

Annual Report 2023

Report of the Remuneration Committee

1 Report of the Remuneration Committee

1.1 Letter from the Remuneration Committee Chair

Dear Stakeholder,

On behalf of the Remuneration Committee, I am pleased to report on the Committee's activities in 2023 and to present the 2023 Remuneration Report, providing a comprehensive overview of the remuneration paid and owed to the individual members of the Board of Management and the Supervisory Board, respectively, in the financial year 2023.

Company performance in 2023 and incentive plan realization

2023 was a challenging as well as an encouraging year for Philips, as the company started to deliver on its three-year plan to create value with sustainable impact. Improved operational performance was driven by a strong focus on execution to enhance patient safety and quality, strengthen supply chain reliability, and establish a simplified operating model. The company succeeded in achieving its raised 2023 outlook with strong sales growth, improved profitability, and strong cash flow. All despite the uncertainties brought about by an increasingly volatile geopolitical environment. That said, order intake and the Respiroics recall, including litigation and the investigation by the US Department of Justice, remain key areas of attention. Please refer to Financial performance, starting on page 26 and Environmental, Social and Governance, starting on page 42 of our 2023 Annual Report for a detailed review of the company's financial performance and its ESG performance in the year 2023.

For the awards granted under our Long-Term Incentive Plan in 2021, the company performance resulted in a realization significantly above target for the sustainability objectives. For the relative TSR and adjusted EPS metrics in our Long-Term Incentive Plan, however, there was a below-threshold realization based on the performance since the start of the performance period in 2021. In respect of the financial metrics 2023 Annual Incentive, performance was also significantly above target. Nevertheless, to acknowledge the decrease in order intake in 2023, the Supervisory Board decided (upon the proposal of the Remuneration Committee) to lower the Annual Incentive payout. Please refer to our 2023 Remuneration Report for more details.

Other remuneration matters prepared by the Remuneration Committee

Considering the fact that 2022 had been a disappointing year for Philips, the Supervisory Board followed the proposal of the Remuneration Committee to not apply any base salary increases for the members of the Board of Management during the 2023 compensation review in April 2023.

During the Annual General Meeting of Shareholders held in May 2023, our Chief Financial Officer Abhijit Bhattacharya was re-appointed, adding a two-year's term to his tenure as CFO that started in 2015, thereby ensuring continuity and enabling a smooth succession process in parallel. The company and Mr Bhattacharya entered into a new service agreement that was prepared by the Remuneration Committee and published on the company's website.

Proposed 2024 Remuneration Policies for the Board of Management and for the Supervisory Board

Starting in May 2023, the Remuneration Committee carried out a review of the Remuneration Policy and the Long-Term Incentive Plan for the Board of Management, and the Remuneration Policy for the Supervisory Board. Dutch law requires the renewal of our policies at least every four years, and we also considered this a good opportunity to test the alignment of our policies with our company's strategy, to review how they compare to market practice and to ensure our compliance with updated regulatory and corporate governance requirements. Building on our stakeholder engagements during the past years, we engaged with stakeholders through a dedicated remuneration roadshow and other interactions to solicit their feedback on, and support for the proposals. This process resulted in the proposals to adopt an amended Remuneration Policy for the Board of Management and an amended Remuneration Policy for the Supervisory Board, respectively, that will be submitted for adoption at the upcoming Annual General Meeting of Shareholders to be held on May 7, 2024. Upon convocation of the 2024 AGM (in March 2024), the proposals will be published on our website and the main changes following from these proposals, compared to each of the current 2020 Remuneration Policies, as well as other relevant information will be explained in the explanatory notes to the relevant agenda items. Please note that, subject to their adoption, the 2024 Remuneration Policies will have retrospective effect for the full year 2024, and for that reason our 2023 Remuneration Report includes certain ex-ante disclosures in respect of the performance metrics for the 2024 Annual Incentive and 2024 Long-Term Incentive.

