20220720097300

Årsredovisning

För

Philips Aktiebolag

556105-2613

Räkenskapsåret

2021-01-01 - 2021-12-31

Penneo dokumentnyckel: DQ6S8-UPCIG-D14W4-46EDF-QWY2S-S0HVJ

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Undertecknad styrelseledamot/VD i Philips AB intygar, dels att denna kopia av årsredovisningen överensstämmer med originalet, dels att resultaträkningen och balansräkningen fastställts på årsstämma den 30:e Juni 2022.

Årsstämman beslöt att godkänna styrelsens förslag till vinstdisposition.

Stockholm 2022-07-13

Namnförtydligande

20220720009731

Styrelsen och verkställande direktören för Philips Aktiebolag avger följande årsredovisning för räkenskapsåret 2021-01-01 - 2021-12-31.

Årsredovisningen är upprättad i svenska kronor, SEK. Om inte annat särskilt anges, redovisas alla belopp i tusentals kronor (Tkr). Uppgifter inom parentes avser föregående år.

Förvaltningsberättelse

Information om verksamheten

Philips AB är ett helägt dotterbolag till Koninklijke Philips N.V. (KPNV) med säte i Amsterdam, Nederländerna. Verksamheten delas upp i tre marknadsområden, Diagnosis & Treatment, Connected Care och Personal Health. Bolaget har som mål att täcka samtliga behov på den så kallade health continuum: från en hälsosam livstil till sjukdomsförebyggande applikationer, diagnostik, behandling och vård i hemmet. Denna marknadsinriktning utgår från Philips globala strategi; att vara ett företag med syfte att förbättra människors livskvalité genom att utveckla och tillhandahålla innovativa lösningar som svarar mot människors behov samt förenklar deras liv.

Väsentliga händelser under räkenskapsåret

Diagnosis & Treatment

Philips är fortsatt en ledande aktör inom bildgivande system med tillhörande mjukvaror på den svenska marknaden med fokus på datortomografi (CT), magnetkameror (MR), angiografi och ultraljud. Året 2021 forsatte att präglas av den globala Covid 19-pandemin, vilket gjorde att många av våra kunders större investeringsprojekt inom området sköts framåt i tiden. Dock lanserade Philips under året några nya bildtagningssystem på marknaden, bland annat CT 7500, en avancerad datortomograf som använder Spectral-teknik, vilket ger skarpare bilder med mer tydlig och exakt information utan ökad tidsåtgång för bildtagningen. Inom MR segmentet introducerades den högpresterande MR 7700 och MR 5300 som är ytterligare en magnetkamera med heliumfri drift, samt AI-teknik för att förbättra det kliniska resultatet. Den första beställningen på MR 7700 gjordes av kund och världens första installation görs på Sahlgrenska universitetssjukhuset i början av 2022. Heliumfria magnetkameror är en del av Philips hållbarhetsstrategi eftersom helium är en ändlig resurs och som bolag är vår ambition att alltid vara ett av de bästa bolagen i världen vad gäller hållbarhet.

Connected Care

Connected Care levererar lösningar inom Patient Monitoring, Informatics och Sleep & Respiratory Care. I mitten av 2021, initierade Philips globalt en frivillig produktåterkallelse av vissa Sleep & Respiratory Care-produkter för att åtgärda potentiella hälsorisker relaterade till ett polyesterbaserat ljudisolerande skum. Philips globalt har tagit emot ett begränsat antal rapporter om potentiella negativa konsekvenser på grund av en nedbrytning av det ljudisolerande skummet. Som en följd av återkallelsen har Philips tagit fram ett omfattande ersättningsprogram för att lösa problemet med nya FDA-godkända material. För att täcka de lokala kostnader som orsakas av återkallelsen har avsättningar tagits centralt av Philips-koncernen. Philips fortsätter att följa utvecklingen efter återkallesen i enlighet med relevanta lagar och regler för medicinska apparater. Philips-koncernen har förstärkt sin portfölj inom cardiac care genom förvärvet av BioTelemetry Inc. i början av 2021. BioTelemetry innehar en ledande position inom hjärtdiagnostik och patientmonitorering utanför sjukhusmiljö och i hemmet.

Penneo dokumentnyckel: DQGS8-UPCIG-D14V4-46EDF-QVYZE-50HYJ

20220720097732

Förvaltningsberättelse (fortsättning)

Personal Health

Affärsgrenen Personal Health fortsätter sin starka tillväxt med produktinnovationer inom segmenten hushållsapparater och personvård & grooming samtidigt som Philips forstätter renodla och fokusera sin verksamhet mot Health Technology. Domestic Appliances, som marknadsför och säljer hushållsapparater, omorganiserades till en egen affärsenhet under året. . Detta möjliggjorde en försäljning av affärsenheten till investeringsbologet Hillhouse Capital, vilket verkställdes i tredje kvartalet 2021. Värdet av inkråmsöverlåtelsen uppgick till 95 648 KSEK med en vinst på 10 850 KSEK.

Bolagets förväntade framtida utveckling

Utsikterna för Philips AB är goda, med stabil tillväxt i samtliga segment där bolaget är aktivt; Diagnosis & Treatment, Connected Care och Personal Health. Samhället har idag ett starkt fokus på hälsa och välbefinnande på så väl det personliga planet som inom privat och offentlig vård. Bolaget bedöms ha goda förutsättningar att uppfylla dessa behov. Bolaget har visat sig vara fortsatt relevant under Covid-19 pandemin vilket är en bekräftelse av koncernens globala strategi att förbättra människors livskvalité genom innovationer inom vård och hälsa.

Väsentliga händelser efter räkenskapsårets slut

För att kunna tillgodose kundernas behov på ett bättre sätt har Philips affärsgren Personal Health beslutat att upprätta en europeisk organisation. I enlighet med den nya kommersiella strategin skapas en central försäljningsenhet som ansvarar för all försäljning inom Västeuropa inklusive Sverige. Philips ABs försäljning minskas i och med denna förändring som verkställs i sin helhet i början på 2022. De negativa effekterna av Covid 19-pandemin höll sig kvar under 2021 och början av 2022 trots att läget har stabiliserats. Bolaget fortsätter att vidta försiktighetsåtgärder inom verksamheten med hänsyn till viruset. Globala leveranskedjor som har påverkats negativt av pandemin är ännu inte helt återställda med komponentbrist och prisinflation som följd. Vidare har utbrottet av kriget i Ukraina i början på 2022 påverkat ekonomin negativt med minskad efterfrågan från såväl konsumenter som företagare och övriga kunder.

Penneo dokumentnyckel: DQGS8-UPCIG-D14V4-46EDF-QVY2E-50HYJ

20220720097333

Förvaltningsberättelse (fortsättning)

Information om finansieringen

KPNV hanterar bolagets likvida medel i en cash pool som i sin tur förser bolaget med en optimal finansiering.

Icke-finansiella upplysningar

Philips värdesätter mångfald och detta speglas i Philips ledning och bland de anställda. Philips eftersträvar en inkluderande miljö där alla synsätt och åsikter beaktas för att ta tillvara på arbetsstyrkans kompetens till fullo.

Philips AB ska planera, leda och kontrollera arbetsmiljöarbetet så att lagar och föreskrifter följs. Arbetsförhållandena ska så långt det är möjligt anpassas till våra medarbetares fysiska och psykiska förutsättningar. Medarbetaren ska ges möjlighet att medverka i utformningen av den egna arbetssituationen samt i förändrings- och utvecklingsarbete som rör det egna arbetet. Att känna motivation för sitt arbete är grundläggande för en god hälsa.

En viktig del av Philips vision är att bidra till en sundare och mer hållbar värld. På lokal nivå erbjuder Philips AB två frivilliga dagar som samtliga anställda får ägna åt välgörenhetsändamål.

Miljö

Philips-koncernens mål är att förbättra livskvalitén för mer än 2.5 miljarder människor årligen år 2030, att minska energiförbrukningen över hela sortimentet, samt att öka mängden återanvänt material i nya Philips produkter. Philips förbättrade livskvalitén för 1,67 miljarder människor 2021 och försäljningen av gröna produkter motsvarade 71% av koncernens totala försäljning 2021 enligt EcoDesign requirements. Mer information om hur dessa nyckeltal har beräknats finns i KPNVs årsredovisning 2021.

Bolaget har bidragit till koncernens hållbarhetsmål genom sitt arbete med det lokala miljöledningssystemet. Processer, mål och prestanda har presenterats för ledningsgruppen kvartalsvis och vid behov har målen reviderats i syfte att minska bolagets miljöpåverkan.

Penneo dokumentnyckel: DQG58-UPCIG-D14V4-46EDF-QVY2E-S0HYJ

20220720097734

Förvaltningsberättelse (fortsättning)

Ägarförhållanden

Företaget är ett helägt dotterföretag till Koninklijke Philips N.V., org nr 002065538 med säte i Amsterdam, Holland, där Koninklijke Philips N.V upprättar koncernredovisning för den största koncernen.

Det utländska moderföretagets koncernredovisning finns att tillgå hos Koninklijke Philips N.V., Philips Investor Relations, P.O. Box 77900, 1+70 MX Amsterdam, Nederländerna, fax nr +31 20 5977220.

Flerårsöversikt (Tkr)	**2021**	**2020**	**2019**	**2018**	**2017**
Nettoomsättning	1 605 664	1 719 114	1 541 372	1 440 170	1 575 215
Resultat efter finansiella poster	64 171	55 182	-30 728	49 151	29 391
Antal anställda	272	296	299	288	303
Balansomslutning	725 415	721 787	822 655	711 710	794 568
Soliditet (%)	32,8	33,0	24,8	32,9	28,4

För definitioner av nyckeltal, se Redovisnings- och värderingsprinciper.

Förslag till vinstdisposition

Styrelsen föreslår att till förfogande stående vinstmedel (kronor):

balanserad vinst	151 672 821
årets förlust	-28 903
	151 643 918
Disponeras så att i ny räkning överföres	151 643 918

Företagets resultat och ställning i övrigt framgår av efterföljande resultat- och balansräkning samt kassaflödesanalys med noter.

Penneo dokumentnyckel: DQGS8-UPCIG-D14V4-4SEDF-OVY2E-S0HVJ

20220720009735

Resultaträkning

Tkr

	Not	2021-01-01 -2021-12-31	2020-01-01 -2020-12-31
Rörelsens intäkter			
Nettoomsättning	3, 4	1 605 664	1 719 114
Övriga rörelseintäkter	5	42 779	78 326
		1 648 443	**1 797 440**
Rörelsens kostnader			
Handelsvaror		-992 934	-1 071 218
Övriga externa kostnader	6, 7	-243 862	-271 763
Personalkostnader	8, 9	-320 355	-334 435
Avskrivningar av materiella och immateriella anläggningstillgångar		-6 013	-5 222
Övriga rörelsekostnader		-21 379	-65 462
		-1 584 543	**-1 748 100**
Rörelseresultat	10	**63 900**	**49 340**
Resultat från finansiella poster			
Övriga ränteintäkter och liknande resultatposter	11	2 207	9 369
Räntekostnader och liknande resultatposter	12	-1 936	-3 527
		271	**5 842**
Resultat efter finansiella poster		**64 171**	**55 182**
Bokslutsdispositioner	14	-64 200	-20 862
Resultat före skatt		**-29**	**34 320**
Skatt på årets resultat	13	0	0
Årets resultat		**-29**	**34 320**

Penneo dokumentnyckel: DGS8-UPCIG-D14V4-46EDF-QVY2E-50HVJ

20220720009736

Balansräkning
Tkr

	Not	2021-12-31	2020-12-31
TILLGÅNGAR			
Anläggningstillgångar			
Immateriella anläggningstillgångar			
Goodwill	15	0	0
		0	**0**
Materiella anläggningstillgångar			
Nedlagda utgifter på annans fastighet	16	6 080	1 570
Inventarier, verktyg och installationer	17	14 274	8 059
		20 354	**9 629**
Finansiella anläggningstillgångar			
Andelar i koncernföretag	18, 19	0	0
Andra långfristiga värdepappersinnehav	20	1 629	1 589
		1 629	**1 589**
Summa anläggningstillgångar		**21 983**	**11 218**
Omsättningstillgångar			
Varulager m m			
Färdiga varor och handelsvaror		30 611	31 445
		30 611	**31 445**
Kortfristiga fordringar			
Kundfordringar		278 508	389 836
Fordringar hos koncernföretag		326 775	172 722
Aktuella skattefordringar		21 291	21 213
Upparbetad men ej fakturerad intäkt		5 308	42 875
Förutbetalda kostnader och upplupna intäkter	21	40 939	52 478
		672 821	**679 124**
Summa omsättningstillgångar		**703 432**	**710 569**
SUMMA TILLGÅNGAR		**725 415**	**721 787**

Penneo dokumentnyckel: DQGS8-UPCIG-D14V4-46EDF-QVY3E-S0HYJ

20220720009737

Balansräkning (fortsättning)
Tkr

	Not	2021-12-31	2020-12-31
EGET KAPITAL OCH SKULDER			
Eget kapital			
Bundet eget kapital	22, 23		
Aktiekapital		72 000	72 000
Reservfond		14 400	14 400
		86 400	**86 400**
Fritt eget kapital			
Balanserat resultat		151 673	117 353
Årets resultat		-29	34 320
		151 644	**151 673**
Summa eget kapital		**238 044**	**238 073**
Avsättningar			
Garantiavsättningar	24	6 071	6 705
Övriga avsättningar	25	2 523	2 163
Summa avsättningar		**8 594**	**8 868**
Kortfristiga skulder			
Leverantörsskulder		35 301	29 749
Skulder till koncernföretag		111 148	78 811
Övriga kortfristiga skulder		0	100
Upplupna kostnader och förutbetalda intäkter	26	332 328	366 186
Summa kortfristiga skulder		**478 777**	**474 846**
SUMMA EGET KAPITAL OCH SKULDER		**725 415**	**721 787**

Penneo dokumentnyckel: DQG58-UPCIG-D14V4-46EDF-QVY2E-50HYI

20220720009738

Rapport över förändringar i eget kapital

Tkr

	Aktiekapital	Bundna reserver	Balanserat resultat	Summa eget kapital
Ingående eget kapital 2020-01-01	**72 000**	**14 400**	**117 353**	**203 753**
Årets resultat	0	**0**	34 320	34 320
Utgående eget kapital 2020-12-31	**72 000**	**14 400**	**151 673**	**238 073**
Årets resultat	0	0	-29	-29
Utgående eget kapital 2021-12-31	**72 000**	**14 400**	**151 644**	**238 044**

Penneo dokumentnyckel: DQGS8-UPCIG-D14V4-46EDF-QVYZE-50HYJ

20220720009739

Kassaflödesanalys
Tkr

	Not	2021-01-01 -2021-12-31	2020-01-01 -2020-12-31
Den löpande verksamheten			
Resultat efter finansiella poster	27	64 171	55 182
Justeringar för poster som inte ingår i kassaflödet	28	5 739	4 305
Betalda skatter		-78	8 403
Resultat efter finansiella poster		**69 832**	**67 890**
Kassaflöde från förändring av rörelsekapitalet			
Förändring av varulager		834	-10 625
Förändring av kundfordringar		111 328	18 499
Förändring av övriga kortfristiga fordringar		-104 947	79 731
Förändring av leverantörsskulder		5 552	-47 425
Förändring av övriga kortfristiga rörelseskulder		-1 621	-87 230
Kassaflöde från den löpande verksamheten		**80 978**	**20 840**
Investeringsverksamheten			
Investeringar i materiella anläggningstillgångar		-16 738	-70
Investeringar i finansiella anläggningstillgångar		-40	-111
Försäljning av finansiella anläggningstillgångar		0	203
Kassaflöde från Investeringsverksamheten		**-16 778**	**22**
Finansieringsverksamheten			
Lämnade koncernbidrag		-64 200	-20 862
Kassaflöde från finansieringsverksamheten		**-64 200**	**-20 862**
Årets kassaflöde		**0**	**0**
Likvida medel vid årets början	29		
Likvida medel vid årets slut		**0**	**0**

Penneo dokumentnyckel: DQGS8-UPCIG-D14V4-46EDF-QVYZE-30HYJ

20220720009740

Noter
Tkr

Not 1 Redovisnings- och värderingsprinciper

Allmänna upplysningar

Årsredovisningen är upprättad i enlighet med årsredovisningslagen och BFNAR 2012:1 Årsredovisning och koncernredovisning (K3).

Företaget upprättar ingen koncernredovisning, med hänvisning till att företaget och samtliga dotterföretag omfattas av en koncernredovisning som upprättas av ett överordnat moderföretag. Uppgifter om detta företag finns i not 2.

Utländska valutor

Monetära tillgångs- och skuldposter i utländsk valuta värderas till balansdagens kurs. Transaktioner i utländsk valuta omräknas enligt transaktionsdagen avistakurs.

Valutakursvinster och -förluster som hänför sig till likvida medel redovisas i resultaträkningen som Övriga ränteintäkter. Andra valutakursvinster och -förluster redovisas som Övriga rörelseintäkter respektive övriga rörelsekostnader i resultaträkningen.

Rapportering för verksamhetsgrenar och geografiska marknader

Företagets verksamhetsgrenar utgörs av försäljning av industrielektronik och medicinska system samt konsumentelektronik. Företagets verksamhet äger rum på ett flertal geografiska marknader, nämligen Sverige och övriga Europa.

Intäktsredovisning

Intäkter har tagits upp till verkligt värde av vad som erhållits eller kommer att erhållas och redovisas i den omfattning det är sannolikt att de ekonomiska fördelarna kommer att tillgodogöras bolaget och intäkterna kan beräknas på ett tillförlitligt sätt.

Vid försäljning av varor redovisas normalt inkomsten som intäkt när de väsentliga förmåner och risker som är förknippade med ägandet av varan har överförts från företaget till köparen.

Pågående tjänsteuppdrag

Inkomster till fast pris redovisas som intäkt enligt färdigställandemetoden, det vill säga senast när arbetet väsentligen är fullgjort.

I balansräkningen redovisas för ej färdigställda uppdrag nettot av nedlagda kostnader minskat med fakturerade belopp som pågående arbete för annans räkning. Om ett uppdrag befaras gå med förlust redovisas en kostnad omgående i resultaträkningen.

För tjänsteuppdrag med ett obestämt antal aktiviteter under en bestämd tidsperiod redovisas intäkter linjärt över denna tidsperiod.

Penneo dokumentnyckel: DOGS8-UPCIG-D4V4-46EDF-QVY2E-50HYJ

20220720097741

Noter (fortsättning)
Tkr

Not 1 Redovisnings- och värderingsprinciper (fortsättning)

Immateriella tillgångar

Företaget redovisar internt upparbetade immateriella anläggningstillgångar enligt aktiveringsmodellen. Det innebär att samtliga utgifter som avser framtagandet av en internt upparbetad immateriell anläggningstillgång aktiveras och skrivs av under tillgångens beräknade nyttjandeperiod, under förutsättningarna att kriterierna i BFNAR 2012:1 är uppfyllda.

Anläggningstillgångar

Immateriella och materiella anläggningstillgångar redovisas till anskaffningsvärde minskat med ackumulerade avskrivningar enligt plan och eventuella nedskrivningar.

Avskrivning sker linjärt över den förväntade nyttjandeperioden med hänsyn till väsentligt restvärde. Följande avskrivningsprocent tillämpas:

Immateriella anläggningstillgångar

Goodwill	5 år

Avskrivningsperiod för goodwill är beräknad utifrån den period som posten bedöms generera ekonomiska fördelar.

Materiella anläggningstillgångar

Nedlagda kostnader på annans fastighet	10 år
Inventarie, verktyg och installationer	3-5 år

Finansiella instrument

Finansiella instrument värderas utifrån anskaffningsvärdet. Instrumentet redovisas i balansräkningen när bolaget blir part i instrumentets avtalsmässiga villkor. Finansiella tillgångar tas bort från balansräkningen när rätten att erhålla kassaflöden från instrumentet har löpt ut eller överförts och bolaget har överfört i stort sett alla risker och förmåner som är förknippade med äganderätten. Finansiella skulder tas bort från balansräkningen när förpliktelserna har reglerats eller på annat sätt upphört.

Andelar i dotterföretag

Andelar i dotterföretag redovisas till anskaffningsvärde efter avdrag för eventuella nedskrivningar. I anskaffningsvärdet ingår köpeskillingen som erlagts för aktierna samt förvärvskostnader. Eventuella kapitaltillskott läggs till anskaffningsvärdet när de uppkommer.

Andelarna värderades till 10 SEK (10 SEK) per 2021-12-31

Kundfordringar/kortfristiga fordringar

Kundfordringar och kortfristiga fordringar redovisas som omsättningstillgångar till det belopp som förväntas bli inbetalt efter avdrag för individuellt bedömda osäkra fordringar.

Penneo dokumentnyckel: DQGS8-UPCIG-D14V4-46EDF-QVY2E-5OHYJ

20220720009742

Noter (fortsättning)
Tkr

Not 1 Redovisnings- och värderingsprinciper (fortsättning)

Finansiella instrument (fortsättning)

Låneskulder och leverantörsskulder

Låneskulder och leverantörsskulder redovisas initialt till anskaffningsvärde efter avdrag för transaktionskostnader. Skiljer sig det redovisade beloppet från det belopp som ska återbetalas vid förfallotidpunkten periodiseras mellanskillnaden som räntekostnad över lånets löptid med hjälp av instrumentets effektivränta. Härigenom överensstämmer vid förfallotidpunkten det redovisade beloppet och det belopp som ska återbetalas.

Kvittning av finansiell fordran och finansiell skuld

En finansiell tillgång och en finansiell skuld kvittas och redovisas med ett nettobelopp i balansräkningen endast då legal kvittningsrätt föreligger samt då en reglering med ett nettobelopp avses ske eller då en samtida avyttring av tillgången och reglering av skulden avses ske.

Nedskrivningsprövning av finansiella anläggningstillgångar

Vid varje balansdag bedöms om det finns indikationer på nedskrivningsbehov av någon av de finansiella anläggningstillgångarna. Nedskrivning sker om värdenedgången bedöms vara bestående och prövas individuellt.

Leasingavtal

Företaget redovisar samtliga leasingavtal, såväl finansiella som operationella, som operationella leasingavtal. Operationella leasingavtal redovisas som en kostnad linjärt över leasingperioden.

Varulager

Varulagret är värderat till det lägsta av anskaffningsvärdet och nettoförsäljningsvärdet där anskaffningsvärdet beräknas enligt standardkostnadsmetoden. Nettoförsäljningsvärdet har beräknats till försäljningsvärdet efter avdrag for beräknad försäljningskostnad.

Produkter i arbete och färdigvarulager värderas till det lägsta av tillverkningskostnad och nettoförsäljningsvärde. Erforderlig reservering sker för inkuransrisker. Företaget tillämpar inkomstskattelagen vid beräkning av reservering för inkuransrisker. Anskaffningsvärdet för varulager inkluderar alla kostnader för inköp, tillverkning samt andra kostnader för att få varorna till dess aktuella plats och skick.

Inkomstskatter

Total skatt utgörs av aktuell skatt och uppskjuten skatt. Skatter redovisas i resultaträkningen, utom då underliggande transaktion redovisas direkt mot eget kapital varvid tillhörande skatteeffekter redovisas i eget kapital.

Penneo dokumentnyckel: DQGS8-UPCIG-D14V4-46EDF-QVY2E-S0HYJ

20220720097743

Noter (fortsättning)
Tkr

Not 1 Redovisnings- och värderingsprinciper (fortsättning)

Inkomstskatter (fortsättning)

Aktuell skatt

Aktuell skatt avser inkomstskatt för innevarande räkenskapsår samt den del av tidigare räkenskapsårs inkomstskatt som ännu inte redovisats. Aktuell skatt beräknas utifrån den skattesats som gäller per balansdagen.

Uppskjuten skatt

Uppskjuten skatt är inkomstskatt som avser framtida räkenskapsår till följd av tidigare händelser. Redovisning sker enligt balansräkningsmetoden. Enligt denna metod redovisas uppskjutna skatteskulder och uppskjutna skattefordringar på temporära skillnader som uppstår mellan bokförda respektive skattemässiga värden för tillgångar och skulder samt för övriga skattemässiga avdrag eller underskott.

Uppskjutna skattefordringar nettoredovisas mot uppskjutna skatteskulder endast om de kan betalas med ett nettobelopp. Uppskjuten skatt beräknas utifrån gällande skattesats på balansdagen. Effekter av förändringar i gällande skattesatser resultatförs i den period förändringen lagstadgats. Uppskjuten skattefordran redovisas som finansiell anläggningstillgång och uppskjuten skatteskuld som avsättning.

Uppskjuten skattefordran avseende underskottsavdrag eller andra framtida skattemässiga avdrag redovisas i den omfattning det är sannolikt att avdragen kan avräknas mot framtida skattemässiga överskott.

På grund av sambandet mellan redovisning och beskattning särredovisas inte den uppskjutna skatteskulden som är hänförlig till obeskattade reserver.

Avsättningar

Som avsättning har redovisats förpliktelser gentemot tredje man som är hänförliga till räkenskapsåret eller tidigare räkenskapsår och som på balansdagen antingen är säkra eller sannolika till sin förekomst men oviss till belopp eller till den tidpunkt då de ska infrias.

Vid försäljning lämnar företaget 2 månaders produktgaranti. Avsättningar för dessa åtagande görs baserat på historisk information om uppkomna kostnader för att reglera krav enligt garantivillkoren.

Penneo dokumentnyckel: DQGS8-UPCIS-01444-46EDF-OVY2E-SOHVJ

20220720009744

Noter (fortsättning)
Tkr

Not 1 Redovisnings- och värderingsprinciper (fortsättning)

Ersättningar till anställda

Kortfristiga ersättningar

Kortfristiga ersättningar i koncernen utgörs av lön, sociala avgifter, betald semester, betald sjukfrånvaro, sjukvård och bonus. Kortfristiga ersättnignar redovisas som en kostnad och en skuld då det finns en legal eller informell förpliktelse att betala ut en ersättning.

Ersättningar efter avslutad anställning:

I företaget förekommer såväl avgiftsbestämda som förmånsbestämda pensionsplaner.

I avgiftsbestämda planer betalar företaget fastställda avgifter till ett annat företag och har inte någon legal eller informell förpliktelse att betala något ytterligare även om det andra företaget inte kan uppfylla sitt åtagande. Koncernens resultat belastas för kostnadert i takt med att de anställdas pensionsberättigande tjänster utförts.

