and customers during high-level events and stakeholder meetings – including the World Economic Forum (WEF) virtual Annual Meeting, the Alliance of CEO Climate Leaders, and COP27 – to scale and drive the adoption of green practices and a smooth transition to a low-carbon and climate-resilient economy, in line with the Paris Agreement. Philips endorsed its call for climate action in an [open letter](#) from global CEOs to act, move fast and boost investment towards a net-zero world.

Advocacy towards EU stakeholders

Philips continued its engagement with EU policymakers on key topics such as: the impact of the semiconductor shortage on the medical technology sector and consequently on patients; use of Artificial Intelligence and cybersecurity in healthcare; the impact of early detection of lung and prostate cancer on patients and health systems; recovery from COVID-19 and resilience of healthcare systems in general.

Philips contributed to several panel discussions and publications by EU trade associations [COCIR](#), MedTech Europe, Digital Europe and the European Round Table for Industry ([ERT](#)). Examples include a [COCIR event on resilient health systems](#), MedTech Europe’s call for action [‘Need for Prioritisation of Healthcare Capabilities’](#), and the ERT paper [‘Towards an EU Action Plan for a Digitally Enabled Green Transition’](#).

Global partnerships and industry research

Philips collaborates closely with a diverse international network of stakeholders to build strategic partnerships and commission industry research. Some examples are mentioned below.

In 2020, Philips joined forces with the World Economic Forum, AstraZeneca, KPMG, the London School of Economics, WHO Foundation and the Center for Asia Pacific Resilience and Innovation (CAPRI) on the [Partnership for Health System Sustainability and Resilience \(PHSSR\)](#). Motivated by a shared commitment to improving population health, through and beyond the COVID-19 pandemic, the PHSSR is committed to collaborating across sectors and borders to help build more resilient and more sustainable health systems. From new models of care to innovative financing mechanisms and breakthrough technologies, PHSSR aims to make change happen by identifying transferable solutions with the greatest potential and supporting their adoption.

PHSSR and its partners seek to work with local academics, governments, policymakers and other stakeholders in more than 20 countries to build knowledge, guide action and facilitate collaboration. In 2022, PHSSR performed 13 country health system assessments, which were discussed with government officials and health systems leaders in expert panels, launch events and policy dialogues, as well as the virtual 2022 PHSSR Global Summit.

Philips is proud of its continued engagement as a strategic partner of the World Economic Forum (WEF), the international organization for public-private cooperation committed to improving the state of the world. The Forum engages political, business and other leaders to help shape global, regional and industry agendas.

Due to the ongoing COVID-19 pandemic, the year kicked off with a second virtual WEF Annual Meeting, during which Philips joined a livestreamed panel on **ESG Metrics for a Sustainable Future** along with the CEO of Bank of America, Brian Moynihan. The session had an active audience of more than 40,000 livestreaming it and by the end of the week of Davos programming, the session had been viewed over 3 million times. Global challenges amplified by the COVID-19 pandemic have made ESG issues even more pressing for policymakers, boards and executives. As one of the 54 companies that has integrated the **WEF Stakeholder Capitalism metrics framework** in its annual reporting, this was an important opportunity to showcase Philips' leadership in championing the framework with a global audience.

Throughout 2022, Philips continued to work closely with the WEF International Business Council (IBC) to integrate the Stakeholder Capitalism Metrics framework published in 2020 into ESG and sustainability reporting. This framework is a set of common metrics for companies to align their mainstream reporting on performance against ESG indicators and track their contributions towards sustainable value creation and the SDGs on a consistent basis.

In September 2022, WEF published a **case study** to illustrate the experiences of some of the world's largest companies as they report on the Stakeholder Capitalism Metrics. Philips was featured alongside Heineken, SABIC and Schneider Electric, highlighting ways in which the metrics drive internal corporate transformation and create impact in the wider world. Philips has advocated for adoption across various platforms like the WEF ESG practitioners' group and the European Round Table for Industry (ERT) Sustainable Finance group and has included the framework for the second time in this 2022 Annual Report.

In May 2022, WEF held its first in-person Annual Meeting in Davos, Switzerland in over two years, attended by over 2,000 global leaders. Philips joined a number of high-level panels and held bilateral meetings with key business leaders, civil society representatives and public figures. In particular, Philips led discussions around the digital transformation of healthcare,

supply chain decarbonization and the impact of the global chip shortage on the medical technology sector.

Engaging with healthcare professionals and key opinion leaders: Future Health Index

The Future Health Index (FHI) is a research-based platform designed to help determine the readiness of countries to address global health challenges and build sustainable, fit-for-purpose national health systems. By examining the role of technology in the health system, the aim of FHI is to provide actionable insights to healthcare professionals, governments and patients that will also improve their experience with healthcare.