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 eight times in 2023. All Committee members were present during these meetings.

I look forward to presenting our 2023 Remuneration report and our proposals for the renewed 2024 Remuneration Policies at our upcoming Annual General Meeting of Shareholders.

On behalf of the Remuneration Committee,

Paul Stoffels

Chairman of the Remuneration Committee

1.2 Remuneration report 2023

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 2023. The report will also be published as a stand-alone document on the company's website after the 2024 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 128,810). 2. Gross allowance of 25% of annual base compensation exceeding EUR 128,810. 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.

Philips Group Quantum Peer Group 2023

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

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 2023

US companies	European companies	Japanese companies
Baxter	Alcon	Canon
Becton Dickinson	Elektro	Terumo
Boston Scientific	Fresenius Medical Care	
Danaher	Getinge	
GE Healthcare	Reckitt Benckiser	
Hologic	Siemens Healthineers	
Johnson & Johnson	Smith & Nephew	
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).

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 2023

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

1.3 Remuneration of the Board of Management in 2023

The Supervisory Board has determined the 2023 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 2023 vesting of the 2021 LTI grant, of which the performance period ended on December 31, 2023. 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 2023 Annual Incentive, as well as for the 2021 LTI, were adequate.

Annual Base Compensation

The annual base compensation of the members of the Board of Management has been reviewed as part of the regular remuneration review. No increase was applied to acknowledge the disappointing company performance in 2022 and to reflect the limited budget available for the annual compensation review for the wider population. As a result, the annual base compensation of Roy Jakobs, Abhijit Bhattacharya and Marnix van Ginneken remained unchanged in 2023.

2023 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 2023, the financial targets set at Group level cover Comparable Sales Growth¹⁾, Adjusted EBITA¹⁾ and Free Cash Flow¹⁾. The realized performance for all three metrics was above target. Realized performance levels presented in the table below include the financial impact connected with the Respiration consent decree, and excluding this impact the Comparable Sales Growth¹⁾ and Adjusted EBITA¹⁾ would have been 7.0% and 10.5% respectively. Reviewing these performance levels, the Supervisory Board decided to apply two downward adjustments. First, to acknowledge the decrease in comparable order intake reported over 2023, the Supervisory Board lowered the payout on the Comparable Sales Growth metric from 200% to 175% of target. Second, to account for the upward effect on Adjusted EBITA resulting from not excluding the financial impact connected with the proposed Respiration consent decree, the Supervisory Board also lowered the payout from 180% to 175% of target for this metric (corresponding to an Adjusted EBITA performance of 10.5% which excludes the financial impact referred to).^{**)}

Financial performance metric	Weighting as % of target Annual Incentive	Assessment of performance					resulting payout as % of target	Weighted pay-out as % of target Annual Incentive
		threshold performance	target performance	maximum performance	realized performance			
Comparable Sales Growth ¹⁾	30%	0.0%	1.5%	3.5%	6.0%	175.0%	52.5%	
Adjusted EBITA margin ¹⁾	30%	7.5%	9.0%	11.0%	10.6%	175.0%	52.5%	
Free Cash Flow ¹⁾	20%	571	871	1,171	1,582	200.0%	40.0%	
Total	80%						145.0%	

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 289 of the 2023 Philips Annual Report.

^{**)} The word "not" in this sentence was erroneously not included in the version of the 2023 Remuneration Report that has been included in the 2023 Annual Report.