Vid förmånsbestämda planer står företaget i allt väsentligt riskerna för att ersättningen kommer att kosta mer än förväntat och att avkastningen på relaterade tillgångar kommer att avvika från förväntningarna. Företaget redovisar förmånsbestämda pensionsplaner i enlighet med K3s förenklingsregler. Förenklingsregeln innebär att bolaget har förmånsbestämda planer som innebät att pensionspremier betalas och dess planer redovisas som avgiftsbestämda planer.

De pensionsförpliktelser vars värde är beroende av värdet på en kapitalförsäkring, redovisas till kapitalförsäkringens redovisade värde.

Ersättning vid uppsägning

Ersättning vid uppsägning utgår då företaget beslutar att avsluta en anställning före den normala tidpunkten för anställningens upphörande eller då en anställd accepterar att erbjudande om frivillig avgång i utbyte mot sådan ersättning. Om ersättningen inte ger företaget någon framtida ekonomisk fördel redovisas en skuld och en kostnad när företaget har en legal eller informell förpliktelse att lämna sådan ersättning. Ersättningen värderas till den bästa uppskattningen av den ersättningen som skulle krävas för att reglera förpliktelsen på balansdagen.

Ersättningen vid uppsägningar redovisas endast när företaget har en detaljerad plan för uppsägningen och inte har någon realistisk möjlighet att annullera planen.

Penneo dokumentnyckel: DOGS8-UPGIG-D14V4-45EDF-QVV2F-S0HYJ

20220720009745

Noter (fortsättning)
Tkr

Not 1 Redovisnings- och värderingsprinciper (fortsättning)

Ersättningar till anställda (fortsättning)

Aktierelaterade ersättningar

Koncernen har en aktierelaterad ersättningsplan där företaget erhåller tjänster från anställda och som vederlag utger koncernens egetkapitalinstrument i form av aktieoptioner till de anställda. Det totala belopp som ska kostnadsföras redovisas i resultaträkningen som en personalkostnad och i eget kapital i balanserad vinst, fördelat över intjänandeperioden. När ändrade bedömningar i senare rapportperioder ger upphov till avvikelser redovisas dessa i resultaträkningen och motsvarande justering görs i eget kapital. I bolagets årsredovisning redovisas dock beloppet som en upplupen personalkostnad och skulden kontantregleras. De sociala avgifter som uppkommer på tilldelningen av aktieoptioner redovisas som en personalkostnad i resultaträkningen och en skuld. Efterföljande omvärderingar redovisas i resultaträkningen.

Koncernbidrag

Erhållna och lämnade koncernbidrag redovisas som bokslutsdispositioner.

Koncernförhållanden

Företaget är moderföretag men med hänvisning till undantagsreglerna i årsredovisningslagen 7 kap 2§ upprättas ingen egen koncernredovisning. Det överordnade moderföretaget Koninklijke Philips N.V., organisationsnummer 002065538 med säte i Amsterdam, Holland upprättar koncernredovisning.

Kassaflödesanalys

Kassaflödesanalysen upprättas enligt indirekt metod. Det redovisade kassaflödet omfattar endast transaktioner som medfört in- eller utbetalningar.

Som likvida medel klassificerar företaget, förutom kassamedel, disponibla tillgodohavanden hos banker och andra kreditinstitut. Spärrade medel klassificeras inte som likvida medel. Förändringar i spärrade medel redovisas i investeringsverksamheten.

Nyckeltalsdefinitioner

Nettoomsättning
Rörelsens huvudintäkter, fakturerade kostnader, sidointäkter samt intäktskorrigeringar.

Resultat efter finansiella poster
Resultat efter finansiella intäkter och kostnader men före bokslutsdispositioner och skatter.

Antal anställda
Medelantal anställda under räkenskapsåret.

Balansomslutning
Företagets samlade tillgångar.

Soliditet (%)
Justerat eget kapital (eget kapital och obeskattade reserver med avdrag för uppskjuten skatt) i procent av balansomslutning.

Rennes dokumentnyckel: DQGS8-UPCIG-D14V4-4S5DF-QVVZE-50HYJ

20220720009746

Noter (fortsättning)
Tkr

Not 1 Redovisnings- och värderingsprinciper (fortsättning)

Uppskattningar och bedömningar

Följande antaganden om framtiden och andra väsentliga källor till osäkerhet i uppskattningar på balansdagen skulle kunna innebära en betydande risk för en väsentlig justering av redovisade värden för tillgångar och skulder under nästa räkenskapsår:

Avsättning för garantier

Förpliktelser för garantier uppstår vid leverans av ett system som normalt innehåller en garantitid på 12 månader. Bedömningar av framtida garantikostnader baseras på individuella projekt och tidigare erfarenheter. Avvikelser mellan faktiska garantikostnader och reservering förekommer på individuella projekt men på totalnivå är dessa avvikelser begränsade.

Värdering av underskottsavdrag

Företaget undersöker årligen ifall det är tillämpligt att aktivera uppskjutna skattefordringar avseende årets skattemässiga underskottsavdrag. Uppskjuten skattefordran redovisas endast för underskottsavdrag för vilka det är sannolikt att de kan nyttjas mot framtida skattepliktiga överskott och mot skattepliktiga temporära skillnader. Ingen uppskjuten skattefordran har redovisats avseende företagets underskott då det inte bedömts sannolikt att dessa underskott kan nyttjas mot framtida överskott. Vid utgången av 2020 finns det inga skattemässiga underskottsavdrag.

Not 2 Uppgifter om moderföretag

Företaget är ett helägt dotterföretag till Koninklijke Philips N.V., org nr 002065538 med säte i Amsterdam, Holland där Koninklijke Philips N.V upprättar koncernredovisning för den största koncernen.

Penneo dokumentnyckel: DOGS8-UPCIG-D14V4-46EDF-QVY2E-50HYJ

20220720097747

Noter (fortsättning)
Tkr

Not 3 Nettoomsättningens fördelning

	2021-01-01 -2021-12-31	2020-01-01 -2020-12-31
Nettoomsättningen per rörelsegren		
Industrielektronik och medicinska system	878 285	729 832
Konsumentelektronik	713 721	913 835
Övrigt	13 658	75 447
	1 605 664	**1 719 114**
Nettoomsättningen per geografisk marknad		
Sverige	1 532 720	1 592 437
Övriga Europa	72 326	126 677
Övriga Världen	618	0
	1 605 664	**1 719 114**

Not 4 Erhållna leasingavgifter avseende operationell leasing

Under perioden erhållna variabla leasingavgifter SEK 2,102,131 (SEK 4,119,748)

Philips AB som leasegivare
Framtida minimileaseavgifter som kommer att erhållas avseende icke uppsägningsbara leasingavtal:

	2021-01-01 -2021-12-31	2020-01-01 -2020-12-31
Inom ett år	0	1 749
Senare än fem år	0	0
	0	**1 749**

Leasingavtal där Philips AB är leasegivare avser uthyrning av lokaler till Signify Sweden AB & Blixt Tech AB.

Penneo dokumentnyckel: DQG58-UPCIG-D14V4-46EDF-QVY2E-50HYJ

20220720009748

Noter (fortsättning)

Tkr

Not 5 Övriga rörelseintäkter

	2021-01-01 -2021-12-31	2020-01-01 -2020-12-31
Valutakursdifferenser	22 440	62 616
Övriga rörelseintäkter	9 488	15 710
Avvecklade verksamheter	10 851	0
	42 779	**78 326**

Not 6 Arvode till revisorer

Med revisionsuppdrag avses granskning av årsredovisningen och bokföringen samt styrelsens och verkställande direktörens förvaltning, övriga arbetsuppgifter som det ankommer på bolagets revisor att utföra samt rådgivning eller annat biträde som föranleds av iakttagelser vid sådan granskning eller genomförandet av sådana övriga arbetsuppgifter.

	2021-01-01 -2021-12-31	2020-01-01 -2020-12-31
Ernst & Young AB		
Philips AB	556	681
Philips Digital Mammography AB	120	117
	676	**798**

Not 7 Leasingavgifter avseende operationell leasing

Under perioden kostnadsförda leasingavgifter 10 766 641 kr (14 341 898 kr)

Philips AB som leasingtagare
Framtida minimileasingavgifter som ska erläggas avseende icke uppsägningsbara leasingavtal:

	2021-01-01 -2021-12-31	2020-01-01 -2020-12-31
Inom ett år	11 198	11 017
Senare än ett år men inom fem år	25 192	13 647
Senare än fem år	4 285	3 042
	40 675	**27 706**

Den operationella leasingen utgörs av hyrda fastigheter, lokaler och tjänstebilar. Hyresavtalet för det svenska huvudkontoret är uppsagt per 30 juni 2021 och bolaget kommer att flytta till nya lokaler i Solna.

Penneo dokumentnyckel: DQGS8-UPCIG-D14V4-46EDF-QVYZE-SOHYJ

20220720009749

Noter (fortsättning)

Tkr

Not 8 Anställda och personalkostnader

	2021-01-01 -2021-12-31	2020-01-01 -2020-12-31
Medelantalet anställda		
Kvinnor	166	119
Män	106	177
	272	**296**
Löner och andra ersättningar		
Styrelse och verkställande direktör	5 462	5 064
Löner och ersättning till övriga anställda	186 087	180 819
	191 549	**185 883**
Sociala kostnader		
Pensionskostnader för styrelse och verkställande direktör	1 747	1 665
Pensionskostnader för övriga anställda	37 335	42 075
Övriga sociala avgifter enligt lag och avtal	66 231	67 535
	105 313	**111 275**
Totala löner, ersättningar, sociala kostnader och pensionskostnader	**296 862**	**297 158**
övriga personalkostnader	23 493	37 277
Totala personalkostnader	**320 355**	**334 435**
Könsfördelning bland ledande befattningshavare		
Andel kvinnor i styrelsen	25 %	25 %
Andel män i styrelsen	75 %	75 %
Andel kvinnor bland övriga ledande befattningshavare	38 %	43 %
Andel män bland övriga ledande befattningshavare	62 %	57 %

Penneo dokumentnyckel: DQG58-UPCIG-D14V4-46EDF-QVY2E-S0HYJ

20220720097S0

Noter (fortsättning)
Tkr

Not 9 Aktierelaterade ersättningar till anställda

Koninklijke Philips N.V. och dess dotterbolag har program för aktierelaterad ersättning för styrelseledamöter och företagsledning.
Programmet omfattar tre typer av aktierelaterade ersättningar:
- Performance shares: rättighet att erhålla aktier i framtiden baserat på resultatnivå och tjänstgöringsvillkor
- Restricted shares: rättighet att erhålla aktier i framtiden baserat på tjänstgöringsvillkor
- Aktieoptioner

Den totala kostnad som redovisats i resultaträkningen för aktieoptioner och därtill hänförliga sociala avgifter är 734 tkr (827 tkr).
Det sammanlagda redovisade värdet på balansdagen för skulder är 5 630 tkr (6 173 tkr).
För mer information hänvisas till koncernredovisningen.

Not 10 Inköp och försäljning mellan koncernföretag

	2021-01-01 -2021-12-31	2020-01-01 -2020-12-31
Andel av årets totala inköp som skett från andra företag i koncernen	80,00%	80,00%
Andel av årets totala försäljningar som skett till andra företag i koncernen	5,00%	7,00%

Not 11 Övriga ränteintäkter och liknande resultatposter

	2021-01-01 -2021-12-31	2020-01-01 -2020-12-31
Övriga ränteintäkter	0	3 247
Finansiell intäkt, kapitalförsäkring	0	9
Valutakursdifferenser	2 207	6 113
	2 207	**9 369**

Penneo dokumentnyckel: DQGS8-UIG7D-D14V4-4BEDF-QVV2E-SOHY1

20220720097S1

Noter (fortsättning)
Tkr

Not 12 Räntekostnader och liknande resultatposter

	2021-01-01 -2021-12-31	2020-01-01 -2020-12-31
Räntekostnader till koncernföretag	-67	-120
Övriga räntekostnader	-314	-832
Valutakursdifferenser	-1 555	-2 575
	-1 936	**-3 527**

Not 13 - Skatt på årets resultat

	2021-01-01 -2021-12-31	2020-01-01 -2020-12-31
Aktuell skatt	0	0
Uppskjuten skatt	0	0
	0	**0**

	Procent	2021-01-01 2021-12-31 Belopp	Procent	2020-01-01 2020-12-31 Belopp
Skatt på årets resultat				
Redovisat resultat före skatt		-29		34 320
Skatt enligt gällande skattesats	20,60%	0	21,40%	-7 344
Skatteffekt av ej avdragsgilla kostnader		-3 048		-5 912
Skatterfekt av ej skattepliktiga intäkter		5 984		5 347
Skatterfekt av nyttjat underskottavdrag		-2 936		7 909
Förändring uppskjuten skatt		0		0
Redovisad effektiv skatt	**0%**	**0**	**0%**	**0**

Penneo dokumentnyckel: DOGS8-UPCIG-D14V4-46EDF-OVY2E-S0HYJ

20220720009752

Noter (fortsättning)

Tkr

Not 14 Bokslutsdispositioner

	2021-01-01 -2021-12-31	2020-01-01 -2020-12-31
Lämnade koncernbidrag	-64 200	-20 862
	-64 200	**-20 862**

Not 15 Goodwill

	2021-12-31	2020-12-31
Ingående anskaffningsvärden	10 623	10 623
Utgående ackumulerade anskaffningsvärden	**10 623**	**10 623**
Ingående avskrivningar	-10 623	-10 623
Utgående ackumulerade avskrivningar	**-10 623**	**-10 623**
Utgående redovisat värde	**0**	**0**

Penneo dokumentnyckel: DQG58-UPCIG-D14V4-46EDF-QVY2E-S0HYJ

20220720009753

Noter (fortsättning)

Tkr

Not 16 Nedlagda kostnader på annans fastighet

	2021-12-31	2020-12-31
Ingående anskaffningsvärden	9 164	9 164
Inköp	5 018	0
Utgående ackumulerade anskaffningsvärden	**14 182**	**9 164**
Ingående avskrivningar	-7 594	-7 194
Årets avskrivningar	-508	-400
Utgående ackumulerade avskrivningar	**-8 102**	**-7 594**
Utgående redovisat värde	**6 080**	**1 570**

Not 17 Inventarier, verktyg och installationer

	2021-12-31	2020-12-31
Ingående anskaffningsvärden	35 040	36 721
Inköp	11 720	70
Försäljningar/utrangeringar	0	-1 760
Omklassificeringar	0	9
Utgående ackumulerade anskaffningsvärden	**46 760**	**35 040**
Ingående avskrivningar	-26 981	-23 816
Försäljningar/utrangeringar	0	1 760
Omklassificeringar	0	-9
Årets avskrivningar	-5 505	-4 916
Utgående ackumulerade avskrivningar	**-32 486**	**-26 981**
Utgående redovisat värde	**14 274**	**8 059**

Penneo dokumentnyckel: DQGS8-UPCIG-D14V4-46EDF-QVY2E-50HYJ

20220720097S4

Noter (fortsättning)

Tkr

Not 18 Andelar i koncernföretag

	2021-12-31	2020-12-31
Ingående anskaffningsvärden	706 003	706 003
Utgående ackumulerade anskaffningsvärden	**706 003**	**706 003**
Ingående nedskrivningar	-706 003	-706 003
Utgående ackumulerade avskrivningar	**-706 003**	**-706 003**
Utgående redovisat värde	**0**	**0**

Not 19 Specifikation andelar i koncernföretag

Namn	Kapital-andel	Rösträtts-andel	Antal Andelar	Bokfört värde 2021	Bokfört värde 2020
Philips Digital Mammography Sweden AB	100	100	107 616	0	0
				0	**0**

	Org.Nr	Säte	Eget kapital	Resultat
Philips Digital Mammography Sweden AB	556570-7022	Stockholm	188 022	64 197

Penneo dokumentnyckel: DOGS8-UPCIG-ID14V4-46EDF-QVY2E-50HYJ

20220720097S5

Noter (fortsättning)

Tkr

Not 20 Andra långfristiga värdepappersinnehav

	2021-12-31	2020-12-31
Ingående anskaffningsvärden	1 589	1 672
Inköp	40	111
Försäljningar/utrangeringar	0	-194
Utgående ackumulerade anskaffningsvärden	**1 629**	**1 589**
Utgående redovisat värde	**1 629**	**1 589**

Bolagets långfristiga värdepappersinnehav avser företagsägd kapitalförsäkring.

Not 21 Förutbetalda kostnader och upplupna intäkter

	2021-12-31	2020-12-31
Upplupna intäkter	32 587	42 377
Förutbetalda hyror	0	966
Övriga poster	8 352	9 135
	40 939	**52 478**

Not 22 Antal aktier och kvotvärde

Aktiekapitalet består av 720.000 st aktier med kvotvärde 100 kr.

Aktieägarna har tidigare år lämnat villkorat aktieägartillskott om totalt 779.500 tkr.

Penneo dokumentnyckel: DQG58-URCIG-D14V4-46EDF-OVY2E-50HYJ

20220720097S6

Noter (fortsättning)
Tkr

Not 23 Disposition av vinst eller förlust

2021-12-31

Förslag till vinstdisposition
Styrelsen föreslår att till förfogande stående vinstmedel:

balanserad vinst	151 673
årets förlust	-29
	151 644
disponeras så att	
Disponeras så att i ny räkning överföres	151 644

Not 24 Garantiavsättningar

	2021-12-31	2020-12-31
Avsättningar för garantiåtaganden		
Belopp vid årets ingång	6 705	7 696
Årets avsättningar	5 577	0
Under året ianspråktagna belopp	-6 211	-991
	6 071	**6 705**

Not 25 Övriga avsättningar

	2021-12-31	2020-12-31
Avsättning vid periodens ingång	2 163	2 242
Periodens förändring av avsättning	360	-79
	2 523	**2 163**

Avsättningarna avser pensionsåtagande samt löneskatt som tryggas genom kapitalförsäkring.

Pennao dokumentnyckel: DQGS8-UPCIG-D14V4-46EDF-QVY2E-S0HYJ

20220720091757

Noter (fortsättning)
Tkr

Not 26 Upplupna kostnader och förutbetalda intäkter

	2021-12-31	2020-12-31
Förutbetalda intäkter	182 567	139 049
Bonus till kunder	25 256	95 823
Personalrelaterade reserver	64 608	69 950
Upplupna kostnader i projekt	2 000	1 373
Övriga poster	57 897	59 991
	332 328	**366 186**

Not 27 Räntor och utdelningar

	2021-12-31	2020-12-31
Erhållen ränta	0	3 247
Erlagd ränta	-381	-952
Realiserad valutakursförändring	0	0
	-381	**2 295**

Not 28 Justering för poster som inte ingår i kassaflödet

	2021-12-31	2020-12-31
Omklassificering av anläggningstillgångar	0	89
Avskrivningar	6 013	5 295
Förändring långfristiga värdepappersinnehav	0	-9
Förändring garantiavsättning	-634	-991
Förändring övriga avsättningar	360	-79
	5 739	**4 305**

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20220720009758

Noter (fortsättning)
Tkr

Not 29 Likvida medel

	2021-12-31	2020-12-31
Likvida medel		
Banktillgodohavanden	0	0
Tillgodohavanden på koncernkonto	0	0
	0	**0**

Not 30 Eventualförpliktelser

	2021-12-31	2020-12-31
Tullgaranti	23	23
Summa eventualförpliktelser	**23**	**23**

Penneo dokumentnyckel: DQGS8-UPCIG-D14V4-46EDF-QVY2E-S0HYJ

20220720097S9

Noter (fortsättning)
Tkr

Stockholm 2022-

Peter Jangenfeldt
Ordförande

Henrik Hammarskiöld Johnels
Styrelseledamot

Douglas Nielsen
Styrelseledamot

Anna-Carin Strandberg
Verkställande direktör

Vår revisionsberättelse har lämnats 2022-
Ernst & Young AB

Joakim Åström
Auktoriserad revisor

Penneo dokumentnyckel: DQGS8-UPDIG-D14V4-46EDF-OVY2E-50HYJ

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Ordförande
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Revisionsberättelse

Till bolagsstämman i Philips Aktiebolag, org.nr 556105-2613

Rapport om årsredovisningen

Vi har utfört en revision av årsredovisningen för Philips Aktiebolag för räkenskapsåret 2021-01-01 – 2021-12-31.

Enligt vår uppfattning har årsredovisningen upprättats i enlighet med årsredovisningslagen och ger en i alla väsentliga avseenden rättvisande bild av Philips Aktiebolags finansiella ställning per den 31 december 2021 och av dess finansiella resultat och kassaflöde för året enligt årsredovisningslagen. Förvaltningsberättelsen är förenlig med årsredovisningens övriga delar.

Vi tillstyrker därför att bolagsstämman fastställer resultaträkningen och balansräkningen.

Vi har utfört revisionen enligt International Standards on Auditing (ISA) och god revisionssed i Sverige. Vårt ansvar enligt dessa standarder beskrivs närmare i avsnittet Revisorns ansvar. Vi är oberoende i förhållande till Philips Aktiebolag enligt god revisorssed i Sverige och har i övrigt fullgjort vårt yrkesetiska ansvar enligt dessa krav.

Vi anser att de revisionsbevis vi har inhämtat är tillräckliga och ändamålsenliga som grund för våra uttalanden.

Det är styrelsen och verkställande direktören som har ansvaret för att årsredovisningen upprättas och att den ger en rättvisande bild enligt årsredovisningslagen. Styrelsen och verkställande direktören ansvarar även för den interna kontroll som de bedömer är nödvändig för att upprätta en årsredovisning som inte innehåller några väsentliga felaktigheter, vare sig dessa beror på oegentligheter eller misstag.

Vid upprättandet av årsredovisningen ansvarar styrelsen och verkställande direktören för bedömningen av bolagets förmåga att fortsätta verksamheten. De upplyser, när så är tillämpligt, om förhållanden som kan påverka förmågan att fortsätta verksamheten och att använda antagandet om fortsatt drift. Antagandet om fortsatt drift tillämpas dock inte om styrelsen och verkställande direktören avser att likvidera bolaget, upphöra med verksamheten eller inte har något realistiskt alternativ till att göra något av detta.

Våra mål är att uppnå en rimlig grad av säkerhet om att årsredovisningen som helhet inte innehåller några väsentliga felaktigheter, vare sig dessa beror på oegentligheter eller misstag, och att lämna en revisionsberättelse som innehåller våra uttalanden. Rimlig säkerhet är en hög grad av säkerhet, men är ingen garanti för att en revision som utförs enligt ISA och god revisionssed i Sverige alltid kommer att upptäcka en väsentlig felaktighet om en sådan finns. Felaktigheter kan uppstå på grund av oegentligheter eller misstag och anses vara väsentliga om de enskilt eller tillsammans rimligen kan förväntas påverka de ekonomiska beslut som användare fattar med grund i årsredovisningen.

Som del av en revision enligt ISA använder vi professionellt omdöme och har en professionellt skeptisk inställning under hela revisionen. Dessutom:

- identifierar och bedömer vi riskerna för väsentliga felaktigheter i årsredovisningen, vare sig dessa beror på oegentligheter eller misstag, utformar och utför granskningsåtgärder bland annat utifrån dessa risker och inhämtar revisionsbevis som är tillräckliga och ändamålsenliga för att utgöra en grund för våra uttalanden. Risken för att inte upptäcka en väsentlig felaktighet till följd av oegentligheter är högre än för en väsentlig felaktighet som beror på misstag, eftersom oegentligheter kan innefatta agerande i maskopi, förfalskning, avsiktliga utelämnanden, felaktig information eller åsidosättande av intern kontroll.
- skaffar vi oss en förståelse av den del av bolagets interna kontroll som har betydelse för vår revision för att utforma granskningsåtgärder som är lämpliga med hänsyn till omständigheterna, men inte för att uttala oss om effektiviteten i den interna kontrollen.
- utvärderar vi lämpligheten i de redovisningsprinciper som används och rimligheten i styrelsens och verkställande direktörens uppskattningar i redovisningen och tillhörande upplysningar.
- drar vi en slutsats om lämpligheten i att styrelsen och verkställande direktören använder antagandet om fortsatt drift vid upprättandet av årsredovisningen. Vi drar också en slutsats, med grund i de inhämtade revisionsbevisen, om det finns någon väsentlig osäkerhetsfaktor som avser sådana händelser eller förhållanden som kan leda till betydande tvivel om bolagets förmåga att fortsätta verksamheten. Om vi drar slutsatsen att det finns en väsentlig osäkerhetsfaktor, måste vi i revisionsberättelsen fästa uppmärksamheten på upplysningarna i årsredovisningen om den väsentliga osäkerhetsfaktorn eller, om sådana upplysningar är otillräckliga, modifiera uttalandet om årsredovisningen. Våra slutsatser baseras på de revisionsbevis som inhämtas fram till datumet för revisionsberättelsen. Dock kan framtida händelser eller förhållanden göra att ett bolag inte längre kan fortsätta verksamheten.
- utvärderar vi den övergripande presentationen, strukturen och innehållet i årsredovisningen, däribland upplysningarna, och om årsredovisningen återger de underliggande transaktionerna och händelserna på ett sätt som ger en rättvisande bild.

Vi måste informera styrelsen om bland annat revisionens planerade omfattning och inriktning samt tidpunkten för den. Vi måste också informera om betydelsefulla iakttagelser under revisionen, däribland de eventuella betydande brister i den interna kontrollen som vi identifierat.

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EY

Rapport om andra krav enligt lagar och andra författningar

Utöver vår revision av årsredovisningen har vi även utfört en revision av styrelsens och verkställande direktörens förvaltning av Philips Aktiebolag för räkenskapsåret 2021-01-01 – 2021-12-31 samt av förslaget till dispositioner beträffande bolagets vinst eller förlust.

Vi tillstyrker att bolagsstämman disponerar vinsten enligt förslaget i förvaltningsberättelsen och beviljar styrelsens ledamöter och verkställande direktören ansvarsfrihet för räkenskapsåret.

Vi har utfört revisionen enligt god revisionssed i Sverige. Vårt ansvar enligt denna beskrivs närmare i avsnittet Revisorns ansvar. Vi är oberoende i förhållande till Philips Aktiebolag enligt god revisorssed i Sverige och har i övrigt fullgjort vårt yrkesetiska ansvar enligt dessa krav.

Vi anser att de revisionsbevis vi har inhämtat är tillräckliga och ändamålsenliga som grund för våra uttalanden.