The Future Health Index 2022 report considers how healthcare leaders' priorities have shifted to navigate a changed world. Specifically, the report explores healthcare leaders reassessing their needs, unlocking the power of data, and how predictive analytics can supercharge care.

13.6 Assurance report of the independent auditor

To: the Supervisory Board and Shareholders of Koninklijke Philips N.V.

Our opinion and conclusion

We have audited the section 'Materiality analysis', the chapter 'Environmental, Social and Governance' (excluding the sections 'Remuneration policy' and 'Risk management approach') and the chapter 'ESG statements' (hereafter together: the ESG information) in the accompanying annual report for 2022 of Koninklijke Philips N.V. (the company) at Eindhoven, Netherlands. An audit is aimed at obtaining a reasonable level of assurance.

Furthermore we have reviewed the section 'EU Taxonomy framework' as included in section '5.1 ESG reporting framework' in the annual report (hereafter: EU Taxonomy information). A review is aimed at obtaining a limited level of assurance.

In our opinion, the ESG information presents, in all material respects, a reliable and adequate view of:

- the policy and business operations with regard to ESG; and
- the thereto related events and achievements in 2022

in accordance with the reporting criteria as included in the section 'Reporting criteria'.

Based on our review procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the EU Taxonomy information is not prepared, in all material respects, in accordance with the reporting criteria as included in the section 'Reporting criteria'.

Basis for our opinion and conclusion

We have performed our audit on the ESG information and our review on the EU Taxonomy information in accordance with Dutch law, including Dutch Standard 3810N 'Assurance-opdrachten inzake maatschappelijke verslagen' (Assurance engagements relating to sustainability reports), which is a specified Dutch standard that is based on the International Standard on Assurance Engagements (ISAE) 3000: 'Assurance engagements other than audits or reviews of historical financial information'. Our responsibilities under this standard are further described in the section 'Our responsibilities for the audit of the ESG information and the review of the EU Taxonomy information' section of our report.

We are independent of Koninklijke Philips N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence). This includes that we do not perform any activities that could result in a conflict of interest with our independent assurance engagement. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch code of ethics).

We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our opinion and conclusion.

Reporting criteria

The reporting criteria used for the preparation of the ESG information are the Sustainability Reporting Standards of the Global Reporting Initiative (GRI Standards) and the applied supplemental reporting criteria as disclosed in section 'Approach to ESG reporting' of the annual report.

The ESG information is prepared with reference to the GRI Standards. The GRI Standards used are listed in the GRI Content Index as published on the company's website.

The reporting criteria used for the EU Taxonomy information is the Regulation (EU) 2020/852 as supplemented with Commission Delegated Regulation (EU) 2021/2139 and Commission Delegated Regulation (EU) 2021/2178.

The absence of an established practice on which to draw, to evaluate and measure ESG information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Consequently, the ESG information needs to be read and understood together with the reporting criteria used.

Materiality

Based on our professional judgement we determined materiality levels for each relevant part of the ESG information and EU Taxonomy information; and for the ESG information and EU Taxonomy information as a whole. When evaluating our materiality levels, we have taken into account quantitative and qualitative considerations as well as the relevance of information for both stakeholders and the company.

We agreed with the Supervisory Board that misstatements which are identified during the audit and the review and which in our view must be reported on quantitative or qualitative grounds, would be reported to them.

Unreviewed corresponding EU Taxonomy information

No review has been performed on the EU Taxonomy information for the period 2021. Consequently, the corresponding EU Taxonomy information and thereto related disclosures for the period 2021 is not reviewed.

Limitations to the scope of our review and our audit

The ESG information and EU Taxonomy information include prospective information such as ambitions, strategy, plans, expectations and estimates. Inherent to this prospective information, the actual future results are uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the ESG information and EU Taxonomy information.

The references to external sources or websites in the ESG information, excluding the Methodology for calculating Lives improved, version 2022 (Lives improved methodology), the Methodology for calculating the Environmental Profit & Loss Account, version 2022 (EPL methodology) and the GRI content index, are not part of the ESG information as audited by us. We therefore do not provide assurance on this information.

Our opinion and conclusion are not modified in respect to these matters.