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

The individual performance criteria and assessment targets set at the beginning of the year have been disclosed in the following table. 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"> On track to deliver on plan to create value with sustainable impact Strong progress made on establishing a simplified, more agile operating model and generating productivity savings 	22.0%
	Quality & operational excellence	<ul style="list-style-type: none"> Delivered on the targeted reduction of Quality Management Systems to increase focus, reduce complexity, and minimize risk Progress made on the Patient Safety & Quality culture and mindset 	
	People & organization	<ul style="list-style-type: none"> Employee engagement within target range, showing significantly step-up in the year, however behind on target and high-performance norms Progress made on driving the broader talent agenda, with a strong focus on ExCo successor identification and development. This resulted in two internal ExCo appointments and two external ExCo appointments. 	
	Customer results	<ul style="list-style-type: none"> Significant step-up achieved in on-time delivery of orders as per customer expectations 	
	ESG/Sustainability	<ul style="list-style-type: none"> Delivered ahead of annual ESG targets, advancing towards the Philips 2025 ESG commitments 	
Abhijit Bhattacharya	Strategy execution	<ul style="list-style-type: none"> On track to deliver on our plan to create value with sustainable impact Significant results delivered from Cash program Strong progress made on establishing a simplified, more agile operating model and generating productivity savings 	21.0%
	Quality & operational excellence	<ul style="list-style-type: none"> Delivered on the targeted reduction of Quality Management Systems to increase focus, reduce complexity, and minimize risk Progress made on the Patient Safety & Quality culture and mindset 	
	People & organization	<ul style="list-style-type: none"> Employee engagement within target range, showing significantly step-up in the year, however behind on target and high-performance norms Progress made on succession planning for own scope 	
	Customer results	<ul style="list-style-type: none"> Significant step-up achieved in on-time delivery of orders as per customer expectations 	
	ESG/Sustainability	<ul style="list-style-type: none"> Delivered ahead of annual ESG targets, advancing towards the Philips 2025 ESG commitments 	
Marnix van Ginneken	Strategy execution	<ul style="list-style-type: none"> On track to deliver on our plan to create value with sustainable impact Strong progress made on establishing a simplified, more agile operating model and generating productivity savings 	23.0%
	Quality & operational excellence	<ul style="list-style-type: none"> Delivered on the targeted reduction of Quality Management Systems to increase focus, reduce complexity, and minimize risk Progress made on the Patient Safety & Quality culture and mindset 	
	People & organization	<ul style="list-style-type: none"> Employee engagement within target range, showing significantly step-up in the year, however behind on target and high-performance norms Strong progress made on building succession pipeline for own scope 	
	Customer results	<ul style="list-style-type: none"> Strong performance on managing litigation with major legal cases under management and settlement reached in US economic loss class action 	
	ESG/Sustainability	<ul style="list-style-type: none"> Delivered ahead of annual ESG targets, advancing towards the Philips 2025 ESG commitments 	

Overall, this leads to the following total Annual Incentive realization:

Annual Incentive realization 2023 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
Roy Jakobs	100%	1,200,000	145.0%	22.0%	167.0%	2,004,480
Abhijit Bhattacharya	80%	648,000	145.0%	21.0%	166.0%	1,075,939
Marnix van Ginneken	80%	504,000	145.0%	23.0%	168.0%	846,922

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

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 289 of the 2023 Philips Annual Report.

2024 Annual Incentive

This section presents incentive performance metrics under the proposed 2024 Remuneration Policy for the Board of Management. In the event that the proposed 2024 Remuneration Policy would not be adopted by the 2024 AGM, the current 2020 Remuneration Policy would continue to apply.

In the proposed 2024 Remuneration Policy, the weighting of the non-financial element has increased to 30% (from 20%) and, correspondingly, the weighting of the financial element has decreased to 70% (from 80%). This change reflects the increased relative importance of factors relating to strategic priorities (such as patient safety and quality, supply chain reliability, and a simplified operating model), as well as our Environmental, Social and Governance (ESG) performance.

Financial element (70% weighting):

For the year 2024, the following financial performance metrics are selected to ensure alignment with the key (strategic) priorities in the year:

- 25% weighting: Comparable Sales Growth^{*)}
- 25% weighting: Adjusted EBITA^{*)} margin
- 20% weighting: Free Cash Flow^{*)}

Non-Financial element (30% weighting):

At the start of each year, two to four performance categories are selected from the following list, whereby each selected category receives an equal weighting:

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

For each selected category, one or more performance objectives are determined at the start of the year for each of the members of the Board of Management.