Det är styrelsen som har ansvaret för förslaget till dispositioner beträffande bolagets vinst eller förlust. Vid förslag till utdelning innefattar detta bland annat en bedömning av om utdelningen är försvarlig med hänsyn till de krav som bolagets verksamhetsart, omfattning och risker ställer på storleken av bolagets egna kapital, konsolideringsbehov, likviditet och ställning i övrigt.

Styrelsen ansvarar för bolagets organisation och förvaltningen av bolagets angelägenheter. Detta innefattar bland annat att fortlöpande bedöma bolagets ekonomiska situation och att tillse att bolagets organisation är utformad så att bokföringen, medelsförvaltningen och bolagets ekonomiska angelägenheter i övrigt kontrolleras på ett betryggande sätt. Verkställande direktören ska sköta den löpande förvaltningen enligt styrelsens riktlinjer och anvisningar och bland annat vidta de åtgärder som är nödvändiga för att bolagets bokföring ska fullgöras i överensstämmelse med lag och för att medelsförvaltningen ska skötas på ett betryggande sätt.

Vårt mål beträffande revisionen av förvaltningen, och därmed vårt uttalande om ansvarsfrihet, är att inhämta revisionsbevis för att med en rimlig grad av säkerhet kunna bedöma om någon styrelseledamot eller verkställande direktören i något väsentligt avseende:

- företagit någon åtgärd eller gjort sig skyldig till någon försummelse som kan föranleda ersättningsskyldighet mot bolaget, eller
- på något annat sätt handlat i strid med aktiebolagslagen, årsredovisningslagen eller bolagsordningen.

Vårt mål beträffande revisionen av förslaget till dispositioner av bolagets vinst eller förlust, och därmed vårt uttalande om detta, är att med rimlig grad av säkerhet bedöma om förslaget är förenligt med aktiebolagslagen.

Rimlig säkerhet är en hög grad av säkerhet, men ingen garanti för att en revision som utförs enligt god revisionssed i Sverige alltid kommer att upptäcka åtgärder eller försummelser som kan föranleda ersättningsskyldighet mot bolaget, eller att ett förslag till dispositioner av bolagets vinst eller förlust inte är förenligt med aktiebolagslagen.

Som en del av en revision enligt god revisionssed i Sverige använder vi professionellt omdöme och har en professionellt skeptisk inställning under hela revisionen. Granskningen av förvaltningen och förslaget till dispositioner av bolagets vinst eller förlust grundar sig främst på revisionen av räkenskaperna. Vilka tillkommande granskningsåtgärder som utförs baseras på vår professionella bedömning med utgångspunkt i risk och väsentlighet. Det innebär att vi fokuserar granskningen på sådana åtgärder, områden och förhållanden som är väsentliga för verksamheten och där avsteg och överträdelser skulle ha särskild betydelse för bolagets situation. Vi går igenom och prövar fattade beslut, beslutsunderlag, vidtagna åtgärder och andra förhållanden som är relevanta för vårt uttalande om ansvarsfrihet. Som underlag för vårt uttalande om styrelsens förslag till dispositioner beträffande bolagets vinst eller förlust har vi granskat om förslaget är förenligt med aktiebolagslagen.

Umeå den dag som framgår av vår elektroniska underskrift

Ernst & Young AB

Joakim Åström

Joakim Åström
Auktoriserad revisor

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JOAKIM ÅSTRÖM (SSN-validerad)
Signing Partner
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2022-06-30 19:08:05 UTC

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PHILIPS

Annual Report 2021

Innovating healthcare, improving health

PDF/printed version

This document is the PDF/printed version of the 2021 Annual Report of Royal Philips and has been prepared for ease of use. The 2021 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/publications/ar21#downloads and includes a human readable XHTML version of the 2021 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 Significant accounting policies, starting on page 135, unless otherwise indicated. 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 152).

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 235.

References to Philips

References to the Company or 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 126 and Company financial statements, starting on page 205 contain the statutory financial statements of the Company. The introduction to the chapter Group financial statements, starting on page 126 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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2021 at a glance

Social impact

- 1.67 billion lives improved
- 167 million in underserved communities

Environmental sustainability

- Circular revenues at 16% of sales
- Carbon-neutral in our operations

Innovation

- Innovations gaining market share
- EUR 1.8 billion invested in R&D

Transformation

- Approximately 45% of sales from solutions and recurring revenues
- Domestic Appliances business sold, divestments completed

Operations

- Philips Respironics recall
- Global supply chain headwinds

People & culture

- Increased focus on patient safety
- 79% Employee Engagement Score

Business development

- 4% growth in comparable order intake
- 80 long-term strategic partnerships

Financials

- EUR 17.2 billion sales
- 12% Adjusted EBITA*) margin
- EUR 3.3 billion net income

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 225.

1 Message from the CEO

"Based on the strength of our innovative portfolio and the trust our customers have in our ability to support them, I am confident about our future growth."

Frans van Houten CEO Royal Philips

Dear Stakeholder,
Amidst the ongoing impact of COVID-19 on society, 2021 was an eventful and challenging year. Our continued strategic progress and strong growth in the first half of the year were overshadowed by the unprecedented scale of the global supply chain disruptions in the second half of the year, as well as the Philips Respironics voluntary field action to remediate the component quality issue in certain of its products.

The intensified global supply chain headwinds and postponement of customer equipment installations due to COVID-19 presented challenges to fully convert our opportunities to revenue in the second half of the year. These factors, combined with the sales consequences of the recall, resulted in full-year sales of EUR 17.2 billion, down 1% year-on-year.

As we work to overcome these headwinds and look to the future, I am very encouraged by the underlying performance of our businesses. Our Diagnosis & Treatment businesses and Personal Health businesses performed well in 2021, recording 8% and 9% comparable sales growth*) respectively. Following in the wake of 2020's high COVID-19-related demand for hospital ventilation and monitoring & analytics solutions, our Connected Care businesses posted a 23% decline in comparable sales in 2021, which also reflects the effect of the Philips Respironics recall.

We have strengthened our portfolio through our R&D programs, partnerships, and acquisitions. The relevance of our innovative products and solutions and customer interest in partnering with Philips is underscored by the 4% growth in comparable order intake, resulting in an order book that is 18% higher year-on-year.

Nevertheless, I would like to emphasize that I very much regret the impact of the Philips Respironics recall on patients, care providers and shareholders. We identified – through our post-market surveillance processes – that the sound abatement foam used since 2008 in certain of our sleep and respiratory care products may degrade under certain circumstances. Subsequently, we issued a voluntary recall notification for affected devices to address potential health risks. We have ramped up production, service and repair capacity to ensure patients receive a repaired or replacement device as fast as possible.

As of January 2022, Philips Respironics has shipped a total of approximately 750,000 repair kits and replacement devices to customers and aims to complete the repair and replacement program in the fourth quarter of 2022. In close dialogue with regulators across the world, we are conducting a comprehensive test and research program to better characterize health risks. In parallel, we have captured and applied learnings from this recall across the entire company, as patient safety, quality and integrity are of the utmost importance to us.

Continued progress on strategic roadmap

In 2021, we saw sustained traction for our strategy to help transform the delivery of care across the health continuum, and our innovative portfolio resonates very strongly with customers.

Inspired by our purpose to improve people's health and well-being, we innovate solutions that deliver meaningful impact. In the consumer domain, for instance, our new Sonicare 9900 Prestige electric toothbrush leverages AI to optimize the user's brushing technique, ensuring full coverage of their teeth, and instills brushing habits that improve oral health.

For healthcare providers, our innovative solutions – smart combinations of systems, devices, software and services – help them deliver on the Quadruple Aim of better health outcomes, improved patient and staff experience, and lower cost of care:

- Giving clinicians smart connected imaging tools like our new Spectral CT 7500 system, which deliver high-quality spectral images for every patient on every scan, helping them make precision diagnoses without the need for multiple re-scans. Or our new MR 5300 1.5T 'helium-free for life' system, which combines operational and clinical excellence with reduced environmental impact.

- Enabling real-time, remote collaboration between technologists, radiologists and imaging operations teams across multiple sites with our vendor-neutral, multimodality Radiology Operations Command Center.

- Helping surgeons in the interventional lab perform personalized, minimally invasive procedures with solutions like our Azurion next-generation image-guided therapy platform, which was further expanded with breakthrough applications in 2021.

- Enabling healthcare professionals to orchestrate care delivery, also for patients recovering at home, with connected care solutions like our Patient Flow Capacity Suite, which helps hospitals manage the complete patient journey, and Acute Care Telehealth, which builds on our successful Tele-ICU solutions.

We signed 80 long-term strategic partnerships with hospitals and health systems around the world in 2021, underlining customers' appreciation of our holistic approach to healthcare. Solutions-based sales and recurring revenues continue to generate a growing proportion of total sales, with the figure now standing at around 45%. In order to maintain the strong flow of health technology innovations going forward, we invested EUR 1.8 billion in R&D in 2021.

Major divestment completed, acquisitions to drive future growth

In September, we completed the sale of the Domestic Appliances business to Hillhouse Investment, concluding our line of major divestments. We believe this will allow us to focus on extending our leadership in health technology solutions.

To support future growth and the delivery of data-enabled care across care settings, we again invested significantly in our data science, informatics and cloud technology capabilities in 2021. The acquisitions of BioTelemetry, Capsule Technologies and Cardiologs (the latter completed in January 2022) strengthen our position in patient care management in the hospital and the home. In January 2022, we also closed the acquisition of Vesper Medical, further expanding our image-guided therapy devices portfolio with venous stents.

Delivering on our ESG commitments

We reached 1.67 billion people with our products and services in 2021, including 167 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 deliver on the other key commitments set out in our Environmental, Social & Governance (ESG) framework. We are already carbon-neutral in our operations and are now engaging with suppliers and customers to reduce emissions across our entire value chain, as well as driving the transition to a circular economy.

We again received recognition for our sustainability efforts in 2021 – achieving a CDP 'A List' rating for the ninth consecutive year for our climate action, and securing second-highest place in the global Dow Jones Sustainability Indices (DJSI) list.

Looking ahead

We continue to invest in the future, further improving operational excellence and growing our core business, while driving our transformation into a digital, customer-first solutions company. I am very confident in our ability to overcome our current challenges. Against this background, and reflecting the importance we attach to dividend stability, we propose to maintain the dividend at EUR 0.85 per share.

Based on good customer demand and our growing order book, we expect to resume our growth and margin expansion trajectory in the course of 2022. In the short term, however, we continue to see significant volatility and headwinds related to COVID-19 and supply chain challenges, despite our ongoing mitigation efforts. Due to this, the Respironics field action and the strong growth in Q1 2021, we expect to start the year with a comparable sales decline, followed by a recovery and strong second half of the year. For the full year, we target 3-5% comparable sales growth[*)] and a 40-90 basis-points improvement in Adjusted EBITA[*)] margin.

In closing

I would like to thank our customers, suppliers and partners for their continued support over the past 12 months. And a special word of thanks to our employees for their fantastic contribution through another year of often difficult working circumstances due to the pandemic.

I would also like to express my appreciation to our shareholders for the confidence they continue to show in Philips' long-term future. This is a future founded on purpose and the robust, growing demand for health technology, which Philips will serve with a relentless focus on customer needs, its strong portfolio of innovations, and an unwavering commitment to continuous improvement.

Frans van Houten
Chief Executive Officer

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 225.

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 fulfilment of its managerial duties. Please also refer to Board of Management and Executive Committee, starting on page 117 within the chapter Corporate governance.

Members of the Board of Management

Frans van Houten

Born 1960, Dutch

Chief Executive Officer (CEO)

Chairman of the Board of Management and the Executive Committee since April 2011

Frans van Houten first joined Philips in 1986 and has held multiple global leadership positions across the company on three continents, including the role of co-CEO of the Consumer Electronics division. After temporarily leaving the company to become CEO of NXP/Philips Semiconductors, he rejoined Philips as its CEO. Frans served as co-chair at the World Economic Forum in Davos in 2017. He was one of the initiators and is current co-chair of the WEF Platform to Accelerate the Circular Economy. Frans is also a member of the European Round Table for Industry, an advocacy organization comprising the 50 largest European multinationals. He is co-founder and advocate of NL2025, a platform of Dutch influencers who support initiatives to create a better future for the Netherlands in the areas of education, vitality and sustainable growth. He is co-founder of the Graduate Entrepreneur start-up ecosystem in the Netherlands. Frans was appointed a member of the Board of Directors of Novartis in February 2017 and is a member of its Audit Committee since 2021.

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 U.S. Through 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 Legal Officer

Marnix van Ginneken joined Philips in 2007 and became Head of Group Legal in 2010. In this role he was responsible for the various Group Legal departments, including Corporate & Financial Law, Legal Compliance and Legal M&A. In 2014, Marnix became Chief Legal Officer of Royal Philips and Member of the Executive Committee. Before joining Philips, Marnix worked for Akzo Nobel and before that as an attorney in a private practice. Since 2011, he is also Professor of International Corporate Governance at the Erasmus School of Law in Rotterdam.

Other members of the Executive Committee

Sophie Bechu
Born 1960, French/American
Executive Vice President
Chief Operations Officer

Andy Ho
Born 1961, Chinese/Canadian
Executive Vice President
Chief Market Leader of Philips Greater China

Roy Jakobs
Born 1974, Dutch/German
Executive Vice President
Chief Business Leader Connected Care

Deeptha Khanna
Born 1976, Singaporean
Executive Vice President
Chief Business Leader Personal Health

Bert van Meurs
Born 1961, Dutch
Executive Vice President
Chief Business Leader Image Guided Therapy and jointly responsible for Diagnosis & Treatment

Edwin Paalvast
Born 1963, Dutch
Executive Vice President
Chief of International Markets

Shez Partovi
Born 1967, Canadian
Executive Vice President
Chief Innovation & Strategy Officer

Vitor Rocha
Born 1969, Brazilian/American
Executive Vice President
Chief Market Leader of Philips North America

Daniela Seabrook
Born 1973, Swiss
Executive Vice President
Chief Human Resources Officer

Kees Wesdorp
Born 1976, Dutch
Executive Vice President
Chief Business Leader Precision Diagnosis and jointly responsible for Diagnosis & Treatment

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

Strategy continues to resonate strongly with customers

Strong flow of innovations for diagnosis, treatment and connected care

Sleep & Respiratory Care impacted by recall; repair and replacement program well under way

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

Significant supply chain and procurement challenges

3 Strategy and Businesses

3.1 Driven by purpose

At Philips, our 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 important than it is in these challenging times.

As a leading health technology company, we believe that – viewed through the lens of customer needs – innovation can improve people's health and healthcare outcomes, as well as making care more accessible, personal, connected and sustainable. In concrete terms, 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.

Guided by this purpose, it is our strategy to lead with innovative solutions that combine products, systems, software and services and leverage clinical and operational data, to help our customers deliver on the Quadruple Aim (*better health outcomes, improved patient experience, improved staff experience, lower cost of care*) and help people take better care of their health at every stage of life.

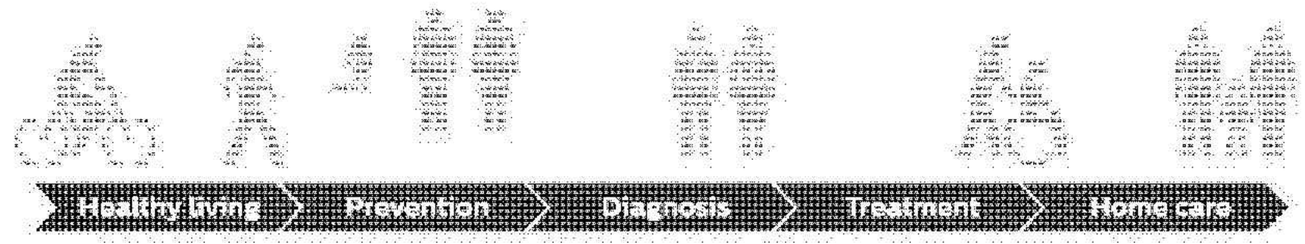
We strive to deliver superior, long-term value to our customers and shareholders, while acting responsibly towards our planet and society, in partnership with our stakeholders.

We aim to grow Philips responsibly and sustainably. To this end, we have deployed a comprehensive set of commitments across all the Environmental, Social and Governance (ESG) dimensions that 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*).

Our view on healthcare

Besides the healthcare sector's natural drivers of growth – aging populations, the rise of chronic diseases, increased spending on healthcare in emerging markets – we believe that health technology will be a major growth driver in the years to come.

At Philips, we see healthcare as a continuum – this puts people's health journeys front and center and enables integrated care pathways. Believing that healthcare should be safe, seamless, efficient and effective, we strive to 'connect the dots' for our customers and consumers, supporting the flow of real-time data needed to provide precision diagnoses, treatment and chronic care for patients.



Going forward, we believe the digital transformation of healthcare and – accelerated by COVID-19 – the increasing adoption of virtual care or 'telehealth' will play a major role in helping people to live healthily and cope with disease, and in enabling care providers to meet people's health needs, deliver better outcomes and improve productivity.

Helping our customers address their healthcare challenges

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 addition to leveraging retail trade partnerships and new business models, we are focused on accelerating growth through online channels, delivering products and services direct to consumers, and supporting longer-term relationships to maximize the benefit consumers can derive from our solutions.

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, and so deliver on the Quadruple Aim of value-based care.

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. The combination of compelling solutions and consultative partnership contracts, including a broad range of professional services, drives growth rates above the group average, as well as a higher proportion of recurring revenues.

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.

With our global reach, market leadership positions, deep clinical and technological insights, and customer-centric innovation capability, we are strongly placed to create further value in a changing healthcare world through our propositions in:

Diagnosis & Treatment

- Precision Diagnosis – providing smart, connected systems, optimized workflows, and integrated diagnostic insights, leading to clear care pathways and predictable outcomes
- Image Guided Therapy – innovating minimally invasive procedures in a growing number of therapeutic areas, with significantly better outcomes and productivity, while patients have a much better experience and can return home faster

Connected Care

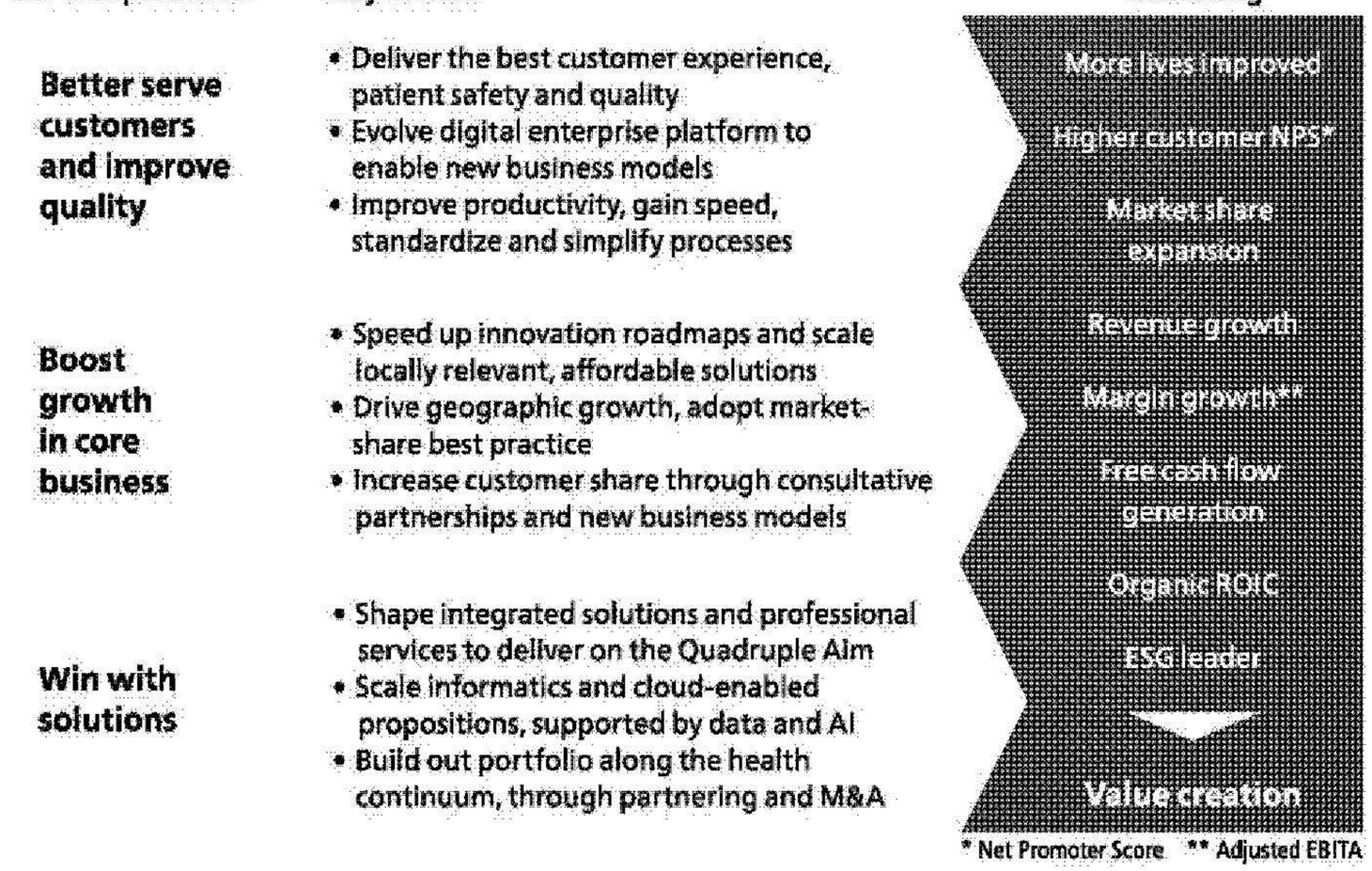
Driving better care management by providing a wealth of actionable data about patients' condition and hospital operations, and seamlessly connecting patients and caregivers in any care setting from the hospital to the home

Personal Health

Delivering propositions that help people enjoy healthier lifestyles and enhance personal hygiene

Our key strategic imperatives and value creation objectives

Our roadmap – with its three strategic imperatives – is our guide as we continue our transformation journey to attain HealthTech industry leadership and drive value creation.



Underpinned by these strategic imperatives, Philips' targets for accelerated growth, higher profitability and improved cash flow for the 2021–2025 period are:

- An acceleration of the average annual Group comparable sales growth[*)] to 5 to 6%. In 2022, Philips targets to deliver 3 to 5% comparable sales growth[*)] for the Group.
- An average Adjusted EBITA[*)] margin improvement of 60 to 80 basis points annually over the 2021-2025 period, reaching high-teens for the Group. In 2022, Philips targets to deliver a 40 to 90 basis-points improvement in Adjusted EBITA[*)] margin for the Group.
- Free cash flow[*)] above EUR 2 billion by 2025.
- Organic Return on Invested Capital (ROIC)[*)] of mid-to-high teens by 2025.

[*)] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 225.

3.2 How we create value

Based on the International Integrated Reporting Council framework, and with the Philips Business System at the heart of our endeavors, we use various resources to create value for our stakeholders in the short, medium and long term.

As we drive our transformation to become a solutions provider to our customers and consumers, we have adopted a single standard operating model that defines how we work together effectively to achieve our company objectives – the Philips Business System (PBS). The PBS integrates key aspects of how we operate:

Strategy
Our strategy defines our path to sustainable value creation for customers and shareholders.

Governance
Clear governance, roles and responsibilities empower people to collaborate and act fast.

Processes
Simplified standard processes, systems and practices enable lean and agile ways of working.

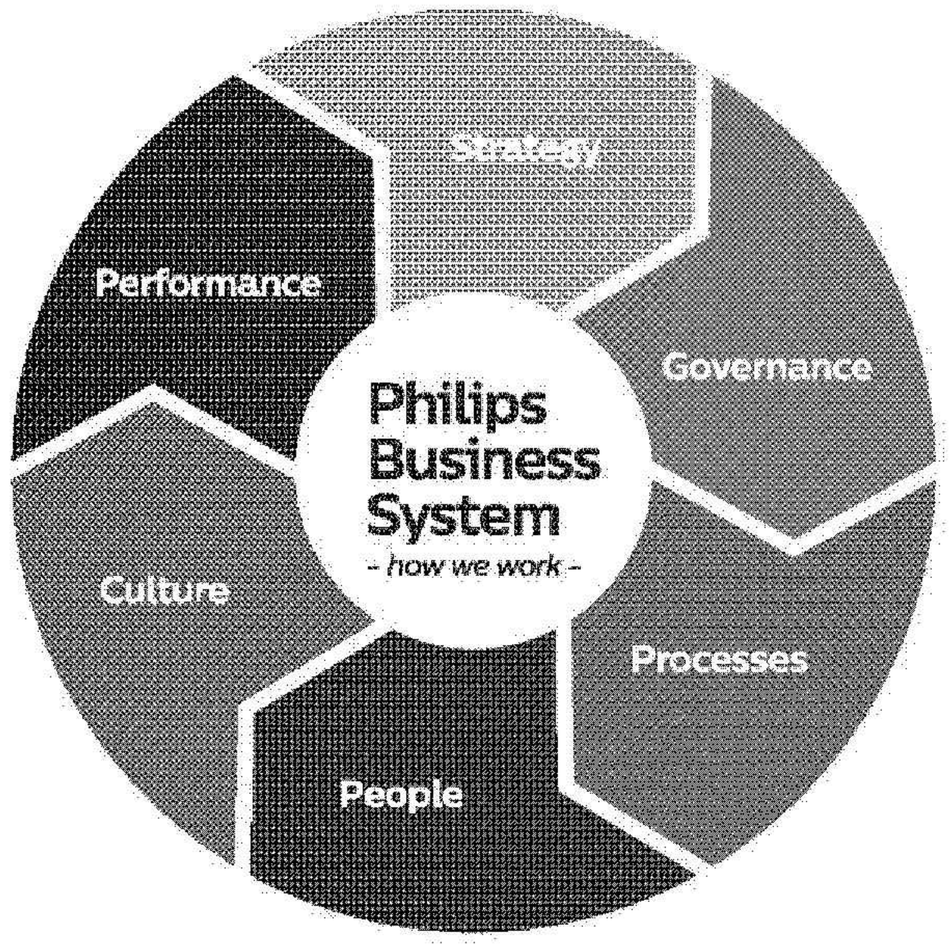
People
We value and develop people and teams, rewarding them for sustainable results.

Culture
We live the Philips culture, which sets standards on behaviors, such as ensuring patient safety, quality and integrity, and putting the customer first.

Performance
Through disciplined performance management and continuous improvement we achieve our goals.

Having a single business system increases speed and agility, and enhances standardization, quality and productivity, while driving a better, more consistent experience for our customers.