Responsibilities of the Board of Management and the Supervisory Board for the ESG information and EU Taxonomy information

The Board of Management is responsible for the preparation of reliable and adequate ESG information and EU Taxonomy information in accordance with the reporting criteria as included in the section 'Reporting criteria', including the identification of stakeholders and the definition of material matters. The Board of Management is also responsible for selecting and applying the reporting criteria and for determining that these reporting criteria are suitable for the legitimate information needs of stakeholders, taking into

account applicable law and regulations related to reporting. The choices made by the Board of Management regarding the scope of the ESG information, the EU Taxonomy information and the reporting policy are summarised in section 'Approach to ESG reporting' of the annual report.

Furthermore, the Board of Management is responsible for such internal control as it determines is necessary to enable the preparation of the ESG information and EU Taxonomy information that is free from material misstatement, whether due to error or fraud.

The Supervisory Board is responsible for overseeing the ESG information and EU Taxonomy reporting process of Koninklijke Philips N.V.

Our responsibilities for the audit of the ESG information and the review of the EU Taxonomy information

Our responsibility is to plan and perform the assurance engagement in a manner that allows us to obtain sufficient and appropriate assurance evidence for our opinion and conclusion.

Our audit of the ESG information is aimed at obtaining a reasonable level of assurance. Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during our audit.

Our review of the EU Taxonomy information is aimed at obtaining a limited level of assurance. Procedures performed to obtain a limited level of assurance are aimed to determine the plausibility of information and vary in nature and timing from, and are less in extent, than for a reasonable assurance engagement. The level of assurance obtained in a review is therefore substantially less than the assurance obtained in an audit.

We apply the 'Nadere voorschriften kwaliteitssystemen' (NVKS, Regulations for quality management systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other relevant legal and regulatory requirements. A further description of our responsibilities is included in the annex to this assurance report.

Amsterdam, February 21, 2023

Ernst & Young Accountants LLP

Signed by J. Niewold

13.6.1 Annex to the assurance report of the independent auditor

Our audit and our review included amongst others:

- Performing an analysis of the external environment and obtaining an understanding of relevant ESG themes and issues and the characteristics of the company
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the ESG information and EU Taxonomy information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by the Board of Management
- Reconciling the relevant financial information with the financial statements
- Evaluating the consistency of the ESG information and EU Taxonomy information with the information in the annual report which is not included in the scope of our review and our audit
- Evaluating the overall presentation and content of the ESG information and EU Taxonomy information
- Considering whether the ESG information and EU Taxonomy information as a whole, including the disclosures, reflect the purpose of the reporting criteria used

Our review of the EU Taxonomy information included amongst others:

- Obtaining through inquiries a general understanding of internal control, reporting processes and information systems relevant for the preparation of the EU Taxonomy information, without obtaining evidence about implementation or testing the operating effectiveness of controls
- Identifying areas of the EU Taxonomy information with a higher risk of misleading or unbalanced information or material misstatements, whether due to error or fraud. Designing and performing further assurance procedures aimed at determining the plausibility of the EU Taxonomy information responsive to this risk analysis

These procedures consisted amongst others of:

- Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the EU Taxonomy information
- Obtaining assurance information that the EU Taxonomy information reconciles with underlying records of the company
- Reviewing, on a limited test basis, relevant internal and external documentation
- Performing an analytical review of the data and trends

Our audit of the ESG information included amongst others:

- Obtaining an understanding of the systems and processes for collecting, reporting and consolidating the ESG information, including obtaining an understanding of internal control relevant to our audit, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Identifying and assessing the risks that the ESG information is misleading or unbalanced, or contains material misstatements, whether due to error or fraud. Designing and performing further audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk that the ESG information is misleading or unbalanced, or the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors. Fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

These procedures consisted amongst others of:

- Interviewing management and relevant staff at corporate level responsible for the ESG strategy, policy and results
- Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the ESG information
- Determining the nature and extent of the audit procedures for the group components and locations. For this, the nature, extent and/or risk profile of these components are decisive. Based thereon we selected the components and locations to visit. The visits to Reedsville and Latham in the United States, Batam in Indonesia and Best in the Netherlands are aimed at, on a local level, validating source data and evaluating the design and implementation of controls and validation procedures
- Obtaining assurance evidence that the ESG information reconciles with underlying records of the company
- Evaluating the suitability of the assumptions and external sources used in the calculations on which the reported Lives improved and Environmental Profit & Loss Account as included in sections 'Social performance and Environmental performance' are based, which are further explained in the Lives improved methodology and the EPL methodology
- Evaluating relevant internal and external documentation, on a test basis, to determine the reliability of the ESG information
- Performing an analytical review of the data and trends in the information submitted for consolidation at corporate level

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the review and the audit and significant findings that we identify during our review and our audit. We also communicate any significant findings in internal control that we identify during our audit.