For the year 2024, the following categories and objectives are selected to ensure alignment with the key (strategic) priorities in the year:

Performance category	Performance objective	Applicable for	Weighting	Measurement description
Patient Safety & Quality	Drive Patient Safety & Quality as highest priority in the organization	All members of Board of Management	7.5%	This objective measures delivery on our company-wide program to strengthen our Patient Safety & Quality culture, capabilities and performance. Additionally, we measure the progress on the Respiroics recall and delivery of the proposed consent decree commitments.
Customer	Improve customer experience	Roy Jakobs; Abhijit Bhattacharya	7.5%	This objective is measured by the improvement of the customer NPS.
	Improve supply chain reliability	Roy Jakobs		This objective is measured by the on-time delivery of orders as per customer expectations.
	Improve financial forecasting	Abhijit Bhattacharya		Deliver Reliable Forecast as per plan.
	Manage legal issues	Marnix van Ginneken		Develop and manage litigation strategy and potential liabilities.
Strategy and Execution	Drive focused strategy to win in the market	Roy Jakobs	7.5%	This objective measures delivery on our value creation plan and market share gain.
		Abhijit Bhattacharya		This objective measures delivery on our value creation plan and delivery on cash program and productivity targets.
		Marnix van Ginneken		This objective measures delivery on our value creation plan and delivery on legal & compliance commitments as per plan.
	Establish simplified, more agile operating model	All members of Board of Management		This objective measures delivery on the operating model simplification and our headcount reduction plan.
ESG	Deliver on ESG Commitments	All members of Board of Management	7.5%	This objective measures: - Performance on our ESG index (which includes various elements such as emission- and diversity targets) - Our employee engagement score - Talent and succession development of senior roles in the organization

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 289 of the 2023 Philips Annual Report.

2021 Long-Term Incentive

The 3-year performance period of the 2021 LTI grant, consisting of performance shares, ended on December 31, 2023. The realization of this grant is based on TSR achievement, adjusted EPS growth and sustainability objectives. The following performance achievement and vesting levels have been determined by the Supervisory Board in respect of the 2021 grant of performance shares:

Philips Group

Performance achievement and vesting levels

	achievement	weighting	vesting level
TSR	0.0%	50.0%	0.0%
EPS	0.0%	40.0%	0.0%
Sustainability objectives	175.0%	10.0%	17.5%
Total			17.5%

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
Vesting %	0	60	80	90	100	120	140	160	180	200

The TSR achieved by Philips during the performance period was -51.10%, using a start date of October 2020 and end date of December 2023. 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 2021 grant: (51.10%)

	total return	rank number
Canon	119.99%	1
General Electric	109.08%	2
Boston Scientific	48.10%	3
Siemens Healthineers	35.00%	4
Stryker	28.06%	5
Getinge	18.79%	6
Alcon	16.73%	7
Johnson & Johnson	12.57%	8
Cerner	11.12%	9
Becton Dickinson	10.29%	10
Terumo	8.71%	11
Danaher	7.33%	12
Hologic	(1.37)%	13
Reckitt Benckiser	(11.46)%	14
Elekta	(20.67)%	15
ResMed	(21.05)%	16
Medtronic	(24.84)%	17
Smith & Nephew	(27.58)%	18
Fresenius Medical	(45.30)%	19
Philips	(51.10)%	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)	<1.38	1.38	1.54	1.72	0.26
Vesting %	0%	40%	100%	200%	0%

In respect of the 2021 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 (0.50). 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 divestments (balance is neutral), the profit and loss impact of unhedged foreign exchange variations versus plan (positive adjustment) and the profit and loss impact of legacy legal

proceedings (positive impact). Overall, this resulted in an LTI Plan EPS of EUR 0.26 based on adjusted net income from continuing operations, leading to a realization of 0% of target.