Resource inputs



Value outcomes

Societal impact

Resource inputs

The resources and relationships that Philips draws upon for its business activities

Human
- Employees 78,189, 120-plus nationalities, 40% female
- Philips University 863,000 courses, 830,000 hours, 835,000 training completions
- 31,923 employees in growth geographies
- Focus on Inclusion & Diversity

Intellectual
- Invested in R&D EUR 1.8 billion (Green Innovation EUR 197 million)
- Employees in R&D 10,751 across the globe including growth geographies

Financial
- Equity EUR 14.5 billion
- Net debt*) EUR 4.7 billion

Manufacturing
- Employees in production 38,618
- Industrial sites 25, cost of materials used EUR 4.1 billion
- Total assets EUR 31 billion
- Capital expenditure EUR 397 million

Natural
- Energy used in manufacturing 1,263 terajoules
- Water used 703,104 m^3
- '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 225.

Value outcomes

The result of the application of the various resources to Philips' business activities and processes as shaped by the Philips Business System

Human
- Employee Engagement Index 79% favorable
- Sales per employee EUR 219,419
- Safety 213 Total Recordable Cases

Intellectual
- New patent filings 860
- Royalties EUR 382.5 million
- 182 design awards

Financial
- Comparable sales growth*) (1.2)%
- Adjusted EBITA*) as a % of sales 12.0%
- Free cash flow*) EUR 900 million

Manufacturing
- EUR 12.0 billion revenues from goods sold

Natural
- 70.5% Green/EcoDesigned Revenues
- 16% revenues from circular propositions
- Net CO_2 emissions from own operations down to zero kilotonnes
- 73,500 tonnes (estimated) materials used to put products on the market
- Waste 22,204 tonnes, of which 87% repurposed

Social
- Brand value USD 12.1 billion (Interbrand)
- Partnerships with UNICEF, Red Cross, Amref and Ashoka

Societal impact

The societal impact of Philips through its supply chain, its operations, and its products and solutions

Human
- Employee benefit expenses EUR 6,246 million, all staff paid at least a Living Wage
- Appointed 72% of our senior positions from internal sources
- 28% of Leadership positions held by women

Intellectual
- Around 60% of revenues from new products and solutions introduced in the last three years
- Over 65% of sales from leadership positions

Financial
- Market capitalization EUR 29 billion at year-end
- Long-term credit rating A- (Fitch), Baa1 (Moody's), BBB+ (Standard & Poor's)
- Dividend EUR 773 million

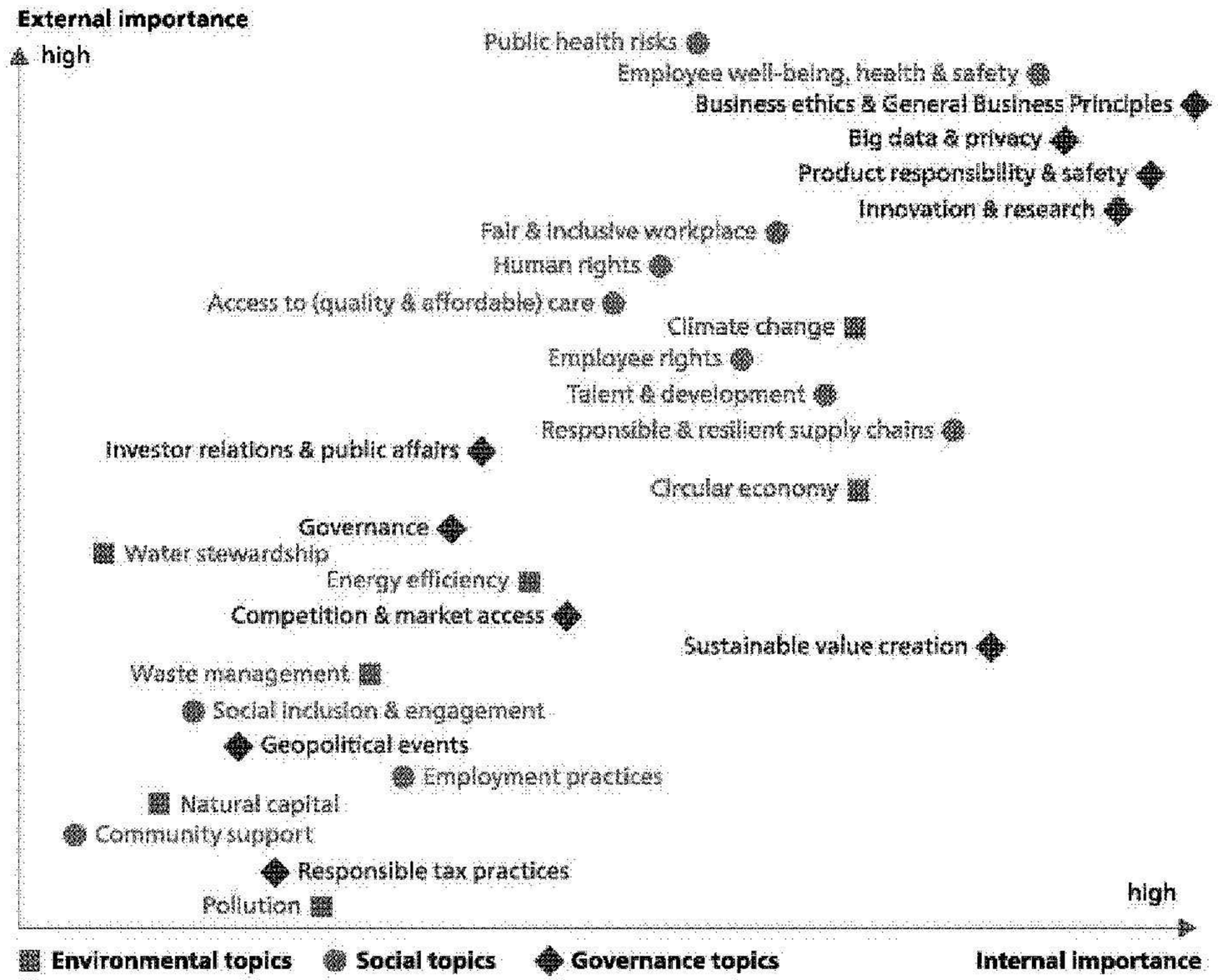
Manufacturing
- 100% electricity from renewable sources

Natural
- Environmental impact of Philips operations down to EUR 106 million
- All 25/25 industrial sites 'Zero Waste to Landfill' at year-end 2021
- First health technology company to have its CO_2 reductions assessed and approved by the Science Based Targets initiative

Social
- 1.67 billion Lives Improved, of which 167 million in underserved communities (including 2.2 million via Philips Foundation)
- 430,000 employees impacted at suppliers participating in the 'Beyond Auditing' program
- Total tax contribution EUR 4,090 million (taxes paid/withheld)
- Income tax benefit EUR 103 million; the effective income tax rate is (20.0)%

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. Assessing these topics enables us to prioritize and focus upon the most material topics and effectively address these in our policies and programs. Philips' impact on society at large is covered through our Lives Improved metric and the Environmental Profit & Loss account.



Our materiality assessment is based on an ongoing trend analysis, media search, and stakeholder input. In 2021, we solicited input from a diverse group of external and internal stakeholders, including investors, NGOs, customers, suppliers, peer companies, academia, and senior management in Philips. Similar to 2020, we used an evidence-based approach to materiality analysis powered by Datamaran. By applying Datamaran's 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 and social media, we identified a list of topics that are material to our business. 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. Public health risks emerged as a new material topic in 2020, as a result of the COVID-19 pandemic, and was again included in 2021.

Changes in 2021

In 2021, the topic of Human rights & responsible supply chains was split into two separate topics, considering the growing importance of both. Next, Responsible tax practices was carved out from the Business ethics & General Business Principles topic due to the growing importance of the topic in society. On the external view, the most significant increase compared to 2020 is climate change. The internal view saw a significant increase in importance on climate change, circular economy and employee rights.

Our materiality assessment has been conducted in the context of the GRI Sustainable Reporting Standards and the results have been reviewed and approved by the Philips ESG Committee.

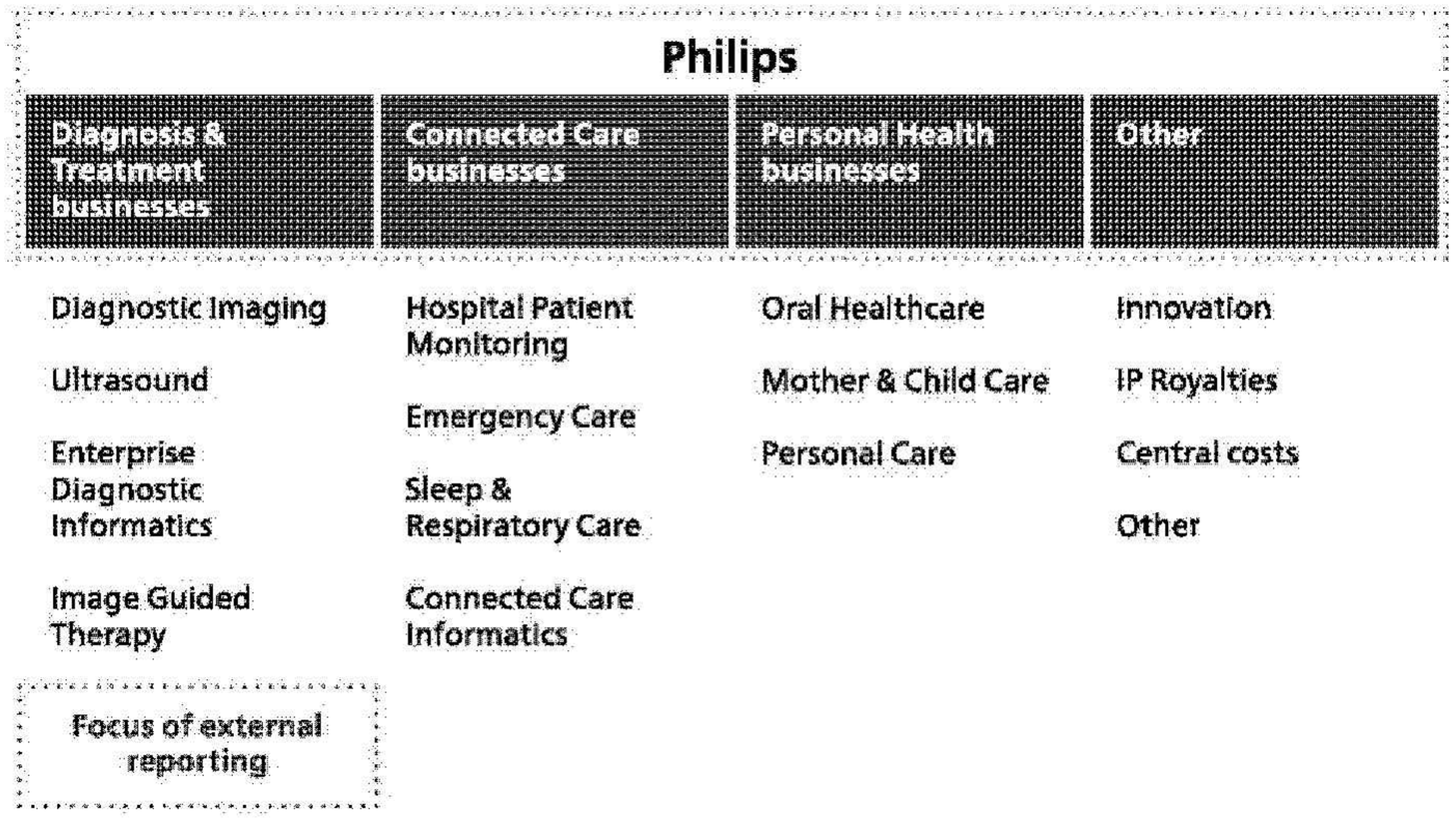
For more information on materiality, refer to Material topics and our focus, starting on page 243.

3.4 Our businesses

Our reporting structure in 2021

Koninklijke Philips N.V. (Royal Philips) is the parent company of the Philips Group. In 2021, 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, Philips identifies the segment Other.

Since the completion of the sale of the Domestic Appliances business (formerly part of the Personal Health businesses), it is no longer consolidated by Philips as from September 1, 2021 and therefore is not included in the following discussion.



Philips Group
Total sales by reportable segment

	2021
Diagnosis & Treatment	50%
Connected Care	27%
Personal Health	20%
Other	*3%*

3.4.1 Diagnosis & Treatment businesses

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 diagnoses and minimally invasive procedures 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 experience, improved staff experience, and lower cost of care.

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

We also provide integrated solutions combining imaging systems and diagnostic and therapeutic devices, which optimize interventional procedures and so 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 in 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 2021, the Diagnosis & Treatment businesses benefited from a partial resumption of elective procedures and exams as the COVID-19 restrictions eased, and strong order growth for capital equipment, which bodes well for 2022. We continued to make advances in innovation, strengthening our portfolio and providing clinical and economic evidence to support the adoption of our solutions. In oncology care, we deepened our collaboration with leading precision radiation therapy company Elekta, with the aim of advancing comprehensive and personalized cancer care through precision oncology solutions. The launch of the Spectral Computed Tomography 7500 system is a significant step forward in integrating the additional diagnostic benefits of spectral CT into standard workflows, and in combination with Image Guided Therapy System – Azurion – represents the world's first always-on spectral detector angio-CT solution. Significant new clinical data demonstrated the value of intravascular ultrasound, in which Philips is a global leader, in the treatment of a broad range of peripheral vascular patient populations.

In 2021, 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; 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
- **Enterprise Diagnostic Informatics**: a suite of integrated 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:** Systems – 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; Devices – interventional diagnostic and therapeutic devices to treat coronary artery and peripheral vascular disease, including Intravascular Ultrasound (IVUS), Intracardiac Echo (ICE), fractional flow reserve (FFR) and instantaneous wave-free ratio (iFR) physiology measurement, atherectomy catheters, a dissection repair implant, as well as drug-coated balloons and lead extraction devices

Diagnosis & Treatment
Total sales by business

	2021
Diagnostic Imaging	42%
Ultrasound	19%
Enterprise Diagnostic Informatics	8%
Image Guided Therapy	31%

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 2021 Diagnosis & Treatment had around 32,000 employees worldwide.

2021 business highlights

Philips received US FDA clearance for its SmartCT (Cone Beam CT) application for the Azurion image-guided therapy system, which provides interventionalists with CT-like 3D images to enhance procedural outcomes and fits seamlessly into existing workflows. An industry-first, Philips also introduced ClarifEye Augmented Reality Surgical Navigation, advancing minimally invasive spine procedures in the hybrid operating room.

Philips has pioneered spectral CT diagnostics. The company's new Spectral CT 7500, which enables customers to benefit from a reduction in follow-up scans, increased certainty in lesion characterization, and reduced time to diagnosis, is attracting strong customer demand. For example, the University Medical Center Utrecht in the Netherlands installed two Spectral CT systems, with the aim of providing greater confidence in mainstream clinical diagnosis – for all patients and in all exams.

Building on the success of the IntraSight interventional applications platform, we further reinforced Philips' leading position in image- guided therapy with the introduction of IntraSight Mobile, which offers users in hospitals and office-based labs the integration, flexibility and affordability of a single mobile system for intravascular imaging, physiology measurements and co-registration for seamless workflows and enhanced patient care.

Philips announced progress on several clinical studies including the positive two-year clinical study results for the Tack Endovascular System for dissection repair, the first patient enrollment in the DEFINE GPS multicenter study to further drive the adoption of iFR for percutaneous coronary interventions based on clinical evidence, and the start of the WE-TRUST multicenter stroke study to shorten treatment times by identifying, planning and treating ischemic stroke patients in the interventional suite. Moreover, Philips announced the first structural heart repair procedure at Mayo Clinic using its new 3D intracardiac echocardiography catheter VeriSight Pro.

Building on Philips' leadership in image-guided therapy solutions in cardiology, the company is further strengthening its position in fast- growing adjacencies such as neurology and oncology. For example, USA-based Piedmont Health equipped its neurosurgical operating rooms with a specialized version of Philips Azurion for the treatment of stroke. Philips also announced positive results of a clinical study aimed at setting a new standard of safety and accuracy in the diagnosis of small peripheral lung lesions using Philips Lung suite.

Philips launched next-generation digital pathology solution, Philips Digital Pathology Suite – IntelliSite – which features a comprehensive, scalable suite of software tools and capabilities designed to help streamline workflows, enhance diagnostic confidence, facilitate team collaboration, integrate artificial intelligence (AI) and increase the efficiency of pathology labs. Underlining its leading role in digital pathology, the company partnered with Healius Pathology, one of Australia's leading providers of private medical laboratory and pathology services, to deploy a multi-site digital pathology solution across Healius' National Pathology Network.

Philips introduced new AI-enabled software and systems in MR, including the MR 5300, its second helium-free for life MR operations 1.5T system, the MR 7700 3.0T system for neuro applications, and MR Workspace, which simplifies the path from image acquisition to diagnosis.

The company enhanced its EPIQ and Affiniti ultrasound systems with tele-ultrasound capabilities, as well as adding liver fat quantification tools that allow allows non-invasive diagnosis of early-stage fatty liver disease.

A new addition to its Ambient Experience portfolio, Philips launched Pediatric Coaching, a holistic solution designed to be a less stressful experience for parents and their children undergoing MRI scans. The company also announced an initiative with the Walt Disney Company EMEA to test the effects of custom-made animations, including specially-made Disney stories, within Philips' Ambient Experience hospital environments.

Philips further expanded its leading image-guided therapy portfolio through the acquisition of Vesper Medical, adding a venous stenting solution to address the root cause of chronic deep venous disease and enhance patient care. This will complement Philips' strong IVUS offering in venous imaging and expand the company's growth in the vascular therapy market.

Philips received FDA clearance for its new MR 5300 system, continuing the advancement of the company's helium-free for life operating portfolio. Powered by AI, the MR 5300 simplifies and automates complex clinical and operational tasks for outpatient clinical use and MR departments to help accelerate workflows and improve access to affordable, quality care.

Further expanding the company's comprehensive CT portfolio, Philips introduced the new CT 5100 Incisive with CT Smart Workflow, comprising AI-enabled capabilities designed to accelerate workflows, enhance diagnostic confidence, and maximize system up-time.

3.4.2 Connected Care businesses

Spanning the entire health continuum, the Connected Care businesses help broaden the reach and deepen the impact of healthcare – with solutions that unite devices, informatics, data and people across care networks. In this way, 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.

In 2021, Connected Care continued to play a crucial role in fulfilling patient and customer needs created by the COVID-19 global pandemic – delivering core systems such as patient monitors, supporting the expansion of telehealth for the ICU, providing ventilators and oxygen, and delivering remote patient care safely.

COVID-19 continues to accelerate the digital transformation of healthcare, enabled by, for example, cloud and SaaS offerings. Increasingly, our customers need to support the transition of care, in the hospital and from the hospital to the home, making virtual care services an essential part of healthcare delivery. At the same time, they want to be able to unlock data siloes and translate data into clinical and operational insights to support better outcomes. And they want to leverage automation and remote support in order to improve workflows and alleviate staffing constraints.

In 2021, Connected Care rose to these challenges in large, growing and diverse markets, supported by the recent acquisitions in clinical data services and the increased focus on informatics.

Philips has a deep understanding of clinical care and the patient experience inside and outside the hospital. The combination of our advanced technological solutions and consultative approach allows us to be an effective partner to our customers in their transformation, both across the enterprise and at the level of the individual clinician, nurse and patient. Our consultation services are set up to help redesign and optimize patient and work flows, as well as to provide predictive analytics, customized training and improved accessibility across our application landscape, thus reducing the burden on hospital staff and improving patient safety.

This requires secure common digital data platforms that connect and align consumers, patients, payers and healthcare providers in an interoperable manner. 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 June 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 to address identified potential health risks related to the polyester-based polyurethane (PE-PUR) sound abatement foam in these devices. Following the substantial ramp-up of its production, service and repair capacity in 2021, the repair and replacement program in the United States and several other markets is under way. As of January 2022, Philips Respironics has shipped a total of approximately 750,000 repair kits and replacement devices to customers and aims to complete the repair and replacement program in the fourth quarter of 2022.

In 2021, 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 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**: Our business 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).
- **Sleep & Respiratory Care**: Philips' cloud-based sleep and respiratory patient management solutions enable the care of more than 10.5 million connected patients, driving adherence, reimbursement and remote patient management. This extends from ambulatory patient care solutions for obstructive sleep apnea, to end-to-end solutions that encompass consumer engagement, 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**[*)]: This business includes a fully integrated Electronic Medical Record & Care Management business, which enables centralized management of clinical, organizational and operational processes, virtual care delivery propositions, including remote patient management, and real-time monitoring in acute care, including telehealth in the ICU. Philips' 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. In 2021, Philips acquired Capsule Technologies, Inc., which now forms part of Clinical Data Services. Capsule is a leading player in medical device and data integration across the enterprise, integrating with more than 1,000 vendor-agnostic device models. Building on its core integration and interoperability capabilities, along with the Philips HealthSuite Platform, we will fuel our data and healthcare Internet of Things (IoT) capabilities in support of integrated workflow solutions for the hospital. In 2021, Philips also acquired BioTelemetry, Inc. and it now forms part of the Ambulatory Monitoring & Diagnostics business. BioTelemetry holds a leading position in patient care management in ambulatory and home care settings in North America through a suite of cardiac diagnostic and monitoring solutions to identify heart rhythm disorders supported by Artificial Intelligence algorithms.

Connected Care
Total sales by business

	2021
Hospital Patient Monitoring	43%
Emergency Care	5%
Sleep & Respiratory Care	37%
Connected Care Informatics	15%

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.

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

At year-end 2021, the Connected Care businesses had around 18,000 employees worldwide.

*) In Q3 2021, Personal Emergency Response Services and Senior Living, including the Aging & Care Giving business, was sold to Connect America.

2021 business highlights

Philips launched two new HealthSuite informatics solutions which are scalable across the enterprise, to support its customers in achieving the Quadruple Aim of healthcare: Patient Flow Capacity Suite, a solution that helps hospitals manage the complete patient journey, and Acute Care Telehealth, which builds on Philips' successful Tele-ICU solutions.

Philips' recently acquired Capsule business continued to add new device drivers to its Medical Device Information Platform, which will be integrated with HealthSuite. With more than 1,000 unique types of medical devices capable of integrating with the platform, customers can connect more devices to advance health systems' digital transformation with intelligent, vendor-agnostic tools that turn complex data streams into actionable insights.

Philips introduced its integrated Interventional Hemodynamic System with the portable Patient Monitor IntelliVue X3, providing advanced vital signs measurements at the tableside in the interventional suite and continuous monitoring across care settings. Uninterrupted patient monitoring can help to improve clinical decision making and timely detection of potential adverse events at every stage.

Expanding its portable patient management offering, Philips introduced the Medical Tablet, a portable monitoring kit designed to help clinicians remotely monitor larger patient populations during emergency situations. This new offering, which is available in North America, Europe and Japan, provides remote access to patient data to improve workflows and better manage increased patient volumes.

Philips entered into a partnership agreement with Orbita Inc., a provider of conversational artificial intelligence (AI) solutions for healthcare, to co-create next-generation conversational virtual assistants for Philips' consumer health and patient support applications.

Philips announced a collaboration with USA-based MedChat to integrate MedChat's live chat and AI-driven chatbot services into Philips Patient Navigation Manager. With the combined offering, Philips enables its customers in North America to create automated communication workflows that function seamlessly alongside patient access and call center operations.

Highlighting the company's leading position in high-acuity care settings, Philips received FDA clearance for the IntelliVue MX750 and MX850 patient monitors, which are uniquely designed to support scalability, alarm management, cybersecurity, and enhanced infection prevention within the hospital.

Building on the ambulatory cardiac diagnostics and monitoring solutions resulting from the BioTelemetry acquisition, Philips announced the acquisition of Cardiologs (closed on January 7, 2022), adding a vendor-neutral heart disorder screener and ECG analysis applications based on machine learning algorithms. This technology will accelerate diagnostic reporting and streamline clinician workflow and patient care.

3.4.3 Personal Health businesses

Our Personal Health businesses play an important role on the health continuum – in the healthy living, prevention and home care stages – 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 relentless 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

In September 2021, Philips completed the sale of its Domestic Appliances business to Hillhouse Investment, a global investment firm. The results of this transaction, which Philips announced in March 2021, are reported under Discontinued operations for 2021. As a result, in 2021, the Personal Health segment consisted of the following remaining 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 and teledentistry service; 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, sterilizers), digital parental solutions (Pregnancy+ and Baby+ apps)
- **Personal Care**: products from entry-level to premium for male grooming (shavers, OneBlade, groomers, trimmers, hair clippers), including premium solutions with SkinIQ technology and in-app coaching for a personalized shave, blade subscriptions; beauty solutions (skin care, hair care, hair removal), including solutions with the latest SenseIQ technology that sense and adapt for personalized care, also available through subscription models.

Personal Health
Total sales by business

	2021
Oral Healthcare	34%
Mother & Child Care	10%
Personal Care	56%

Through our Personal Health businesses, we offer a broad range of solutions in various consumer price segments, always aiming to offer and realize premium value. We continue to rationalize our portfolio of locally relevant innovations and increase its accessibility, particularly in lower-tier cities in growth geographies. A notable aspect of our commercial

strategy is driving increased direct-to-consumer relationships and sales through our consumer communities and online store. Worldwide about half of our Personal Health sales 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, with the goal of extending opportunities for people to live healthily, 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 adopted a resolution on oral healthcare in May 2021. Good oral care is important for everyone. And since everyone is different, oral healthcare should also be personalized to each user, so they can get the best health outcome. Philips Sonicare 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 2021, the Pregnancy+ app and Baby+ app combined have more than 56 million downloads, almost 2 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 are increasingly diversifying the revenue model with new business models, including direct-to-consumer, subscriptions and services.

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

At year-end 2021, Personal Health employed around 10,000 people worldwide.

2021 business highlights

The global launch of Philips' most advanced electric toothbrush, the Sonicare 9900 Prestige, was positively received by consumers. The premium electric toothbrush leverages AI to optimize the user's brushing technique, ensuring full coverage of their teeth, and instills brushing habits that improve oral health.

Toward the end of the year, Philips completed the successful roll-out of the Sonicare 9900 Prestige in North America, China, Europe, Middle East and Asia Pacific. It finished #1 in the Stiftung Warentest, Europe's leading consumer organization. Philips further expanded its oral healthcare portfolio with the launch of innovative interdental cleaning devices in North America, China and Asia Pacific.