Philips Group

LTI Plan EPS realization in millions of EUR unless otherwise stated

	Net income	EPS (euro)
Income from continuing operations attributable to shareholders	(456)	(0.50)
Profit and loss impact of:		
- Acquisitions and divestitures ¹⁾	1	0.00
- Foreign exchange variations versus plan ²⁾	60	0.07
- Legacy legal proceedings ³⁾	628	0.69
Adjusted net income from continuing operations	234	0.26

¹⁾ Profit and loss impact of acquisitions and divestments made after the start of the performance period is excluded.

²⁾ Impact of variations of unhedged volatile currencies compared to the performance period plan.

³⁾ Costs include the provision of EUR 575 million for the settlement to resolve all economic loss claims in the US Multidistrict Litigation (MDL) related to Philips Respironics' voluntary recall of certain sleep and respiratory care devices and legal fees related to the recall. The adjustment also includes legal releases.

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 vesting level is determined based on the following scheme:

No. of measures achieved on or above target	Vesting %
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 better than target range, the vesting % 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 175% would reflect an appropriate positioning within the target range.

For more information on the realized performance on all five objectives please refer to our Environmental, Social and Governance, starting on page 42 and Independent auditor's assurance report on the ESG information and the EU Taxonomy information, starting on page 285 of the 2023 Philips Annual Report.

Sustainability category	Underlying objective	Target range	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⁾	1,517 – 1,695 million	1,880 million	Better than target range
Ensure sustainable consumption and production patterns (SDG12) <i>Circularity</i>	Targeted circular revenue in year 3 ²⁾	15.0% – 20.1%	20.0%	Within target range
	Targeted waste to landfill in year 3 ³⁾	3.5% – 0.1%	0.0%	Better than target range
	Targeted closing the loop in year 3 ⁴⁾	20.0% – 28.5%	20.5%	Within target range
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	640 – 574 Ktonnes CO ₂	418 Ktonnes CO ₂	Better than target range

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

²⁾ Revenue from products, services and solutions contributing to circularity (e.g. optimizing and re-using materials)

³⁾ Avoiding production of waste materials.

⁴⁾ Taking back healthcare equipment.

2024 Long-Term Incentive

This section presents incentive performance metrics under the proposed 2024 Remuneration Policy for the Board of Management. In the event that the proposed 2024 Remuneration Policy will not be adopted by the 2024 AGM, the current 2020 Remuneration Policy will continue to apply.

The 2024 Long-Term Incentive grant remains to consist of 100% performance shares of which vesting is subject to performance over a period of 3 years. We have broadened the sustainability perspective to the full Environmental, Social and Governance ('ESG') spectrum, and subsequently increased the weighting of the ESG performance metric from 10% to 20%. By doing so, we aim to reflect the importance of ESG to our company and its increasing relevance to our stakeholders (as a strategic matter and in the context of our risk management), and to incentivize management's focus on our policy objective to deliver superior, long-term value to our stakeholders, while acting responsibly towards our planet and society. As a result of this, the weighting of the relative TSR metric has been slightly reduced to 40% (from 50%) to keep a balanced weighting among the three LTI performance metrics. Lastly, the weighting of the adjusted EPS growth metric remains unchanged, resulting in the following performance metrics and weighting:

- 40% weighting: Relative Total Shareholder Return ('TSR')
- 40% weighting: Adjusted Earnings per Share growth^{*} ('EPS')
- 20% weighting: ESG performance

ESG Performance (20% weighting)

At the start of each performance year, we select four ESG objectives in line with our long-term strategic priorities. There is no exhaustive list of objectives that can be selected. To ensure that all objectives are material, auditable and measurable, we only select objectives which are reported in our Annual Report (in preparation for the Corporate Sustainability Reporting Directive) and therefore are subject to our external auditor's reasonable assurance. Furthermore, we make sure that in any measurement year, the ESG objectives do not overlap with our non-financial performance objectives for the Annual Incentive.