Underlining Philips' strategy to deliver locally relevant solutions, the company launched several oral healthcare innovations targeting multiple price points in China, including two new electric toothbrushes. In addition, Philips launched its professional teeth whitening offering Zoom in China through a local partnership with LinkedCare, one of the largest dental solution providers in the Chinese dental market.

Expanding the company's leading male grooming portfolio, Philips introduced the Shaver Series 9000 with SkinIQ technology in markets around the world, including China, North America and Europe. The premium shaver leverages AI and sensors to offer a personalized shave tailored to each unique skin and hair type.

Philips produced its 100 millionth OneBlade, just 5 years after its launch in 2016. The Philips OneBlade has disrupted shaving markets worldwide, creating a new category for shaving, trimming, and edging.

Philips introduced the Lumea IPL 9000 series with SenseIQ technology for personalized hair removal, which is now also available through a Try&Buy subscription model in various European countries.

The No. 1 worldwide pregnancy app that's the most recommended app by midwives and pediatricians, the Philips Pregnancy+ app, debuted in India. The Philips Pregnancy+ app is currently available in 175+ countries worldwide, and offers a fully immersive experience for expecting parents, enabling them to track their baby's growth, all with personalized content supported by clinical expertise.

Philips' newest baby tech launched in North America (with subsequent markets launching throughout 2022): the Philips Avent Natural Baby Bottle with Natural Response nipple, which releases milk only when baby actively drinks, just like breastfeeding, easing the switch between breast and bottle.

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 2021, around 18,000 people worldwide were working in these areas.

About Other

Innovation & Strategy

The role of Innovation & Strategy is to listen to the voice of the customer and, in collaboration with the operating businesses and the markets, direct the company strategy and innovation roadmap to achieve our growth and profitability ambitions. The various components of Innovation & Strategy include: the Chief Technology Office (CTO), Research, HealthSuite Platform, the Chief Medical Office, Engineering Solutions, Experience Design, Healthcare Transformation Services, Strategy, and Partnerships. Our four largest Innovation Hubs are in Eindhoven (Netherlands), Cambridge (USA), Bangalore (India) and Shanghai (China).

The Innovation & Strategy function tunes into industry trends and customer signals to develop innovations that solve real-world problems for healthcare customers and consumers. Innovation & Strategy advances innovation together with Philips' businesses, markets and partners. This entails cooperation between research, design, medical affairs, professional services, marketing, strategy and businesses in a multi-disciplinary fashion, from early exploration to first-of-a-kind offerings.

Innovation & Strategy actively participates in Open Innovation through relationships with academic, clinical, industrial partners and start-ups, as well as via public-private partnerships. It does so in order to improve innovation speed and agility, to capture and generate new ideas, and in some cases to leverage third-party capabilities. This may include sharing the related financial exposure and benefits.

Finally, Innovation & Strategy sets the agenda to 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 and Internet of Things.

Chief Technology Office (CTO) and Philips Research

The Chief Technology Office orchestrates customer-centric innovation strategy and portfolio management, and drives adoption of digital architecture and platforms, Data Science and AI, as well as excellence in software, across Philips' businesses and markets. Philips Research initiates game-changing innovations – based on deep customer insights and technology advancements – that disrupt and cross boundaries in health technology and care delivery. It does so to increase the availability and accuracy of healthcare and improve clinical and economic outcomes, as well as supporting the associated transformation of Philips into a digital solutions company. CTO and Research encompass the following organizations:

- **Innovation Management**, responsible for end-to-end innovation strategy and portfolio management, integrated roadmaps linking products, systems and software to solutions, New Business Creation Excellence, R&D competency management, Clinical Research Board, Innovation Transformation and Performance Management and public funding programs.
- **The Chief Architect Office** defines the reference architecture for the HealthSuite Platform, domain-specific digital application platforms, and Modular Systems, covering all systems, products, services, solutions and digital IT in Philips.
- **The Software Center of Excellence** drives adoption of industry best practices in creating and maintaining application-level software, modular and configurable system design and model-based system engineering.
- **The Data Science and AI Center of Excellence** defines and deploys strategies and best practices for dealing with Data Science and AI in a responsible and compliant way, and develops common tools to facilitate the development process and co-creation of innovative propositions with clinical and business partners.
- **Philips Research**, as co-creator and strategic partner of the Philips businesses, markets and complementary Open Innovation ecosystem partners, drives customer needs-focused front-end innovation and clinical research at sites across the globe. The role of Research increasingly goes beyond early-stage proof-of-concept, including advanced development of smart connected devices and systems, and integrated solutions and services, fitting regionally relevant digital ecosystems.

Philips HealthSuite Platform

Philips HealthSuite Platform helps unlock the power of data to enable healthcare professionals, patients and consumers to engage in connected care. Its modular set of re-usable digital capabilities liberate, integrate and enable actionable insights on data from disparate systems within a secure environment. HealthSuite Platform helps accelerate the development and deployment of digital propositions across the health continuum, supporting better health outcomes, improved patient/consumer and staff experience, and lower cost of care.

Chief Medical Office

The Chief Medical Office is responsible for clinical innovation and strategy, healthcare economics, clinical evidence generation, medical affairs and market access, clinical education, as well as medical thought leadership, with a focus on healthcare governance and organization, the Quadruple Aim and value-based care. This includes engaging with stakeholders across the health continuum to extend Philips' leadership in health technology and acting on new value-based reimbursement models that benefit the patient, health professional, care provider and payer.

Leveraging the knowledge and expertise of the medical professional community across Philips, the Chief Medical Office includes many healthcare professionals who practice(d) in the world's leading health systems. Its 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.

Engineering Solutions

Engineering Solutions is accountable for bringing engineering capabilities in Philips to world-class level to realize innovations that deliver on our customers' needs, advancing the Quadruple Aim. Taking a customer-first approach, Engineering Solutions turns ideas into working innovations by providing deep engineering expertise, cross-business product platforms, and innovation processes and tools. Engineering Solutions also works for selected external companies in the healthcare, high-tech and semiconductor industries.

Innovation Hubs

To drive innovation effectiveness and efficiency, and to enable locally relevant solution creation, we have established four Innovation Hubs for the Philips Group: Eindhoven (Netherlands), Cambridge (USA), Bangalore (India) and Shanghai (China). The 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.

- **Philips Innovation Center Eindhoven**, with satellites in Hamburg, Paris and Moscow, is Philips' largest cross-functional Innovation Hub, hosting the global headquarters of most of our central innovation organizations. Many of the company's core research programs are also run from here, as well as innovation for digital platforms and solution & services delivery.
- **Philips Innovation Center Cambridge, MA** is located at the heart of medical innovation within the North America market. It has innovation partnerships with top engineering institutions like MIT, with top clinical sites, and with government funding agencies like NIH (National Institutes of Health) and BARDA (Biomedical Advanced Research and Development Authority). The Research lab in Cambridge focuses on the application of Data Science and AI in radiology, ultrasound, and acute care.
- **Philips Innovation Center Bangalore** is our largest software-focused site, with over 3,400 engineers. In addition, it hosts, among others, R&D teams from most of our operating businesses and IT. The Center also functions as the hub for market-driven innovation in surrounding geographies in Asia Pacific, Africa, and Middle East & Turkey.
- **Philips Innovation Center Shanghai** is a key contributor to the healthcare and healthy living transformation of China. It combines digital innovation, research and solutions development for the China market, participating in local digital ecosystems, while several of its locally relevant innovations are also finding their way globally. Programs focus on personal health, clinical informatics for precision diagnosis, and connected care solutions.

Alongside the hubs, where most of the central Innovation & Strategy organization is concentrated together with selected business R&D and market innovation teams, we continue to have significant, but more focused innovation capabilities integrated into key technology centers at our other global business sites.

Philips Experience Design and Healthcare Transformation Services

Philips Experience Design is the global design function for the company, ensuring the user experiences of our innovations are inspiring, meaningful, people-focused, and locally relevant. Philips Experience Design also ensures the Philips brand experience is distinctive, consistently expressed across all customer touchpoints, and drives customer preference. 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. Philips Experience Design partners with stakeholders across the enterprise in applying creativity and design thinking, from defining value propositions to co-creating solutions with customers, as well as developing new approaches in areas such as data-enabled design tools and processes that help create meaning and capture value from data. Philips Experience Design received a record 182 awards for design excellence in 2021.

Philips Healthcare Transformation Services (HTS) is a consulting practice within Philips that helps our customers improve process efficiency and enhance the care experience. Our consultants leverage co-create methodologies with the aim of creating solutions that are tailored specifically to the challenges facing our customers, as local circumstances and workflows are key ingredients in the successful implementation of solutions. HTS is a team of healthcare transformation practitioners with clinical and consulting expertise delivering a portfolio of methods and tools in operational and clinical transformation, environment and experience design, and digital transformation and performance analytics.

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 57,000 patent rights, 33,000 trademarks, 114,000 design rights and 2,900 domain names. Philips filed 860 new patents in 2021, 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 business segments. 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 more than 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 2021, we relocated key offices in Farnborough (UK), Stockholm (Sweden), Toronto (Canada), Gurgaon (India) and Istanbul (Turkey). We invested in, amongst others, our sites in Plymouth (USA), Eindhoven (Netherlands), Alajuela (Costa Rica), Pune (India) and Böblingen (Germany) to create an engaging workplace that can help attract and retain 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 concept to support hybrid working in 2022.

We have fully transferred 33 properties and partially transferred 48 properties as part of the sale of our Domestic Appliances business.

In line with our Environmental ESG commitment towards 2025, we continue to actively optimize our real estate portfolio. Having met our goal of bringing our site-related CO_2 emissions under 35 kilotons per year in 2020, we further reduced our CO_2 emissions by 15% in 2021. In addition, we reached 73.9% renewable energy in 2021, meeting our 2021 target of 72% and on track to achieve our target of 75% by 2025.

The vast majority of our locations consist of leased property, and we manage these closely to keep the overall vacancy rates of our property below 5% and to ensure the right level of space efficiency and flexibility to follow our business dynamic. Occupancy rates in Philips office locations continued to decrease in 2021 as a result of COVID-19, and this trend is expected to continue in 2022. The net book value of our land and buildings at December 31, 2021, represented EUR 1,388 million; construction in progress represented EUR 24 million. Our current facilities are adequate to meet the requirements of our present and foreseeable future operations.

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, to deliver orders, and to manage and service the installed base of equipment and informatics at our customer sites. The Markets manage the market-oriented profit-and-loss account (P&L). 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.

To take quick decisions that are locally relevant and as close to the customer as possible, our Businesses and Markets work closely together in Business-Market Combinations (BMCs) – Ultrasound-Japan, for example. Through the BMC process it is agreed where to compete and how to win. Businesses and Markets bear joint accountability for managing the operational end-to-end consumer and customer value chain and the collaborative P&L, while leveraging the functional excellence and shared infrastructure of the company.

3.5.2 Macro-economic landscape in 2021

In 2021, the world economy experienced strong growth, largely due to the base effect from the recession suffered in 2020 as a result of the COVID-19 pandemic. The economic re-opening seen in 2021 has led to significant economic recoveries, although the COVID-19 pandemic and global supply bottlenecks persist. According to Oxford Economics, global real GDP is estimated to have grown by 5.8% in 2021, compared with the -3.5% estimated for 2021 in 2020. Across Philips' markets, Latin America, Europe and Japan are estimated to have not yet reached their 2019 real GDP levels. Oxford Economics expects global real GDP growth to moderate to 4.2% in 2022.

3.5.3 2021 highlights from our Market Groups

North America

Philips continued to focus on helping customers drive innovation in areas such as cancer care, cardiovascular care and provider digital transformation, while forging strategic partnerships to advance artificial intelligence (AI) and data analytics. 2021 saw our long-term strategic partnerships continue to expand into these areas, as health systems looked to advance care for their communities.

New York University Langone Health's Department of Pathology worked with us to integrate Philips Genomics Workspace into their EMR (electronic medical record) and enable the largest cancer sequencing test in the industry. We signed a long-term strategic partnership specifically focused on integrated cardiovascular solutions with Lankenau Heart Institute, part of Main Line Health, and formed a unique partnership with the University of California, San Francisco (UCSF), to develop AI technologies that will enable personalization and make it easier for patients to select providers, access their health information and receive virtual care at home. Further, Baptist Health signed a 10-year strategic partnership to help standardize patient monitoring solutions, supporting their digital transformation goals.

Our partnerships in 2021 also highlighted our commitment to health equity and sustainability. The US Chamber of Commerce Foundation, in partnership with Philips and the Platform for Accelerating the Circular Economy (PACE), expanded the Capital Equipment

Coalition (CEC) to North America to accelerate transformation to a circular economy model. We are also working with the National Minority Quality Forum (NMQF), as part of a joint mission to raise awareness of and support on key issues such as maternal mortality among Black women, leveraging Philips resources and technology, e.g. the Pregnancy+ app, to help close the healthcare disparities gaps.

In keeping with our belief in the added value of AI, we announced the Philips Sonicare 9900 Prestige, an AI-enabled toothbrush with SenseIQ technology. Philips Sonicare continues to be the sonic toothbrush brand most recommended by US dental professionals, and we maintain a No. 1 market share in electric male grooming.

Greater China

In 2021 we continued our efforts to provide innovative health technology solutions in support of China's national health strategy, Healthy China.

Philips provided the Yili Chuanxin Oncology hospital in Xinjiang, a newly established top-tier private hospital, with an Oncology solution to address the hospital's clinical needs in screening, precision diagnosis, targeted treatment and rehabilitation of cancer patients. The solution includes IntelliSpace Digital Pathology and the Ingenia 3.0T MR, IQon Spectral CT, Incisive CT and CT Big Bore imaging systems, combined with IntelliSpace Portal for advanced visualization and analysis.

Driven by the China Healthcare Reform, PCI (Percutaneous Coronary Intervention) procedures are gradually being transferred from top-tier hospitals to low-tier hospitals, which urgently need medical technology to help doctors provide quality diagnosis and treatment to cardiovascular patients. We provided an integrated solution, including Azurion and IVUS (intravascular ultrasound), to a county-level hospital in Kaifeng, Henan Province, to address the hospital's needs in the diagnosis and treatment of PCI patients.

Philips provided The First Affiliated Hospital of Zhengzhou University – one of the biggest hospitals in the world, with more than 10,000 beds – with a range of advanced diagnostic imaging and image-guided therapy systems, including IQon Spectral CT and the Azurion image-guided therapy platform.

We signed a solutions contract with Gansu Provincial Maternity and Child Care Hospital to streamline and advance the delivery of critical care across multiple departments. The contract includes patient monitors, an ECG management system, and ICCA (IntelliSpace Critical Care and Anesthesia) informatics systems.

For consumers, we launched an integrated platform, Philips Healthy Living Lab, in which Philips is partnering with other brands, such as Unilever, IHG and Alibaba, to engage consumers with healthy living experiences.

Underlining our strategy to deliver locally relevant solutions, the company launched several oral healthcare innovations targeting multiple price points in China, including two new electric toothbrushes. In addition, Philips launched its professional teeth whitening offering Zoom in China through a local partnership with LinkedCare, one of the largest dental solution providers in the Chinese dental market.

Recognizing the need for local-for-local development and manufacturing in China, we continue to strengthen our innovation centers in China and aim to achieve 90% localization by the end of 2023.

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 2021, Philips entered into many new customer partnerships, including the following:

Philips and Spanish healthcare group Vithas signed a 5-year strategic agreement, which will allow Vithas Group hospitals and medical centers to benefit from Philips' latest innovations in diagnostic imaging technology, health informatics and equipment for minimally invasive interventional procedures.

In Germany, Philips signed a 10-year partnership agreement with the Brandenburg University Clinic. The agreement includes a wide range of integrated solutions along the health continuum. Furthermore, Philips will act as the general contractor for an extension to the central operating rooms and cardiology department.

As part of Philips' 10-year partnership with Rutherford Health to open multiple Community Diagnostic Centers in England, the first center was opened in Taunton, for which Philips provided innovative diagnostic imaging systems, including Ingenia Ambition MR combined with Ambient Experience, which allows patients to control and personalize the imaging environment.

In France, Philips and Rennes University Hospital signed a 5-year technology, research and innovation partnership to advance patient care. The hospital will have access to Philips' latest technologies and informatics solutions to enhance the diagnosis, treatment, monitoring and management of patients. The multi-year strategic partnership will accelerate clinical research focused on image-guided minimally invasive therapy, neurology, intensive care units and digital pathology.

In the Netherlands, Philips signed a 12-year strategic partnership with IJsselland Hospital, focusing on innovation, digitalization and optimization of care delivery, which also includes the delivery of patient monitoring and imaging solutions, including CT and MRI systems.

In Russia, Philips won several key projects, including one at Moscow City Healthcare Department for ultrasound systems, including lifetime service support for local clinics. The company also concluded a turnkey project for Sakha Republic (Yakutia), equipping the regional hospitals' cardiology and oncology departments with, among others, our Azurion 7 image-guided therapy solution, MR Ingenia Ambition imaging system, and IntelliSpace Critical Care and Anesthesia informatics system.

In Poland, Philips delivered 15 systems from across the total Azurion portfolio to empower doctors serving patients' needs in the area of interventional cardiology, electrophysiology (EP), neuroradiology and hybrid solutions.

In Latin America, Philips signed a strategic agreement with UnitedHealth Group, comprising a comprehensive portfolio of Diagnostic Imaging, Image Guided Therapy and Customer Services solutions and a turnkey solution for the renovation of 12 sites in Brazil. Under this agreement, the customer will have access to leading-edge technology, enabling them to dedicate more time to their patients. In Mexico, Philips worked with Digipath to establish the first digital pathology laboratory in the country, with Philips IntelliSite Pathology Solution enhancing productivity and supporting precision medicine and diagnostics.

Philips, together with the Saudi Data and Artificial Intelligence Authority (SDAIA), opened the first AI lab in the Kingdom of Saudi Arabia in October 2021. The Riyadh-based center will spearhead research and development of AI programs and standards to boost the use of AI in the healthcare technology sector, and build an ecosystem of highly skilled AI experts in Saudi Arabia.

3.6 Supply chain and procurement

3.6.1 Supply chain

Philips runs an Integrated Supply Chain, which encompasses supplier selection and management through procurement, manufacturing across all the industrial sites, logistics and warehousing operations, as well as demand/supply orchestration. When selecting and evaluating partners, we consider not only business metrics such as cost, quality and on-time delivery performance, 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 COVID-19 pandemic has continued to test the resilience of supply chains globally. Philips has not been immune to the increasing impact of issues, such as the shortage of electronic components and logistical constraints. On the logistics front, we have established long-term contracts with suppliers, ensuring increased reliability – still not at pre-COVID-19 levels due to ports congestion – as well as secured costs and availability on contracted lanes. We have also expanded our rail and road transportation options to diversify our routes. For semiconductors, we have placed non-cancellable orders for an 18-month horizon to ensure our place in the queues. 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 supplies for life-saving equipment. Much like the rest of the industry, however, we remain exposed to sudden breakouts of COVID-19 in various countries and among suppliers, which will continue to make it difficult to predict developments through at least the first half of 2022. 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. 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 have also made good progress on transforming our warehousing and distribution operations into a more customer-centric and agile network that is more responsive to market volatility. In the last three years, we have reduced our warehousing footprint by 35%, essentially through consolidation and servicing of multiple businesses from a single location.

In 2021 we finalized the implementation of artificial intelligence and machine learning in our baseline demand forecasting operations for all our businesses in order to improve demand forecasting accuracy and manage inventories more efficiently. We achieved an improved forecast accuracy for our Personal Health products of more than 20% in the markets Europe, North America and Greater China. The other markets are in the early operating phase. We have insourced the AI forecasting activities for our health systems and medical devices portfolio from a third-party supplier and increased the baseline demand forecasting accuracy by 8%.

In June 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 to address identified potential health risks related to the polyester-based polyurethane (PE-PUR) sound abatement foam in these devices. Following the substantial ramp-up of its production, service and repair capacity in 2021, the repair and replacement program in the United States and several other markets is under way. Production was trebled during the second half of 2021. Philips Respironics plans to further increase production volumes during the first half of 2022, subject to availability of inputs and taking into account global semiconductor shortages.

Philips Group
Supplier spend analysis per region in %

	2021
Western Europe	31%
North America	33%
Other mature geographies	6%
Total mature geographies	**70%**
Growth geographies	30%
Philips Group	**100%**

3.6.2 Procurement

In 2021, strong economic recovery led to sustained high demand. Combined with low levels of inventories and long lead times, this resulted in tightness and scarcity in many markets, as well as volatile spot-market price environments. Under these circumstances, the Procurement function's priority was to endeavor to safeguard continuity of supply, with dedicated 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.

Global manufacturing remained in catch-up mode throughout the year. In addition, supply chain bottlenecks and other incidents had direct significant impacts on the already tight markets. Many market risks were in play at the same time – COVID-related delays in supply ramp-ups, the US chemical industry hit by weather storms, the blockage of the Suez Canal, the global shipping container shortage, the energy crisis in China, as well as problems on the gas market in Europe. Especially in the components area, capacity remained a major issue, causing shortages across all end-markets.

3.6.3 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 5,800 product and component suppliers and 18,000 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 simply managing compliance – it is about working together with our supply partners to have a positive and lasting impact. Therefore, the sustainability performance of our suppliers is fully embedded in our procurement organization and strategy.

In 2021, we focused on further maximizing our positive impact on the supply chain, strengthening our maturity-based approach to drive continuous improvement. Through the Supplier Sustainability Performance program, we improved the lives of 430,000 workers in our supply chain (2020: 302,000). We also launched new ways to engage our suppliers, performing deep-dives on human rights impacts and dedicated energy scans to identify cost-effective ways to decarbonize suppliers' manufacturing environments.

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 2021, 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 260 of this Annual Report.

At a glance

Financial performance

EUR 17.2 billion sales

12.0% Adjusted EBITA*) margin
EUR 0.6 billion income from continuing operations
EUR 1.6 billion operating cash flow

Domestic Appliances divestment completed with EUR 2.5 billion gain after tax

EUR 0.7 billion field action provision made for the Philips Respironics repair and replacement program

2019 share buyback program completed

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 225.

4 Financial performance

"2021 was a mixed year for Philips, with the Diagnosis & Treatment and Personal Health businesses performing well above plan, while the Connected Care segment was impacted by the Respironics recall. The first half of the year started strongly, with the second half being impacted by supply chain headwinds. Demand for our products and solutions remained strong as we ended the year with our highest-ever order book, 18% above 2020. Looking ahead, I am positive about our ability to drive growth and margin improvement."

Abhijit Bhattacharya CFO Royal Philips

4.1 Performance review

The year 2021

- 2021 saw strong growth in orders and sales in the Diagnosis & Treatment and Personal Health segments, with a decline in Connected Care following the extraordinary growth in 2020 and the impact of the Philips Respironics voluntary recall notification. Increases in component and transportation costs, along with shortages of key components due to capacity constraints and delays in transport routes, impacted Philips' sales and profitability.
- Sales amounted to EUR 17.2 billion, a decline of 1% on a nominal and comparable basis. Comparable sales growth*) in the Diagnosis & Treatment businesses was 8% and in the Personal Health businesses 9% on a comparable basis. However, this was more than offset by a 23% decline in the Connected Care businesses. This was largely due to the Respironics recall but also the high comparable base in 2020. Nevertheless, we ended the year with our highest-ever order book, 18% above 2020.
- In Q3 2021, Philips completed the divestment of Domestic Appliances as planned, resulting in a EUR 2.5 billion gain after tax and transaction-related costs; reported in Discontinued Operations.
- Net income amounted to EUR 3.3 billion, an increase of EUR 2.1 billion compared to 2020, mainly driven by the gain on the sale of the Domestic Appliances business. Net income is not allocated to segments, as certain income and expense line items are recorded on a centralized basis.
- Adjusted EBITA*) amounted to EUR 2.1 billion, or 12.0% of sales. Productivity programs delivered annual savings of approximately EUR 279 million. This included approximately EUR 140 million procurement savings, led by the Design for Excellence (DfX) program, and approximately EUR 139 million savings from other productivity programs. While the Diagnosis & Treatment and Personal Health businesses delivered improved profit expansion, the Connected Care businesses showed a decline in Adjusted EBITA*) margin, primarily due to the decline in sales and the impact of the Philips Respironics voluntary recall notification in the Sleep & Respiratory Care business.
- Operating cash flow amounted to EUR 1.6 billion, and Free cash flow*) amounted to EUR 0.9 billion.
- In 2021, Philips completed the acquisitions of BioTelemetry and Capsule Technologies, which we believe will further drive our transformation into a solutions company and, in particular, further strengthen our position to improve patient care across care settings for multiple diseases and medical conditions.
- In June 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 related to the polyester-based polyurethane (PE-PUR) sound abatement foam in these devices. Following the substantial ramp-up of its production, service and repair capacity in 2021, the repair and replacement program in the United States and several other markets is under way. We recognized a field action provision of EUR 0.7 billion to cover the costs of the recall.
- We expect to resume our growth and margin expansion trajectory in the course of 2022, however, we continue to see volatility and headwinds related to COVID and the supply chain shortages, especially in the first half of the year, despite our ongoing mitigation actions.
- On January 29, 2019, Philips announced a EUR 1.5 billion share buyback program for capital reduction purposes. Approximately half of the program was executed through open market purchases during 2019 and the first quarter of 2020. The other half was executed through individual forward contracts. The last settlement under such contracts took place in December 2021 and the program was completed.
- On July 26, 2021, Philips announced a new EUR 1.5 billion share buyback program for

capital reduction purposes. Philips entered into a number of forward transactions in the third quarter, covering approximately half of the program, with settlement dates in 2022, 2023 and 2024. The remainder of the program was executed through open market purchases taking place in Q4 2021 and Q1 2022.

Philips Group
Key data in millions of EUR unless otherwise stated

	2019	2020	2021
Sales	17,147	17,313	17,156
Nominal sales growth	8.0%	1.0%	(0.9)%
Comparable sales growth [1]	4.5%	2.9%	(1.2)%
Income from operations	1,366	1,264	553
as a % of sales	*8.0%*	*7.3%*	*3.2%*
Financial expenses, net	(119)	(44)	(39)
Investments in associates, net of income taxes	1	(9)	(4)
Income tax expense	(258)	(212)	103
Income from continuing operations	990	999	612
Discontinued operations, net of income taxes	183	196	2,711
Net income	1,173	1,195	3,323
Adjusted EBITA [1]	2,270	2,277	2,054
as a % of sales	*13.2%*	*13.2%*	*12.0%*
Income from continuing operations attributable to shareholders [2] per common share (in EUR) - diluted	1.06	1.08	0.67
Adjusted income from continuing operations attributable to shareholders [2] per common share (in EUR) - diluted [1]	1.74	1.74	1.65

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 225.

[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 225.

4.2 Results of operations

Sales

The composition of sales growth in percentage terms in 2021, compared to 2020 and 2019, is presented in the following table.

Philips Group
Sales in millions of EUR unless otherwise stated

	2019	2020	2021
Diagnosis & Treatment businesses	8,485	8,175	8,635
Nominal sales growth	9.8%	(3.7)%	5.6%
Comparable sales growth [1]	5.5%	(2.3)%	8.1%
Connected Care businesses	4,674	5,568	4,593
Nominal sales growth	7.7%	19.1%	(17.5)%
Comparable sales growth [1]	3.0%	22.1%	(22.6)%
Personal Health businesses	3,516	3,173	3,410
Nominal sales growth	7.2%	(9.8)%	7.4%
Comparable sales growth [1]	5.4%	(6.9)%	9.0%
Other	*472*	*396*	*519*
Philips Group	**17,147**	**17,313**	**17,156**
Nominal sales growth	8.0%	1.0%	(0.9)%
Comparable sales growth [1]	4.5%	2.9%	(1.2)%

[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 225.

Group sales amounted to EUR 17,156 million in 2021, 0.9% lower than in 2020 on a nominal basis. Considering a 0.3% positive effect from currency and consolidation, comparable sales*) decreased by 1.2%. While the currency effect was negative, mainly due to depreciation of currencies against the euro, and affected all business segments, this was more than offset by a positive consolidation impact from new acquisitions.

Diagnosis & Treatment businesses

In 2021, sales amounted to EUR 8,635 million, 5.6% higher than in 2020 on a nominal basis. Considering a 2.5% negative currency effect and consolidation impact, comparable sales*) increased by 8.1%. This was driven by double-digit growth in Image-Guided Therapy and mid-single-digit growth in Diagnostic Imaging and Ultrasound, reflecting demand for Philips' portfolio and positive market conditions.

Connected Care businesses

In 2021, sales amounted to EUR 4,593 million, 17.5% lower than in 2020 on a nominal basis. Considering a 5.1% positive currency effect and consolidation impact, comparable sales*) decreased by 22.6%, following the high COVID-19-generated demand in 2020 and the impact of the Respironics recall in 2021.

Personal Health businesses

In 2021, sales amounted to EUR 3,410 million, 7.4% higher than in 2020 on a nominal basis. Considering a 1.6% negative currency effect and consolidation impact, comparable sales*) increased by 9.0%. This was driven by robust customer demand for new product introductions across the world.

Other

In 2021, sales amounted to EUR 519 million, compared to EUR 396 million in 2020. The increase was mainly driven by supplies to a divested business and higher royalty income.

Performance per geographic cluster

Philips Group
Sales by geographic area in millions of EUR unless otherwise stated

	2019	2020	2021
Western Europe	3,328	3,702	3,645
North America	6,904	6,884	6,781
Other mature geographies	1,804	1,750	1,694
Total mature geographies	**12,036**	**12,336**	**12,120**
Nominal sales growth	6%	2%	(2)%
Comparable sales growth [1)]	2%	3%	(3)%
Growth geographies	**5,112**	**4,977**	**5,036**
Nominal sales growth	12%	(3)%	1%
Comparable sales growth [1)]	11%	3%	3%
Philips Group	**17,147**	**17,313**	**17,156**

[1)] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 225.

Sales in mature geographies in 2021 were 2% lower than in 2020 on a nominal basis and 3% lower on a comparable basis*). Sales in Western Europe were 2% 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, partly offset by high-single-digit growth in the Diagnosis & Treatment businesses and mid-single-digit growth in the Personal Health businesses. Sales in North America were 1% lower year-on-year on a nominal basis and decreased 3% on a comparable basis*), as double-digit growth in the Diagnosis & Treatment businesses and mid-single-digit growth in the Personal Health businesses were largely offset by a double-digit decline in the Connected Care businesses. Sales in other mature geographies decreased by 3% on a nominal basis and were in line with 2020 on a comparable basis*). Mid-single-digit comparable sales growth*) in the Personal Health businesses and Diagnosis & Treatment businesses was partly offset by a double-digit decline in the Connected Care businesses.

Sales in growth geographies in 2021 increased by 1% on a nominal basis and 3% on a comparable basis*), with double-digit growth in the Personal Health businesses and high-single-digit growth in the Diagnosis & Treatment businesses, partly offset by a double-digit decline in the Connected Care businesses. The mid-single-digit comparable sales growth*) was driven by double-digit growth in India, high-single-digit growth in Russia & Central Asia, and mid-single-digit growth in Central & Eastern Europe and Latin America.

Diagnosis & Treatment businesses

Philips Group
Diagnosis & Treatment businesses sales in millions of EUR unless otherwise stated

	2019	2020	2021
Western Europe	1,586	1,589	1,743
North America	3,214	2,931	3,088
Other mature geographies	851	835	849
Total mature geographies	**5,651**	**5,355**	**5,681**
Growth geographies	2,834	2,820	2,954
Sales	**8,485**	**8,175**	**8,635**
Nominal sales growth	10%	(4)%	6%
Comparable sales growth [1)]	5%	(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 225.

Sales in growth geographies increased by 5% on a nominal basis in 2021, and on a comparable basis*) showed high-single-digit growth, driven by double-digit growth in Latin America, India and Central & Eastern Europe and mid-single-digit growth in China. Sales in mature geographies increased by 6% on a nominal basis and showed high-single-digit growth on a comparable basis*). Comparable sales*) increased, with double-digit growth in North America and high-single-digit growth in Western Europe.

Connected Care businesses

Philips Group
Connected Care businesses sales in millions of EUR unless otherwise stated

	2019	2020	2021
Western Europe	782	1,118	771
North America	2,624	2,882	2,606
Other mature geographies	646	723	606
Total mature geographies	**4,052**	**4,724**	**3,983**
Growth geographies	622	845	609
Sales	**4,674**	**5,568**	**4,593**
Nominal sales growth	8%	19%	(18)%
Comparable sales growth [1]	3%	22%	(23)%

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 225.

Sales in growth geographies decreased by 28% on a nominal basis in 2021, and on a comparable basis*) showed a double-digit decline, with a double-digit decline across most regions. Sales in mature geographies decreased by 16% on a nominal basis and showed a double-digit decline on a comparable basis*), with a double-digit decline in Western Europe and North America and a mid-single-digit decline in Japan.

Personal Health businesses

Philips Group
Personal Health businesses sales in millions of EUR unless otherwise stated

	2019	2020	2021
Western Europe	798	847	887
North America	956	931	935
Other mature geographies	266	189	197
Total mature geographies	**2,020**	**1,966**	**2,019**
Growth geographies	1,496	1,207	1,391
Sales	**3,516**	**3,173**	**3,410**
Nominal sales growth	7%	(10)%	7%
Comparable sales growth [1]	5%	(7)%	9%

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 225.

Sales in growth geographies increased by 15% on a nominal basis in 2021, and on a comparable basis*) showed double-digit growth, which was attributable to double-digit growth in Central & Eastern Europe, Russia & Central Asia and Latin America and mid-single-digit growth in China. Sales in mature geographies increased by 3% on a nominal basis, and on a comparable basis*) showed mid-single-digit growth, driven by mid-single-digit growth in Western Europe and North America.

Cost of sales

Philips Group
Cost of sales components in millions of EUR unless otherwise stated

	2019	as a % of sales	2020	as a % of sales	2021	as a % of sales
Costs of materials used	4,197	24.5%	4,221	24.4%	4,142	24.1%
Salaries and wages	2,261	13.2%	2,316	13.4%	2,245	13.1%
Depreciation and amortization	541	3.2%	591	3.4%	479	2.8%
Other manufacturing costs	2,249	13.1%	2,364	13.7%	3,123	18.2%
Cost of sales	**9,249**	**53.9%**	**9,493**	**54.8%**	**9,988**	**58.2%**

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 495 million to EUR 9,988 million in 2021, compared to EUR 9,493 million in 2020, mainly due to the field action provision of EUR 719 million in connection with the Philips Respironics voluntary recall notification in the Sleep & Respiratory Care business reflected in other manufacturing costs. Other key factors influencing cost of sales were as follows:

- Costs of materials used decreased by EUR 79 million in 2021, mainly driven by productivity savings and a positive foreign currency impact, partly offset by the impact of increases in procurement and supply chain costs.
- Salaries and wages decreased by EUR 71 million in 2021, driven by productivity and restructuring savings, partly offset by acquisitions.
- Depreciation and amortization decreased by EUR 112 million in 2021, mainly due to lower impairments of technology assets of EUR 55 million compared to EUR 92 million in 2020.

Gross margin

In 2021, Philips' gross margin was EUR 7,168 million, or 41.8% of sales, compared to EUR 7,820 million, or 45.2% of sales, in 2020. The year-on-year decrease in gross margin was mainly driven by the field action provision of EUR 719 million (representing 4.2% of sales) in connection with the Philips Respironics voluntary recall notification in the Sleep & Respiratory Care business.

Selling expenses

Selling expenses amounted to EUR 4,258 million, or 24.8% of sales, in 2021, compared to EUR 4,054 million, or 23.4% of sales, in 2020. The year-on-year increase in selling expenses of EUR 204 million was driven by the acquisitions of BioTelemetry and Capsule Technologies and higher investments in advertising and promotion, partly offset by a positive foreign currency

impact and lower restructuring costs. Selling expenses include restructuring, acquisition-related and other charges of EUR 140 million in 2021, compared to EUR 133 million in 2020.

General and administrative expenses

General and administrative expenses amounted to EUR 599 million, or 3.5% of sales, in 2021, compared to EUR 630 million, or 3.6% of sales, in 2020. The year-on-year decrease of EUR 31 million in general and administrative expenses was mainly driven by lower restructuring, acquisition-related and other charges.

Research and development expenses

Research and development costs were EUR 1,806 million, or 10.5% of sales, in 2021, compared to EUR 1,822 million, or 10.5% of sales, in 2020. The year-on-year decrease of EUR 16 million was mainly driven by lower restructuring, acquisition-related and other charges. 2021 includes EUR 101 million of restructuring, acquisition-related and other charges, compared to EUR 131 million in 2020.

Philips Group
Research and development expenses in millions of EUR unless otherwise stated

	2019	2020	2021
Diagnosis & Treatment	928	891	910
Connected Care	463	549	548
Personal Health	195	189	185
Other	*204*	*194*	*163*
Philips Group	**1,790**	**1,822**	**1,806**
As a % of sales	*10.4%*	*10.5%*	*10.5%*

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

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 EBITA [1] in millions of EUR unless otherwise stated

	Income from operations	as a % of sales	Adjusted EBITA [1]	as a % of sales
2021				
Diagnosis & Treatment	941	10.9%	1,071	12.4%
Connected Care	(732)	(15.9)%	488	10.6%
Personal Health	585	17.2%	599	17.6%
Other	*(242)*		*(105)*	
Philips Group	**553**	**3.2%**	**2,054**	**12.0%**
2020				
Diagnosis & Treatment	497	6.1%	818	10.0%
Connected Care	711	12.8%	1,198	21.5%
Personal Health	356	11.2%	426	13.4%
Other	*(300)*		*(165)*	
Philips Group	**1,264**	**7.3%**	**2,277**	**13.2%**
2019				
Diagnosis & Treatment	660	7.8%	1,078	12.7%
Connected Care	269	5.8%	620	13.3%
Personal Health	589	16.8%	672	19.1%
Other	*(152)*		*(100)*	
Philips Group	**1,366**	**8.0%**	**2,270**	**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 225.

Net income in 2021 increased by EUR 2.1 billion compared to 2020, mainly driven by the gain on the sale of the Domestic Appliances business, partly offset by the EUR 719 million field action provision.

Income from operations in 2021 amounted to EUR 553 million, or 3.2% of sales, compared to EUR 1,264 million, or 7.3% of sales, in 2020, mainly impacted by the EUR 719 million field action provision. Adjusted EBITA*) in 2021 was EUR 2,054 million and the margin amounted to 12.0%, compared to EUR 2,277 million and a margin of 13.1%, due to a decline in sales and the impact of supply chain headwinds, partly offset by productivity measures.

Amortization and goodwill impairment charges in 2021 were EUR 337 million. This includes 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. In 2020, amortization and goodwill impairment charges were EUR 521 million and included a charge of EUR 144 million related to an impairment of goodwill in the Connected Care segment, as well as amortization charges of EUR 92 million related to an impairment of a technology asset.

Restructuring, acquisition-related and other charges in 2021 were EUR 1,164 million. This includes a field action provision of EUR 719 million in connection with the Philips Respironics voluntary recall notification, provisions for quality actions of EUR 94 million and other matters of EUR 53 million in the Connected Care businesses, 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 includes 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. 2020 charges were EUR 494 million and included EUR 200 million of restructuring charges, EUR 95 million of acquisition-related charges offset by a EUR 101 million gain related to the re-measurement of a contingent consideration liability, EUR 31 million related to impairments of capitalized development costs, EUR 43 million of charges due to changes in ventilator demand, EUR 42 million of separation costs related to the Domestic Appliances business, a EUR 38 million provision related to legal matters, and EUR 21 million related to pension liability de-risking in the US.

Income from continuing operations attributable to shareholders per common share (in EUR) - diluted, was EUR 0.67 in 2021, compared to EUR 1.08 in 2020. Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted*) was EUR 1.65 in 2021, compared to EUR 1.74 in 2020.

Diagnosis & Treatment businesses

Income from operations in 2021 increased to EUR 941 million, compared to EUR 497 million in 2020. This was primarily due to sales growth and productivity measures. These factors also resulted in an increased Adjusted EBITA*), which was 12.4% of sales in 2021.

Amortization and goodwill impairment charges in 2021 were EUR 155 million and include EUR 55 million of charges related to an impairment of a technology asset in Image-Guided Therapy. 2020 charges were EUR 209 million and included EUR 92 million of charges related to an impairment of a technology asset in Image-Guided Therapy.

Restructuring, acquisition-related and other charges in 2021 amounted to a gain of EUR 25 million and include 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 a release of a legal provision of EUR 38 million. 2020 charges were EUR 112 million and included EUR 57 million of restructuring charges, EUR 73 million of acquisition-related charges offset by a EUR 101 million gain related to the re-measurement of a contingent consideration liability, EUR 38 million related to legal matters, and a EUR 31 million impairment of capitalized development costs.

Connected Care businesses

Income from operations in 2021 decreased to EUR (732) million, compared to EUR 711 million in 2020. This was mainly due to the decline in sales and the impact of the Respironics recall on the Sleep & Respiratory Care business. These factors also impacted Adjusted EBITA*), which was 10.6% of sales in 2021.

Amortization and goodwill impairment charges in 2021 were EUR 161 million and include EUR 13 million impairment of goodwill related to the divested Personal Emergency Response Services (PERS) and Senior Living business. 2020 charges were EUR 278 million and included a EUR 144 million impairment of goodwill related to the Population Health Management business.

Restructuring, acquisition-related and other charges in 2021 were EUR 1,058 million and include a field action provision of EUR 719 million in connection with the Philips Respironics 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. 2020 charges were EUR 209 million and included restructuring charges of EUR 76 million, acquisition-related charges of EUR 22 million, and charges of EUR 43 million due to changes in ventilator demand.

Personal Health businesses

Income from operations in 2021 increased to EUR 585 million, compared to EUR 356 million in 2020. This was mainly driven by sales growth and productivity measures, partly offset by higher investments in advertising & promotion. These factors also resulted in an increased Adjusted EBITA*), which was 17.6% of sales.

Amortization charges in 2021 were EUR 15 million and include amortization charges related to intangible assets in Mother & Child Care. 2020 charges were EUR 16 million and included amortization charges related to intangible assets in Mother & Child Care.

Restructuring, acquisition-related and other charges in 2021 were not material. 2020 charges were EUR 55 million and included restructuring charges of EUR 31 million.

Other

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

Income from operations in 2021 was EUR (242) million, compared to EUR (300) million in 2020. Adjusted EBITA*) in 2021 was EUR (105) million, compared to EUR (165) million in 2020. Income from operations and Adjusted EBITA*) increased, mainly due to higher royalty income and lower charges related to environmental provisions, partly offset by investments, mainly in IT and Quality & Regulatory affairs.

Restructuring, acquisition-related and other charges in 2021 were EUR 131 million and include 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. 2020 charges were EUR 118 million and included restructuring charges of EUR 37 million, EUR 42 million of separation costs related to the Domestic Appliances business, and EUR 21 million related to pension liability de-risking in the US.

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

	2019	2020	2021
Interest expense, net	(171)	(160)	(141)
Sale of securities	2	2	-
Net change in fair value of financial assets at fair value through profit or loss	17	129	95
Other	34	(15)	6
Financial income and expenses	**(119)**	**(44)**	**(39)**

Financial income and expenses resulted in an expense of EUR 39 million in 2021, compared to an expense of EUR 44 million in 2020. 2021 includes gains on the value of Philips' minority participations and higher net interest income. For further information, refer to Financial income and expenses, starting on page 160.

Income taxes

Income taxes amounted to a benefit of EUR 103 million. The effective income tax rate in 2021 was (20.0)%, compared to 17.6% in 2020, mainly due to the impact from the recognition of tax assets and other tax benefits as a result of a business transfer during the year.

Investment in associates

Results related to investments in associates improved from a loss of EUR 9 million in 2020 to a loss of EUR 4 million in 2021. The number of associates increased compared to 2020. Although gains were recorded in a number of investments in associates, these were more than offset by losses in the remainder.

Discontinued operations

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

	2019	2020	2021
Domestic Appliances	202	206	2,698
Other	(19)	(10)	13
Net income of Discontinued operations	**183**	**196**	**2,711**

Discontinued operations consist 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 152.

Non-controlling interests

Net income attributable to non-controlling interests decreased from EUR 8 million in 2020 to EUR 4 million in 2021.

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 225.

4.3 Restructuring and acquisition-related charges and goodwill impairment charges

Philips Group
Restructuring and related charges in millions of EUR

	2019	2020	2021
Restructuring and related charges per segment:			
Diagnosis & Treatment	107	57	44
Connected Care	38	76	42
Personal Health	41	31	(1)
Other	*54*	*37*	*(5)*
Philips Group	**240**	**200**	**80**
Cost breakdown of restructuring and related charges:			
Provision for personnel lay-off costs	133	78	17
Restructuring-related asset impairment	44	58	30
Other restructuring-related costs	63	64	33
Philips Group	**240**	**200**	**80**

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.

In 2020, the most significant restructuring projects impacted the Connected Care and Diagnosis & Treatment segments and mainly took place in the Netherlands, US and Germany. 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 179.

Philips Group
Acquisition-related charges in millions of EUR

	2019	2020	2021
Diagnosis & Treatment	42	(28)	(37)
Connected Care	26	22	51
Personal Health	1	-	-
Other	-	-	-
Philips Group	**69**	**(6)**	**14**

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 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.

In 2020, acquisition-related charges amounted to a gain of EUR 6 million. The Diagnosis & Treatment businesses recorded a gain of EUR 28 million, mainly related to a gain of EUR 101 million from the re-measurement of a contingent consideration liability, partly offset by charges related to the acquisitions of Spectranetics and the Healthcare Information Systems business of Carestream Health.

During 2021, EUR 15 million of goodwill impairment charges were recorded, mainly due to EUR 13 million of impairment losses related to the divested Personal Emergency Response Services (PERS) and Senior Living business.

For further information on the goodwill sensitivity analysis, please refer to Goodwill, starting on page 167.

4.4 Acquisitions and divestments

Acquisitions

In 2021, Philips completed two acquisitions: BioTelemetry, which was completed on February 9, 2021, and Capsule Technologies, which was completed on March 4, 2021. The acquisitions of Vesper Medical and Cardiologs were closed at the beginning of 2022. Acquisitions in 2021 and prior years led to acquisition and post-merger integration charges of EUR 51 million in the Connected Care businesses.

In 2020, Philips completed three acquisitions, with Intact Vascular being the most notable. Acquisitions in 2020 and prior years led to acquisition and post-merger integration charges resulting in a gain of EUR 28 million in the Diagnosis & Treatment businesses and charges of EUR 22 million in the Connected Care businesses.

Divestments

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 on September 17, 2021, completed 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 Statement of Income.

For details, please refer to Acquisitions and divestments, starting on page 153.

4.5 Changes in cash and cash equivalents, including cash flows

The movements in cash and cash equivalents for the years ended December 31, 2019, 2020 and 2021 are presented and explained in the following table and text.

Philips Group
Condensed consolidated cash flows statements in millions of EUR

	2019	2020	2021
Beginning cash and cash equivalents balance	1,688	1,425	3,226
Net cash flows from operating activities	1,813	2,511	1,629
Net cash flows from investing activities			
Net capital expenditures	(891)	(876)	(729)
Other cash flows from investing activities	378	(391)	(2,943)
Net cash flows from financing activities			
Treasury shares transactions	(1,318)	(297)	(1,613)
Changes in debt	114	783	(251)
Dividend paid to shareholders of the Company	(453)	(1)	(482)
Other cash flow items	(4)	(57)	62
Net cash flows discontinued operations	98	129	3,403
Ending cash and cash equivalents balance	**1,425**	**3,226**	**2,303**

Net cash flows from operating activities

Net cash flows from operating activities amounted to EUR 1,629 million in 2021, 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.

In 2020, net cash flows from operating activities amounted to EUR 2,511 million, compared to EUR 1,813 million in 2019. Free cash flow*) amounted to EUR 1,635 million in 2020, compared to EUR 923 million in 2019.

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 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.

In 2020, other cash flows from investing activities amounted to a cash outflow of EUR 391 million, mainly due to the acquisition of Intact Vascular for EUR 241 million and investments in other non-current financial assets.

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 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.

In 2020, treasury shares transactions mainly included the share buyback activities, which resulted in EUR 297 million net cash outflow. Changes in debt included EUR 991 million cash inflow from the issuance of two new bonds under the EMTN program, partly offset by outflows related to lease payments. The 2019 dividend was distributed fully in shares in July 2020.

Net cash provided by (used for) discontinued operations

Philips Group
Net cash provided by (used for) discontinued operations in millions of EUR

	2019	2020	2021
Net cash provided by (used for) operating activities	111	129	85
Net cash provided by (used for) investing activities	(14)		3,319
Net cash provided by (used for) discontinued operations	**98**	**129**	**3,403**

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.

In 2020, net cash provided by discontinued operations mainly related to the Domestic Appliances business, partly offset by advance income tax payments amounting to EUR 78 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 225.

4.6 Financing

Condensed consolidated balance sheets for the years 2019, 2020 and 2021 are presented in the following table:

Philips Group
Condensed consolidated balance sheets in millions of EUR

	2019	2020	2021
Intangible assets	12,120	11,012	14,287
Property, plant and equipment	2,866	2,682	2,699
Inventories	2,773	2,993	3,450
Receivables	4,909	4,537	4,191
Assets classified as held for sale	13	173	71
Other assets	2,910	3,091	3,959
Payables	(3,820)	(3,854)	(3,784)
Provisions	(2,159)	(1,980)	(2,313)
Liabilities directly associated with assets held for sale	-	(30)	(1)
Other liabilities	(2,965)	(3,015)	(3,408)
Net asset employed	**16,647**	**15,609**	**19,151**
Cash and cash equivalents	1,425	3,226	2,303
Debt	(5,447)	(6,934)	(6,980)
Net debt [1)]	**(4,022)**	**(3,708)**	**(4,676)**
Non-controlling interests	(28)	(31)	(36)
Shareholders' equity	(12,597)	(11,870)	(14,438)
Financing	**(16,647)**	**(15,609)**	**(19,151)**

1) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 225.

4.7 Debt position

Total debt outstanding at the end of 2021 was EUR 6,980 million, compared with EUR 6,934 million at the end of 2020.

Philips Group
Balance sheet changes in debt in millions of EUR

	2019	2020	2021
Additional leases under IFRS16	1,059	132	172
New borrowings/repayments short-term debt	23	16	(25)
New borrowings long-term debt	847	1,065	76
Repayments long-term debt	(761)	(298)	(302)
Forward contracts	(706)	793	(48)
Currency effects, consolidation changes and other	170	(221)	175
Transfer to liabilities classified as held for sale	(6)		(3)
Changes in debt	**626**	**1,487**	**46**

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.

In 2020, total debt increased by EUR 1,487 million compared to 2019. New borrowings of long-term debt included the net proceeds of EUR 991 million from the issuance of two new bonds under the EMTN program in 2020. Repayments of long-term debt amounted to EUR 298 million, mainly due to the repayment of leases. Changes in payment obligations from forward contracts mainly related to the forward contracts entered into of EUR 745 million to complete the remainder of the EUR 1.5 billion share buyback program announced on January 29, 2019. In addition, Philips entered into forward contracts for a total amount of EUR 174 million in 2020 related to the long-term incentive and employee stock purchase plans announced on January 29, 2020, and a total amount of EUR 126 million of forward contracts matured relating to the company's long-term incentive and employee stock purchase plans announced on October 22, 2018. These payment obligations are recorded as financial liabilities under long-term debt. Other changes, mainly resulting from currency effects, led to a decrease of EUR 221 million.

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.

At the end of 2020, long-term debt as a proportion of the total debt stood at 82.3% with an average remaining term (including current portion) of 6.3 years, compared to 91% and 8.0 years respectively at the end of 2019.

For further information, please refer to Debt, starting on page 177.

4.8 Liquidity position

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 3,303 million, versus gross debt (including short and long-term) of EUR 6,980 million.

As of December 31, 2020, 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 4,226 million, versus gross debt (including short and long-term) of EUR 6,934 million.

As of December 31, 2019, 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 2,425 million, versus gross debt (including short and long-term) of EUR 5,447 million.

Philips Group
Liquidity position in millions of EUR

	2019	2020	2021
Cash and cash equivalents	1,425	3,226	2,303
Committed revolving credit facilities/CP program	1,000	1,000	1,000
Liquidity	**2,425**	**4,226**	**3,303**
Listed equity investments at fair value	15	17	67
Short-term debt	(508)	(1,229)	(506)
Long-term debt	(4,939)	(5,705)	(6,473)
Net available liquidity resources	**(3,007)**	**(2,691)**	**(3,609)**

Philips has a EUR 1 billion committed revolving credit facility which was signed in April 2017 and will expire in April 2024. The facility can be used for general group purposes, such as a backstop of its Commercial Paper Program.