The objectives selected for the 2024 LTI grant are shown in the following table, including the rationale for selecting these objectives and more details on the measurement approach.

2024-2026

ESG objective	Weighting	Rationale	Measurement approach
Targeted # of Lives Improved in year 3 ¹⁾	5.0%	Ensure healthy lives and promote well-being for all at all ages (SDG3) Lives Improved	Please refer to section Improving people's lives, starting on page 56 of the 2023 Philips Annual Report for more details.
Targeted circular revenue in year 3 ²⁾	5.0%	Ensure sustainable consumption and production patterns (SDG12) Circularity	Please refer to section Circular Economy, starting on page 245 of the 2023 Philips Annual Report for more details.
Targeted CO ₂ equivalent (in Kilotonnes) in year 3	5.0%	Take urgent action to combat climate change and its impacts (SDG13) Carbon footprint	Please refer to section Sustainable Operations, starting on page 249 of the 2023 Philips Annual Report for more details.
Targeted Employee Engagement Score in year 3	5.0%	Retain an engaged workforce Employee Engagement Score	The Employee Engagement Score (EES) is the single measure of the overall level of employee engagement at Philips, measured on a bi-yearly basis.

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

²⁾ Revenue from products, services and solutions contributing to circularity (e.g. optimizing and re-using materials)

^{*} 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 289 of the 2023 Philips Annual Report.

Pension

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

- Flex ES Pension Plan in the Netherlands, which is a Collective Defined Contribution plan with a fixed contribution of (currently) 30.3% (including an own contribution of 2%) of the maximum pensionable salary of EUR 128,810 (effective January 1, 2023) 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 128,810;
- 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 2023

The following table gives an overview of the costs incurred by the company in 2023 and 2022 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. Please refer to section 2021 Long-Term Incentive, starting on page 9 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	2023	1,200,000	1,200,000	2,004,480	968,922	267,798	31,891	109,256	4,582,347	35%-65%
	2022	1,200,000	256,438	waived	112,737	57,973	6,012	11,507	444,667	75%-25%
A. Bhattacharya	2023	810,000	810,000	1,075,939	793,429	197,133	31,891	94,516	3,002,907	38%-62%
	2022	810,000	806,250	waived	763,140 ⁷⁾	237,250	28,133	61,308	1,896,081	60%-40%
M.J. van Ginneken	2023	630,000	630,000	846,922	614,840	125,298	31,891	53,446	2,302,397	37%-63%
	2022	630,000	626,250	waived	585,490 ⁷⁾	141,622	28,133	35,343	1,416,837	59%-41%
Total	2023		2,640,000	3,927,341	2,377,191	590,228	95,673	257,218	9,887,650	36%-64%
	2022		1,688,938	waived	1,461,367	436,845	62,278	108,158	3,757,585	61%-39%

¹⁾ Reference date for board membership is December 31, 2023.

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.

⁴⁾ The Pension Transition Allowance was maintained at the current level for Mr Bhattacharya for the term of his 2019 services agreement. In the 2023 services agreement of Mr Bhattacharya the Pension Transition Allowance was no longer applicable. 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⁾ Despite the waiving of the 2020 LTI grant, these amounts are not nil as they reflect accounting costs according to IFRS.