The Commercial Paper Program amounts to USD 2.5 billion, under which Philips can issue commercial paper up to 364 days in tenor, both in the US and in Europe, in any major freely convertible currency. As of December 31, 2021, Philips did not have any loans outstanding under these facilities.

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 2021, Philips did not issue any new notes under the program.

Additionally, as of December 31, 2021 Philips held EUR 67 million of listed (level 1) equity investments at fair value in common shares of companies in various industries. Refer to Other financial assets, starting on page 172 and Fair value of financial assets and liabilities, starting on page 196.

In terms of liquidity the company has a solid liquidity position and the company's liquidity risk management procedures have not changed significantly during 2021 because of COVID-19. No significant concentration risks have been identified as a result of COVID-19 and 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 199. Further, with respect to Respironics field action, please refer Contingent assets and liabilities, starting on page 188. 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 stable outlook) by Moody's, and BBB+ (with stable outlook) by Standard & Poor's. As part of our capital allocation policy, our net debt*) position is managed with the intention of retaining our current 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 177.

Philips Group
Credit rating summary

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

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 225.

4.9 Shareholders' equity

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).

In 2020, shareholders' equity decreased by EUR 727 million to EUR 11,870 million at year-end. The increase in the net income of EUR 1,195 million, as well as the impact of the accounting for share-based compensation plans, including the effect of related hedging transactions through share call options (in aggregate EUR 112 million), increased shareholders' equity. This was largely offset by currency translation losses of EUR 1,037 million, primarily due to the depreciation of the US dollar against the euro in 2020, the purchase of forward contracts for the completion of the share buyback program (EUR 793 million), settlements of earlier concluded forward contracts (EUR 126 million) and the share repurchases made in the open market (EUR 130 million).

Share capital structure

The number of issued common shares of Royal Philips at December 31, 2021 was 883,898,696. 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 on 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 on 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.

The number of issued common shares of Royal Philips at December 31, 2020 was 911,053,001. At year-end 2020, the company held 5.9 million shares in treasury. All of these shares were held in treasury to cover obligations under long-term incentive plans. In 2016, Philips purchased call options on its own shares to hedge options granted to employees up to 2013, and on December 31, 2020, Philips' outstanding options related to 0.9 million shares. In 2020 (and earlier years), the company entered into several forward contracts to acquire its own shares, and on December 31, 2020, the outstanding forward contracts related to 27 million shares. See below for more information on the shares that were acquired in the course of 2020. Philips issued 48,757 shares in May 2020 (in order to pay out the gross Annual Incentive over 2019 to the members of the Board of Management) and issued 18 million shares in July 2020 (in order to distribute the 2019 dividend). The company cancelled 3.8 million shares in June 2020.

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 2021, Philips used methods (i) and (ii) 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.

Philips Group

Impact of share repurchase on share count in thousands of shares as of December 31

	2017	2018	2019	2020	2021
Shares issued	940,909	926,196	896,734	911,053	883,899
Shares in treasury	14,717	12,011	5,760	5,925	13,717
Shares outstanding	926,192	914,184	890,974	905,128	870,182
Shares repurchased	19,842	31,994	40,390	8,670	45,486
Shares cancelled		24,247	38,541	3,810	33,500

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 2021								981,793
February 2021								981,793
March 2021			248	45.41	248	45.41		981,793
April 2021			-					981,793
May 2021			-					1,071,497
June 2021	2,500	33.64	-		2,500	33.64	2,500	987,405
July 2021	-							1,218,544
August 2021	-							1,468,544
September 2021	2,500	33.63			2,500	33.63	2,500	1,634,479
October 2021	9,410	37.63	1,750	35.28	11,160	37.26	11,160	1,324,257
November 2021	14,541	37.59	1,999	35.76	16,540	37.37	16,291	1,098,155
December 2021	12,539	34.61			12,539	34.61	12,539	933,871
Total	**41,490**		**3,997**		**45,486**	**36.21**	**44,990**	
of which [5]								
purchased in the open market	21,014				21,014		21,014	
acquired through exercise of call options/ settlement of forward contracts	20,476		3,997		24,473		23,976	
To be acquired through settlement of forward contracts after December 31, 2021								933,871

[1] All shares were purchased through publicly announced plans or programs, other than approximately 497,000 shares repurchased through the unwinding of call options on own shares.

[2] First, on October 22, 2018, Philips announced a share repurchase program for an amount of up to EUR 174 million to cover its long-term incentive and employee stock purchase plans. On November 12, 2018, Philips announced to extend this program and entered into three forward contracts for an amount of EUR 319 million to repurchase further 10 million shares with settlement dates varying between October 2019 and November 2021. Second, on January 29, 2019, Philips announced a share buyback program for share cancellation purposes for an amount of up to EUR 1.5 billion. Philips started the program in the first quarter of 2019. On March 23, 2020, Philips announced that 50.3% of the program had been completed through repurchases by an intermediary to allow for purchases in the open market during both open and closed periods, and that the remainder of the program would be executed through one or more individual forward transactions. Consequently, in the first half of 2020 Philips entered into four forward contracts for an amount of EUR 745 million to acquire 20 million shares with settlement dates varying between June 2021 and December 2021. Third, 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 for an amount of EUR 174 million to acquire 5 million shares with settlement dates varying between October 2021 and November 2022. Fourth, 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. Fifth, on July 26, 2021, Philips announced an additional 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). For further details on these publicly announced plans or programs refer to Equity, starting on page 174.

[3] Philips cancelled 33.5 million shares on December 28, 2021.

[4] In 2021, 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.

[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.

4.10 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, 2021. 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 in millions of EUR

	Payments due by period				
	total	less than 1 year	1-3 years	3-5 years	after 5 years
Long-term debt [1]	7,233	246	1,995	1,924	3,068
Lease obligations	1,333	280	397	238	417
Short-term debt	47	47			
Derivative liabilities	208	87	121		
Purchase obligations [2]	654	237	305	99	12
Trade and other payables	1,872	1,872			
Contractual cash obligations	**11,347**	**2,768**	**2,819**	**2,261**	**3,498**

[1] Long-term debt includes interest and the current portion of long-term debt and excludes lease obligations.

[2] 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 104 million (2020: EUR 132 million). As of December 31, 2021, 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 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, 2021, approximately EUR 139 million (2020: EUR 227 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 182.

The company had EUR 66 million restructuring-related provisions by the end of 2021, of which EUR 58 million is expected to result in cash outflows in 2022. Refer to Provisions, starting on page 179 for details of restructuring provisions.

Please refer to Dividend, starting on page 41 for information on the proposed dividend distribution.

In 2021, Philips 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. As the program was initiated for capital reduction purposes, Philips intends to cancel all of the shares acquired under the program.

Please refer to Equity, starting on page 174 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 2020 and 2021. Remaining off-balance-sheet business-related guarantees on behalf of third parties and associates decreased by EUR 14 million during 2021 to EUR 2 million (December 31, 2020: EUR 16 million).

4.11 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 10, 2022, to declare a distribution of EUR 0.85 per common share, in cash or shares at the option of the shareholder, against the net income of 2021.

If the above dividend proposal is adopted, the shares will be traded ex-dividend as of May 12, 2022 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 13, 2022.

Shareholders will be given the opportunity to make their choice between cash and shares between May 16 and June 3, 2022. If no choice is made during this election period, the dividend will be paid in cash. 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 Koninklijke Philips N.V. at Euronext Amsterdam on June 1, 2 and 3, 2022. 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 the gross dividend in cash. The ratio and the number of shares to be issued will be announced on June 7, 2022. Payment of the dividend (up to EUR 744 million) and delivery of new common shares, with settlement of fractions in cash, if required, will take place from June 8, 2022. The distribution of dividend in cash to holders of New York Registry shares will be made in USD at the USD/EUR rate as per WM/ Reuters FX Benchmark 2 PM CET fixing of June 6, 2022.

	ex-dividend date	record date	payment date
Euronext Amsterdam	May 12, 2022	May 13, 2022	June 8, 2022
New York Stock Exchange	May 12, 2022	May 13, 2022	June 8, 2022

Further details will be given in the agenda for the 2022 Annual General Meeting of Shareholders. The proposed distribution and all dates mentioned remain provisional until then.

Dividend in cash is in principle subject to 15% Dutch dividend withholding tax, which will be deducted from the dividend in cash paid to the shareholders. Dividend in shares paid out of net income and 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 2021, Philips settled 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, leading to a 0.7% dilution. The dilution caused by the newly issued dividend shares was more than offset by the cancellation of 33.5 million shares in December 2021. For more information refer to Shareholders' equity, starting on page 38. The settlement of the cash dividend involved an amount of EUR 482 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

	2017	2018	2019	2020	2021
in EUR	0.80	0.80	0.85	0.85	0.85
in USD	0.90	0.94	0.96	0.95	1.03

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 225.

4.12 Analysis of 2020 compared to 2019

The analysis of the 2020 financial results compared to 2019, 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 2021, which will be filed electronically with the US Securities and Exchange Commission.

At a glance

Environmental, Social and Governance

1.67 billion lives improved by our products and solutions

Carbon-neutral in our operations

Support to supply chain partners to decarbonize

Circular revenues at 16% of sales

CDP 'A List' rating for action against climate change for 9th consecutive year

Runner-up with honorable mention in Dutch Tax Transparency Benchmark

5 Environmental, Social and Governance

Environmental, Social & Governance (ESG) are the 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 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 EEI and 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, 54 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 2021 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.

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 still significant uncertainties around its phased implementation. It is expected, however, that it will be developed 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 2021, 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 2021 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 CO_2 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 2021 (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 129. 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.

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. 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 2021 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 165 and Intangible assets excluding goodwill, starting on page 170).

Reportable taxonomy-eligible capital expenditures in 2021 amounted to EUR 10 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), as well as onsite renewable electricity generation (installation, maintenance and repair of renewable energy technologies).

Similar to capital expenditures, we screened (EU) 2021/2139, assessed for relevant operational expenditures activities and have not identified any eligible operational expenditure. Total operational expenditures are determined based on the 2021 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 2021, 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%.

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

Since the EU taxonomy is new, 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," said Frans van Houten, CEO of Philips. "We aim to grow Philips responsibly and sustainably, and we therefore continuously set ourselves challenging environmental, social targets, and highest standards of governance. Acting responsibly towards the planet and society is part of our DNA. I am convinced 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 26, and in Sustainability statements, starting on page 242.

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 CO_2 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 'Eco-Heroes' 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

We launched our ESG commitments, with ambitious targets to be achieved by the end of 2025, in September 2020. Besides our social impact, focusing on SDG 3, described in the next 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 Sustainability statements, starting on page 242.

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 and Circular Solutions portfolio. As a next step, for the fifth 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 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 (e.g. haircare products). With the disentanglement of Domestic Appliances business, which manufactures energy consuming products like steam irons and AirFryers, the environmental impact of Philips reduced significantly.

The following table shows the impact of the Domestic Appliances business disentanglement on the 2020 EP&L.

Philips Group

EP&L in billions of EUR (after exclusion of Domestic Appliances business)

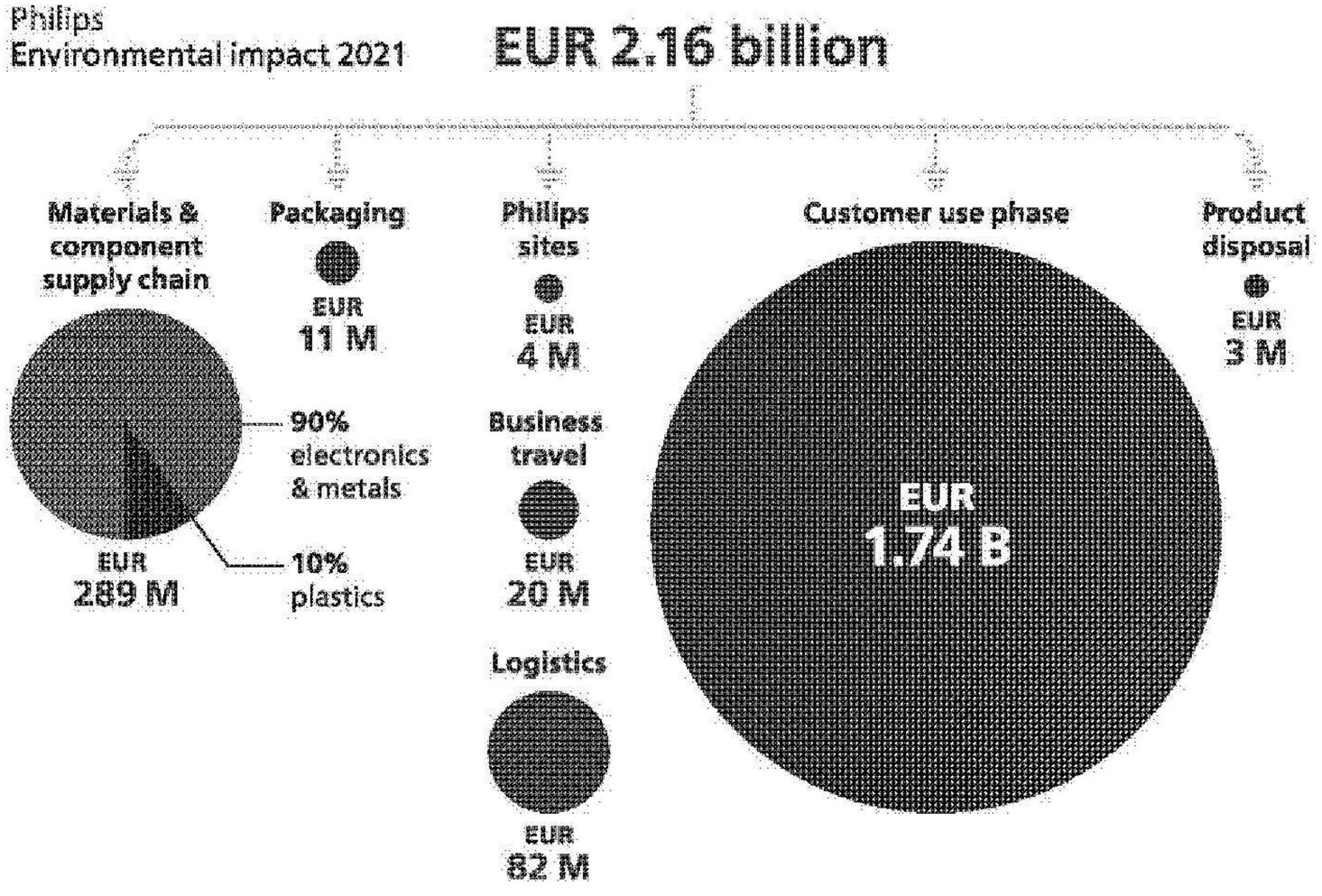
Original EP&L 2020		4.91
Changes	Exclusion of Domestic Appliances business	(2.59)
EP&L 2020 excluding Domestic Appliances		2.32

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.

Results 2021

In 2021, Philips' environmental impact amounted to EUR 2.16 billion, compared to EUR 2.32 billion in 2020 (excluding Domestic Appliances business). This reduction was mainly driven by a change in product mix. The most significant environmental impact, 81% of the total, is related to the usage of our products, which is due to electricity consumption. Particulate matter formation, climate change, and acidification are the main environmental impacts, accounting for 43%, 27% and 18% of the total impact respectively. The environmental costs include the environmental impact of the full lifetime of the products that we put on the market in 2021, e.g. 10 years in the case of a medical system or 4 years of usage in the case of a Sonicare toothbrush. As we expand our EcoDesign activities, with a target to have all our products EcoDesigned by 2025, we expect the environmental impact to decrease.

Of the total 2021 impact, just EUR 106 million (5%) is directly caused by Philips' own operations, mainly driven by outbound logistics, followed by business travel. Compared to EUR 115 million in 2020, this is an 8% reduction, mainly due to lower emissions from logistics and the phasing-out of fossil fuels.



Our supply chain currently has an environmental impact of some EUR 289 million, which is 13% of our total environmental impact. The main contributors are the electronic components, cables and steel 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.

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 260.

For more information on our efforts to reduce emissions in the customer use-phase, please refer to Green/EcoDesigned Innovation, starting on page 49 and Green/EcoDesigned Revenues, starting on page 51.

5.3.1 Green/EcoDesigned Innovation

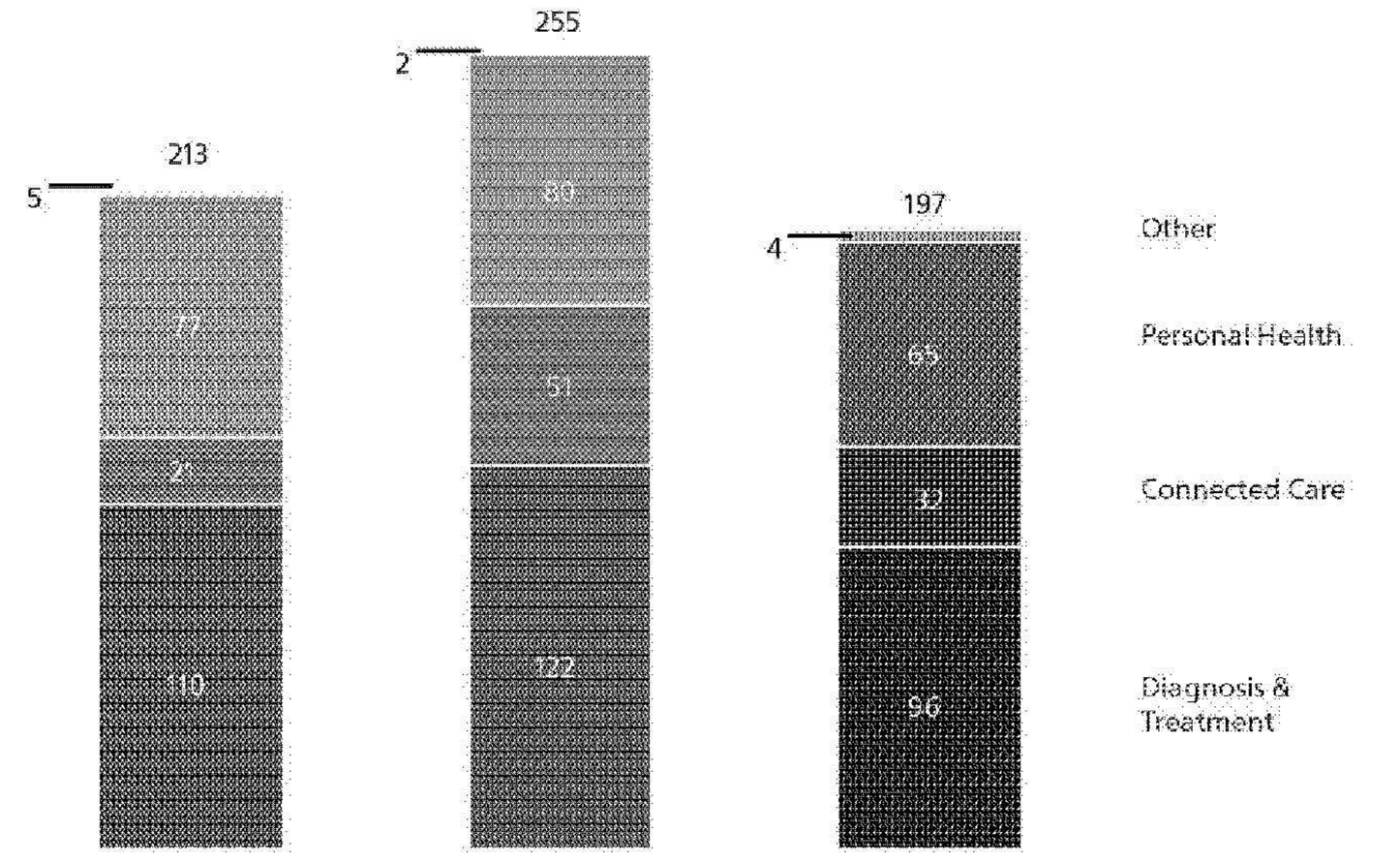
Research from the Potsdam Institute for Climate Impact research shows that over 4% of global CO_2 emissions are caused by the Healthcare sector. We see a growing demand from our customers to reduce their environmental impact. Our Green/EcoDesigned Innovation – the Research & Development spend related 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 2021, Philips invested EUR 197 million in Green/EcoDesigned Innovation, a significant reduction compared to 2020 due to the completion of a number of sizeable innovation projects in the course of 2021. We expect this spend to increase again in the years to come. In 2021, over EUR 1.5 billion was invested in Sustainable Innovation.

As the current EU Taxonomy delegated act only applies to sectors with highest CO_2 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 2021.

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 2021 amounted to EUR 96 million, compared to EUR 122 million in 2020.

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. Our Diagnosis & Treatment businesses actively support a voluntary industry initiative with European trade association COCIR to improve the energy efficiency and material efficiency of medical imaging equipment, as well as lowering its hazardous substances content. Moreover, 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 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 2021 amounted to EUR 32 million, compared to EUR 51 million in 2020. Green Innovation projects in 2021 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 and closing the loop activities are the main areas of focus.

Personal Health businesses

The continued high level of R&D investments at our Personal Health businesses is also reflected in the Green/EcoDesigned Innovation spend, which amounted to EUR 65 million in 2021, compared with EUR 80 million in 2020. 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 products. More specifically, as part of our Fit for Future Packaging program, we launched the first plastic free packaging solution in our Personal Care portfolio for an online One Blade shaver.

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.

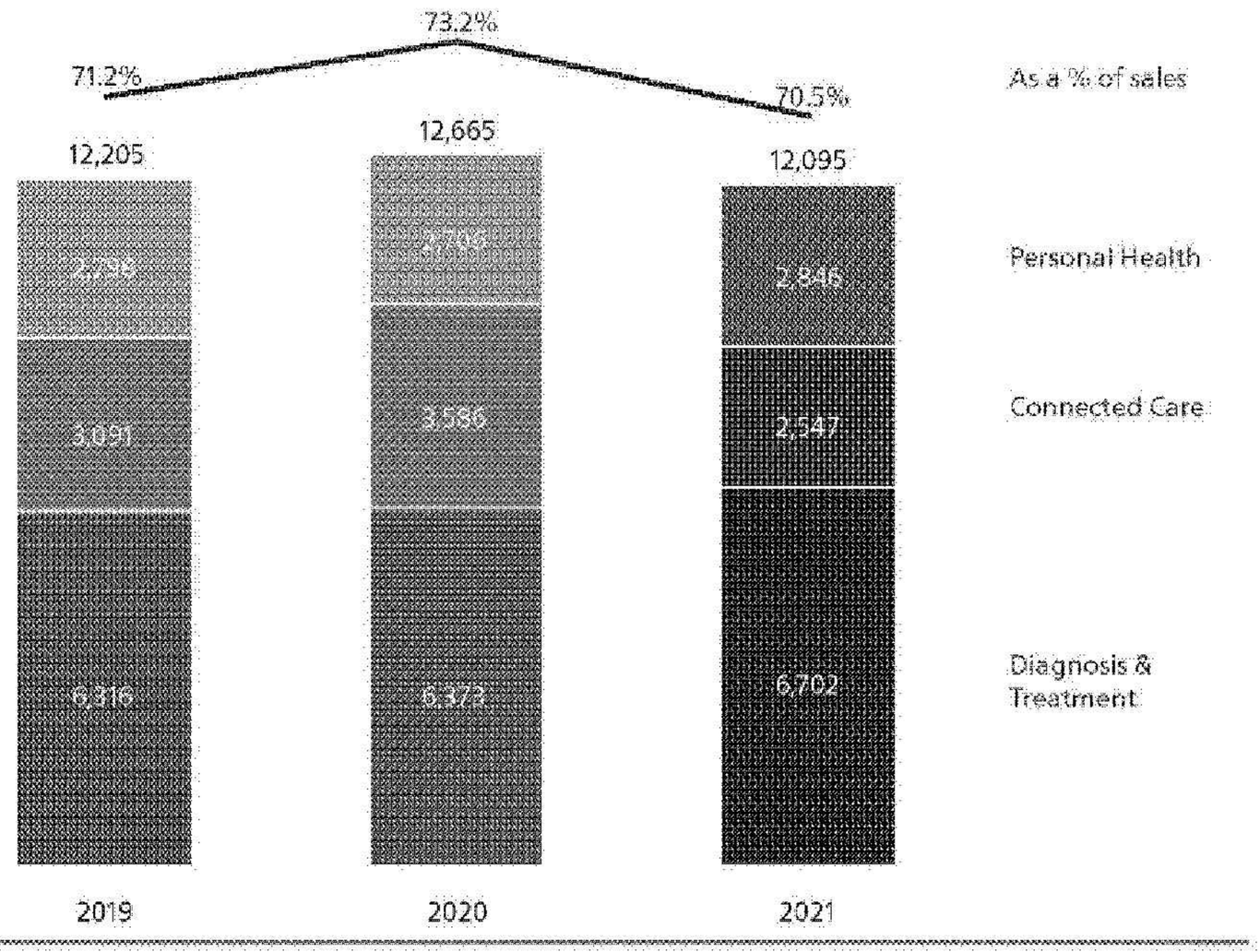
For more information on our Circular Economy activities and the progress towards targets in 2021, please refer to Circular Economy, starting on page 249.

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 12.1 billion in 2021, or 70.5% of sales (73.2% in 2020). This decrease is mainly attributable to lower Green/EcoDesigned revenues in the Connected Care businesses, in particular in Sleep & Respiratory Care.

As the current EU Taxonomy delegated act only applies to sectors with highest CO_2 emissions, Philips' activities are not within the scope of this delegated act and consequently none of Philips' revenues were eligible under this taxonomy during 2021.

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 2021, no new main platforms were launched in our Diagnosis & Treatment businesses, after a significant expansion in 2020 with new Green/EcoDesigned Products – CT Incisive, Mobile X-Ray system Zenition 50 and 70 – and with redesigns of various Green/EcoDesigned Products offering further environmental improvements, such as the MR Ambition and Elition systems. Specific attention was paid to maintaining the Green/EcoDesigned status of the systems and on preparing for future EcoDesigned product launches.