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 2023 financial year, the ratio between the annual total compensation for the CEO and the average annual total compensation for an employee was 46:1. The ratio decreased from 55:1 in 2022. Further details on the development of these amounts and ratios over time can be found in the following table. 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 costs in EUR

	2019	2020	2021	2022	2023
Remuneration					
CEO Total Remuneration Costs (A) ¹⁾	5,260,111	6,153,067	5,452,299	5,133,659	4,582,347
CFO Total Remuneration Costs	2,602,606	3,007,990	2,652,864	1,896,081	3,002,907
CLO Total Remuneration Costs	1,856,426	2,203,160	2,029,054	1,416,837	2,302,397
Average Employee (FTE) Total Remuneration Costs (B) ²⁾	92,645	91,455	86,853	93,373	99,870
Ratio A versus B ³⁾	57:1	67:1	63:1	55:1	46:1
Company performance					
Annual TSR ⁴⁾	25.6%	6.2%	(14.5)%	(60.0)%	42.9%
Comparable Sales Growth% ⁵⁾	4.5%	2.9%	(1.2)%	(2.8)%	6.0%
Adjusted EBITA% ⁵⁾	13.2%	13.2%	12.0%	7.4%	10.6%
Free Cash Flow ⁵⁾	923	1,635	900	(961)	1,582

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 6.9 billion) divided by the average number of employees (69,115 FTE) as reported in Income from operations. This results in an average annual total compensation cost of EUR 99,870 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 289 of the 2023 Philips Annual Report.

Historical LTI grants and holdings

Number of performance shares (holdings)

Under the LTI Plan the current members of the Board of Management were granted 236,622 performance shares in 2023. The following table provides an overview at end December 2023 of performance share grants.

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, 2023	number of shares awarded in 2023	(dividend) shares awarded	number of shares vested in 2023 ¹⁾	value at vesting date in 2023	unvested closing balance at Dec. 31, 2023
R. Jakobs	4/30/2020	17,704 ²⁾	706,250	4/30/2023	4/30/2025	19,073			waived		0
	4/30/2021	15,812 ²⁾	750,000	4/30/2024	4/30/2026	16,696		747			17,443
	4/29/2022	37,630 ²⁾	930,000	4/29/2025	4/29/2027	39,009		1,745			40,754
	10/28/2022	24,279	314,137	10/28/2025	10/28/2027	24,279		1,086			25,365
A. Bhattacharya	4/28/2023	124,538	2,400,000	4/28/2026	4/28/2028	0	124,538	5,571			130,109
	4/30/2020	29,518	1,177,500	4/30/2023	4/30/2025	31,800			waived		0
	4/30/2021	25,141	1,192,500	4/30/2024	4/30/2026	26,547		1,187			27,734
	4/29/2022	49,162	1,215,000	4/29/2025	4/29/2027	50,964		2,280			53,244
M.J. van Ginneken	4/28/2023	63,047	1,215,000	4/28/2026	4/28/2028	0	63,047	2,820			65,867
	4/30/2020	22,373	892,500	4/30/2023	4/30/2025	24,103			waived		0
	4/30/2021	19,448	922,500	4/30/2024	4/30/2026	20,535		919			21,454
	4/29/2022	38,237	945,000	4/29/2025	4/29/2027	39,638		1,773			41,412
	4/28/2023	49,037	945,000	4/28/2026	4/28/2028	0	49,037	2,194			51,231

¹⁾ The shares vested in 2023 are subject to a 2-year holding period.

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

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 following table 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, 2023. 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.

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	126,809	2.2x
A. Bhattacharya	3.0x	810,000	177,088	4.6x
M.J. van Ginneken	3.0x	630,000	129,447	4.3x

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 21.09 (based on the closing share price of December 31, 2023) and dividing this by the base compensation.

Remuneration of the Supervisory Board in 2023

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 2023

The individual members of the Supervisory Board received, by virtue of the positions they held, the following remuneration in 2023:

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	22,269	172,269
D.E.I. Pyott	100,000	35,000	19,769	154,769
A.M. Harrison	100,000	14,000	19,769	133,769
M.E. Doherty	100,000	27,000	27,269	154,269
P. Löscher	100,000	32,000	17,269	149,269
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	19,769	137,769
Total	1,070,000	242,000	189,266	1,501,266

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.