Connected Care businesses

After several launches of new Green/EcoDesigned products in 2020, no new launches took place in 2021. Last year, our Connected Care businesses launched the following Green/EcoDesigned Products – V530 and MX850 patient monitors, EV300 and EVO ventilators and the Intrepid HeartStart monitor & defibrillator. New EcoDesigned Products are expected in 2022 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 2021 amounted to 84% of total sales, comparable to 2020. 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 haircare portfolio we launched a new energy-efficient hairdryer saving 15% of energy consumption compared to its predecessor.

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 Sustainability statements, starting on page 242.

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. We are proud that, as of 2020, Philips is 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,

but also business travel reduction and transport mode shifts to low-carbon emitting alternatives, and finally a carbon offset program.

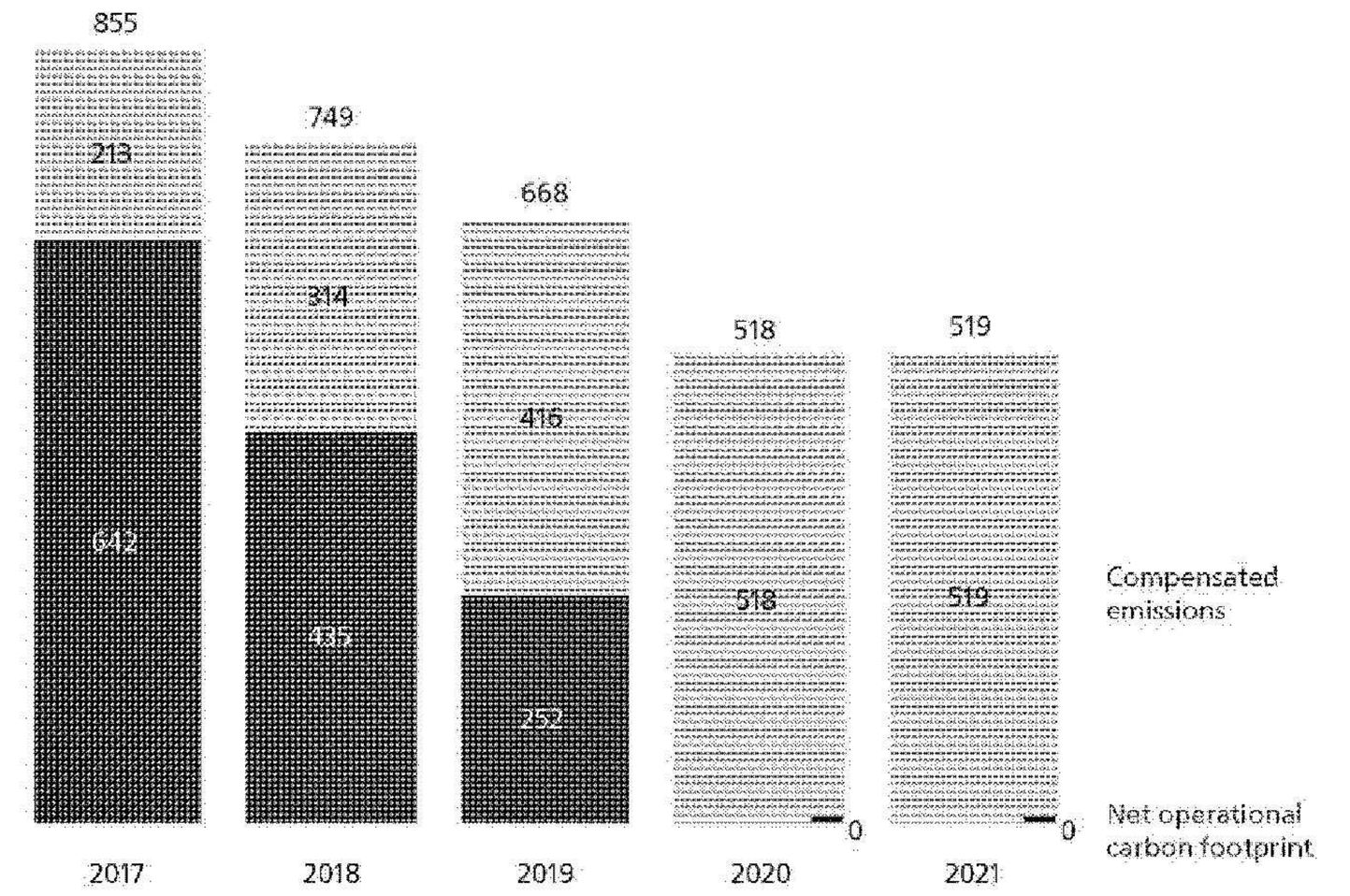
We are proud that our efforts are acknowledged by the CDP (formerly known as the Carbon Disclosure Project), a global NGO that assesses the greenhouse gas (GHG) emission performance and management of reporting companies. In 2021, we were ranked on the CDP Climate Change 'A' List for our continued climate performance and transparency for the ninth 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 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 CO_2 emissions reduction by 2025.

In 2021, our net operational carbon footprint resulted in zero kilotonnes carbon dioxide-equivalent (CO_2-e), mainly driven by continued use of 100% electricity from renewable sources and a continuing reduction in air travel due to COVID-19, as well as a reduction in air freight. A total of 519 kilotonnes carbon dioxide-equivalent (CO_2-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 247.

Philips Group
Net operational carbon footprint in kilotonnes CO_2 -equivalent



In 2021, our operational carbon intensity (in tonnes CO_2e/EUR million sales) increased slightly compared to 2020, as we recovered from COVID-19 restrictions. This does not include the acquired carbon offsets.

In our sites, we reduced our scope 1 (indirect) emissions by 12% compared to 2020, mainly driven by energy efficiency measures, our program to phase out fossil fuels, working from home, and mild winters. We continue to source 100% renewable electricity for all our sites globally. We have multiple Power Purchase Agreements in place to secure long-term delivery of renewable electricity. 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 some 50% of our total electricity demand. Moving forward, we aim to phase out fossil fuels from our sites. We already increased our renewable energy share to 74% in 2021, from 72% in 2020. Combined with the achieved energy reductions, this led to a 10% reduction in emissions from our energy consumption (scope 1 and scope 2 market-based) in 2021 compared to 2020.

In December 2020, Philips announced its next Power Purchase Agreement that will become operational in 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.

Our business travel emissions, covering emissions from air travel, lease cars and rental cars, increased by 3% compared to 2020. This is mainly due to the fact that more of our employees 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. We continue to electrify our lease fleet and to promote online collaboration post-COVID-19 in order to limit air travel, as well as moving to rail transport for shorter distances.

In 2021, we recorded a 1% increase in emissions in our overall logistics operations compared to 2020. We reduced overall emissions from air freight by 4%. Emissions from ocean freight decreased by 9%. We implemented new carrier-trade-lane specific emission factors from the Clean Cargo Working Group (CCWG), allowing us to quantify our ocean freight emissions more accurately. This has been applied for 2020 and 2021. Emissions from parcel shipments increased by 54%, as we shipped more parcels and moved specific carrier shipments from road to parcel in 2021. As a result, in the emissions from road transport decreased by 14%, mainly driven by the before mentioned move from road to parcel and reduced use of road freight in Asia Pacific in 2021 compared to 2020. We also continued to make transport mode shifts to low-carbon alternatives, mainly reducing the need for air freight.

Although reduction is key to achieving carbon neutrality, unavoidable carbon emissions required offsetting in order to gradually drive down our emissions to zero by year-end 2021. 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 2021, we decreased offsets to 516 kilotonnes, equivalent to the annual uptake of approximately 15 million medium-sized oak trees. This covers the total emissions of our entire operations, covering all sites, all business travel and all logistics flows. 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 through 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

Through 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 CO_2-equivalent unless otherwise stated

	2017	2018	2019	2020	2021
Scope 1	32	36	32	30	27
Scope 2 (market-based)	66	26	14	3	3
Scope 2 (location-based)	213	200	196	173	177
Scope 3	757	687	622	485	489
Scope 3 - Transportation & Distribution	614	540	470	415	417
Scope 3 - Business Travel	143	147	152	70	72
Total (scope 1, 2 (market-based), and 3) [1]	**855**	**749**	**668**	**518**	**519**
Emissions compensated by carbon offset projects	213	314	416	518	519
Net operational carbon emissions	**642**	**435**	**252**	-	-
Operational CO_2e efficiency in tonnes CO_2e/mln EUR sales	55.3	47.2	39.0	29.9	30.3

[1] Considered as operational carbon footprint

For 2021, 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 247. Historical emissions of our discontinued operations from our Domestic Appliances business have been excluded for all years. 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 terajoules (TJ) unless otherwise stated

	2017	2018	2019	2020	2021
Total electricity consumption	1,493	1,517	1,454	1,374	1,398
Fuel consumption	508	555	495	490	442
Purchased heat, steam and cooling	55	62	64	45	52
Total energy	**2,056**	**2,134**	**2,013**	**1,909**	**1,892**
Renewable electricity	**1,118**	**1,348**	**1,376**	**1,373**	**1,398**
Renewable electricity share	75%	89%	95%	100%	100%
Renewable energy share	54%	63%	68%	72%	74%
Sales in millions of EUR	15,458	15,878	17,147	17,313	17,156
Operational energy efficiency in TJ/mln EUR sales	0.13	0.13	0.12	0.11	0.11

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

Water

Philips is not a water-intense 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 were identified across all Philips industrial operations. It shows that around 16% of the industrial sites are located at 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.

Total water withdrawal in 2021 was 703,104 m^3, a 13% increase compared to 2020 and a 1% reduction compared to 2019. Water consumption in 2020 was impacted by the government-mandated lockdowns and the working-from-home protocol – resulting in a significant reduction in water intake at several sites.

Diagnosis & Treatment, which consumes 48% of total water usage, recorded a 18% increase, mainly caused by the higher production volume at several sites and the introduction of a new water-intense manufacturing process. Personal Health recorded a 12% increase. This was mainly due to the increased production volume at a water-intensive manufacturing site in Asia. Connected Care showed an increase of 3%, due to changes in the organizational footprint.

Philips Group
Water withdrawal in thousands of m^3

	2017	2018	2019	2020	2021
Diagnosis & Treatment	312	288	295	286	337
Connected Care	168	161	150	116	119
Personal Health	224	238	265	221	247
Philips Group	**704**	**687**	**710**	**623**	**703**

In 2021, 99.4% of water was purchased and 0.6% was extracted from groundwater wells.

Waste

In 2021, our manufacturing sites generated 22,204 tonnes of waste, a decrease of 29% compared to 2020, mainly driven by the reduced impact of our construction activities in different locations across the globe.

The Diagnosis & Treatment businesses reduced waste by 49%, mainly driven by a strong decrease in construction-related waste, which was partially offset by the waste generated by the increased production and newly reported reused materials, now constituting 45% of total waste. The Connected Care businesses reduced waste by 21% due to operational changes and a renovation project which was finished in 2020. Personal Health increased waste by 20% due to operational changes, increased production and reported reused materials, now constituting 43% of total waste.

Philips Group
Total waste in tonnes

	2017	2018	2019	2020	2021
Diagnosis & Treatment	8,319	8,368	9,675	19,703	9,974
Connected Care	3,861	3,962	4,095	3,475	2,753
Personal Health	8,573	8,820	8,758	7,929	9,477
Philips Group	**20,753**	**21,150**	**22,528**	**31,107**	**22,204**

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

Materials delivered for reuse, other recovery or recycling via an external contractor amounted to 19,044 tonnes, which equals 86% of the total waste. Of the 14% remaining waste, 79% comprised non-hazardous waste and 21% hazardous waste. We recorded 1,525 tonnes of waste prevented in our own activities in 2021.

Philips Group
Total waste by destination in tonnes

	Waste generated	Hazardous waste	Non-hazardous waste
Reuse	2,087	8	2,079
Recycling	16,836	1,712	15,124
Other recovery	121	0	121
Waste diverted from disposal by recovery operation	19,044	1,720	17,324
Incineration (with energy recovery)	2,214	166	2,048
Incineration (without energy recovery)	692	473	219
Landfilling	254	22	232
Waste directed to disposal by disposal operation	3,160	661	2,499
Total waste generated	**22,204**	**2,381**	**19,823**

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. The Circular Material Management percentage was 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 2021 we reported 19 tonnes of waste sent to landfill, a significant reduction of 96% compared to 2020. During 2021, one of our waste contractors informed us of an error in their administrative processes, as a result of which a small waste stream was incorrectly classified as recycled. In fact the waste stream was sent to landfill. This was remedied in the second half of 2021. As a result, all our 25 industrial sites achieved Zero Waste to Landfill status by the end of 2021.

Philips Group
Total waste by composition in tonnes

	Waste generated	Waste diverted from disposal	Waste directed to disposal
Paper/cardboard	4,043	4,036	7
Wood	3,875	3,823	52
Metal scrap	3,529	3,499	30
General waste	2,781	1,243	1,538
Chemical waste	2,393	1,716	677
Plastic waste	2,387	1,935	452
Demolition scrap	1,772	1,658	114
Other	1,424	1,134	290

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 252.

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.

5.4.1 Improving people's lives

The lack of access to affordable, quality care is one of the most pressing issues of our time. Climate change is intensifying 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 2021, Philips improved 1.67 billion lives, an increase of around 140 million compared to 2020. This increase was driven by steady growth of all segments and the inclusion of new businesses such as IGT-Devices, EMR & Care Management and Enterprise Diagnostic Informatics, as well as the added contributions of our Philips Foundation and CSR projects.

From a market perspective, we saw significant growth mainly in Latin America (resulting from the inclusion of the EMR & Care Management business), Greater China, the Indian Subcontinent and Africa (mainly driven by the inclusion of Philips Foundation).

We have additional commitments 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 Foundation and its partners, we can provide better healthcare and improve health outcomes for all. In 2021, our health-related solutions improved the lives of 167 million people in underserved markets (an increase of 40 million compared to 2020).

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 2021 Lives Improved results. The combined impact of these changes resulted in an overall drop of 223 million lives improved.

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

Lives Improved per market

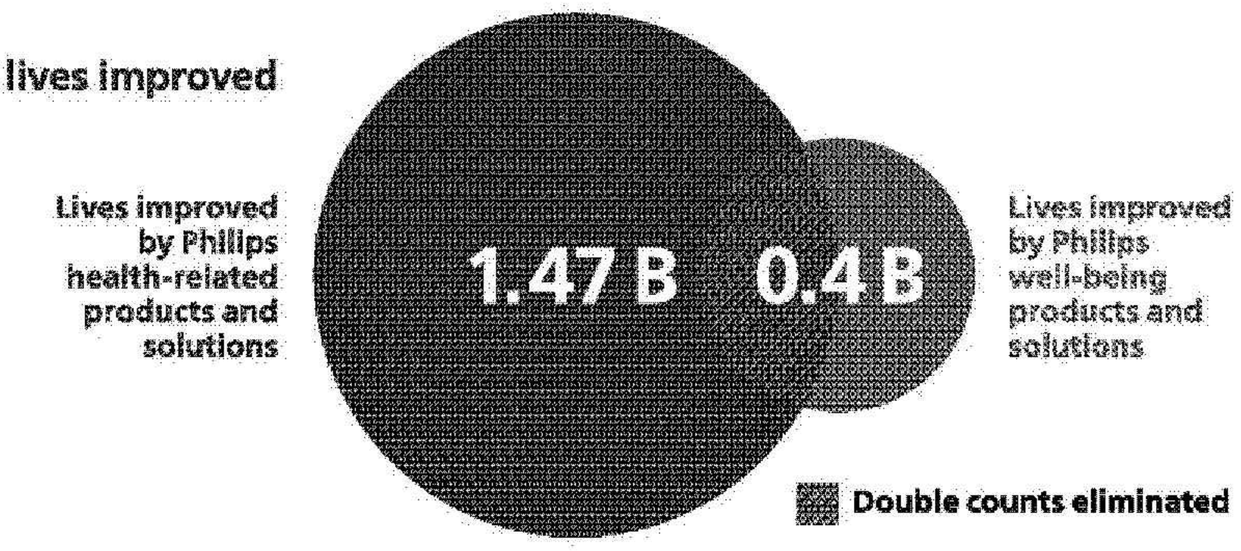
The following table shows the number of Lives Improved per market.

Philips Group
Lives improved per market

Market	Lives improved (million) [1]	Population (million) [2]	Saturation rate (as % of population)
Africa	27	1,324	2%
ASEAN & Pacific	110	993	11%
Benelux	25	29	85%
Central & Eastern Europe	72	165	44%
Germany, Austria & Switzerland	76	101	76%
France	39	68	57%
Greater China	492	1,436	34%
Iberia	29	57	51%
Indian Subcontinent	80	1,601	5%
Italy, Israel & Greece	37	82	45%
Japan	46	126	37%
Latin America	122	649	19%
Middle East & Turkey	59	379	16%
Nordics	19	28	69%
North America	358	368	97%
Russia & Central Asia	44	251	18%
UK & Ireland	35	73	48%

[1] Source: Philips, double counts eliminated
[2] Source: The World Bank, CIA Factbook & Wikipedia

Philips Group
1.67 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 Eager to improve and inspire – every step of the way.

As we continue our transformation into a focused leader in health technology, 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. By fostering an inclusive and psychologically safe environment our people feel valued for who they are and for their contributions. As a health technology leader, the health and well-being of our people is imperative for success.

As work evolves during the COVID-19 pandemic, we are embracing a hybrid working model that offers greater flexibility and improved collaboration for better patient, customer and consumer outcomes, as well as enhanced employee well-being. From feedback shared by more than 10,000 employees in our 'office of the future' survey, we learned that 68% of people want to work from home at least two days a week, while 72% emphasizes the need to meet physically in offices for effective connections. 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 2021, the Workforce of the Future remained a key pillar of our People strategy. In a fast-changing landscape – with a need for evolving capabilities in support of our business transformation, as well as a need to adapt to the changes in the nature of work accelerated by the pandemic – our focus on the Workforce of the Future helps us to attract, develop and retain a workforce that will deliver the strategic capabilities needed to win.

We staff our positions based on assessed behavior, potential and capabilities. In 2021, we filled 72% of our Director-level and more senior positions from within the company. For these internal hires, we ensure our candidates are high performers with strong potential. In 2021, 68% of all internal promotions to Director level and more senior positions were realized 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 and markets 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 2021 we continued our focus on strategic positions and top talent and used the lens of strategic enterprise capabilities to focus our talent attraction, onboarding and development initiatives.

Total Workforce Strategy

We continue our Total Workforce Strategy, which considers all sources of skill, 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 cost savings delivered by the program increased by 55% year-on-year

We extended our Freelance Management System in 2021 to cover India, on top of the Netherlands, Germany and the USA. By advertising opportunities for freelancers on our own Careers site alongside employee jobs, we now source 48% of all our freelancer hires ourselves, without having to go through staffing agencies.

Our Philips-wide Graduate Development Program (GDP) continues to perform well attracting 40 participants in 2021 - and expected to grow to over 300 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 career centers to help guide future steps.

We continue to drive campus hiring, with a 23% year-on-year increase in campus hires compared to 2020 amounting to 1,173 campus hires in 2021 (952 in 2020). Philips also offered meaningful work experience to 17% more interns than in 2020, and they formed a critical source of our graduate hires - with 53% of all graduate hires having been an intern with us.

More information on training and learning programs can be found in People development, starting on page 256.

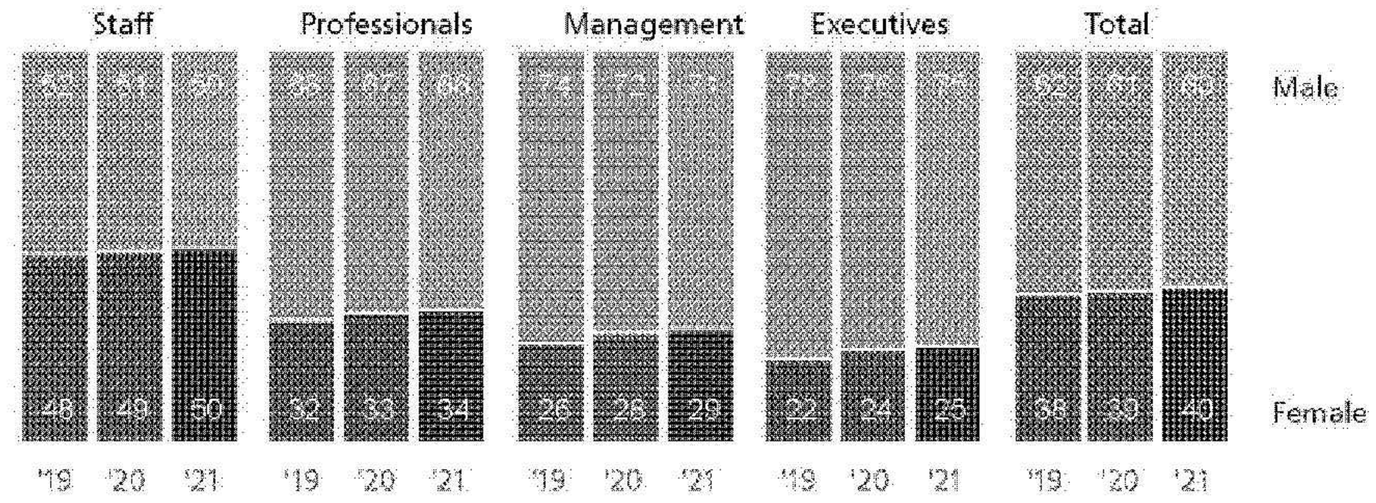
5.4.4 Inclusion & Diversity

Philips' commitment towards Inclusion & Diversity is reflected in our General Business Principles and the company-wide Inclusion & Diversity Policy and Fair Employment Policy that were updated and published in 2021.

The company continues to put in place measures to enhance diversity and inclusion at all levels within the organization, and to ensure that the diversity at senior management levels reflects the diversity of our stakeholders, including consumers, our customers and their patients.

To this end, Philips made a new commitment of 35% gender diversity in senior leadership positions by the end of 2025, raising the ambition from the original target of 30%. As of year-end 2021, the figure stands at 28%.

Philips Group
Gender diversity in % [1]



[1] Includes Domestic Appliances

With diversity being part of Philips' purpose and one of the three strategic pillars of our global People strategy, long-term Inclusion & Diversity ambitions are embedded in our training, our approach to new ways of working including hybrid working, and our focus on health and well-being. Additionally, our leadership development programs, how we listen and respond to employee feedback, and the transparency required to hire and promote talent of underrepresented groups are also in focus.

Execution is monitored through a diversity dashboard based on a global scorecard with specific goals. This drives accountability and focus, and empowers leaders to customize goals, hear the stories behind the numbers, and intervene where appropriate.

During 2021, further work was done to bring together and grow global initiatives and amplify inclusion around unconscious bias, health, well-being and energy management, to grow awareness, stimulate learning and increase the resilience of our employees in the face of the pandemic. These initiatives are building on the holistic, long-term approach that sustainable success stems from an inclusive environment in which everyone can be and bring their best self to work (#youareyou). They include, but are not limited to:

Gender parity

- Building senior women mentoring programs to develop and retain senior female leaders across different levels, functions and markets
- Our Diversity Council continues to accelerate change and increase leadership involvement.

Broadening diversity

- Commitment to empower and increase the number of talents with a different race/ethnicity in leadership, starting in North America

Health & Well-being

- Employee safety incidents (Total Recordable Cases) stood at 213, an increase versus 2020 but well below industry averages. COVID-19 continued to impact our associates, but no work-related deaths were recorded.
- Addressing mental health and well-being with the continued roll-out of the global Employee Assistance program for employees and close dependents
- Embedding and extending the Energy Management Program, helping employees to build resilience and address work/life rhythm
- Offering further company-wide Mindfulness sessions and, across four key markets, an employee Mental Health Champion program, upskilling employees to offer confidential peer-to-peer guidance to support mental well-being.

Learning & Development

- Continuing the deployment across the organization of tailor-made training to address unconscious bias
- Providing globally available masterclasses, led by our leaders and international speakers on topics like Allyship, Privilege, Resilience and Psychological Safety

Creating belonging – #youareyou

- The (virtual) global and local celebrations of International Women's Day across 80 locations worldwide; World Health Day, Pride, and World Mental Health Day
- A new global governance for our valued Employee Resource Groups (ERG) was launched, including an ERG Resource Center: offering active support to employees in setting up their own diverse and inclusive bottom-up networks. These include women's networks, the Black Employees Resource Group in North America, an Asian employees' network, and revival of the LGBTQ+ community. In 2021 we added the Middle Eastern Employee Resource Group, Future Leaders in Philips and Parents Club in the United States, a Benelux chapter of our Black Employee Resource Group, and a Global Care-givers

Network, the latter as a direct response to the challenges experienced during the pandemic.

Recognition

- Achieving Best Place to Work for LGBTQ+ Equality status, receiving a score of 100% on the Human Rights Campaign 2021 Corporate Equality Index. Listed on Forbes Best Diversity Initiatives and Equal Opportunity Magazine's Top 50 employers.

5.4.5 Employee engagement

In an environment of constant, rapid change, it is vital to stay connected and engaged with our people by continually checking in with and listening to them. Employee engagement and improving the experience of our people are pivotal to the success of our strategy. In 2021, employee engagement remained high at 79%, exceeding the Fortune 500 benchmark, despite the pandemic. This was driven by our people feeling proud to work for Philips, inspired to do their best work, and believing that Philips is a great place to work. It was further fostered by a focus on health & well-being, and employees feeling that they can be themselves and have the flexibility needed to enable a healthy work-life rhythm while meeting their career goals.

Philips Group
Employee Engagement index

	2019	2020	2021
Favorable	74%	79%	79%
Neutral	17%	14%	14%
Unfavorable	9%	7%	7%

Our quarterly employee surveys help to keep our finger on the pulse of employee sentiment toward the company. We act upon our employees' ideas for improvement and show them that their feedback is valued.

At Philips, we believe we perform at our best when we feel connected, supported and psychologically safe. Amidst the ongoing pandemic in 2021, we listened actively to our employees to provide them with greater clarity of direction and increased autonomy and flexibility to deal with challenging personal and work situations. Moreover, we strengthened our Health & Well-being programs with a focus on mental well-being, which is designed to help our employees to build resilience through conscious energy management, adopt a healthier lifestyle, and achieve a better work/life balance.

5.4.6 Employment

The total number of Philips Group employees was 78,189 at the end of 2021, compared to 75,001 at the end of 2020, an increase of 3,188 FTE.

Philips Group
Employees per segment in FTEs at year-end

	2019	2020	2021
Diagnosis & Treatment	31,311	32,193	32,390
Connected Care	14,893	15,866	17,751
Personal Health	9,264	10,253	10,134
Other	*17,844*	*16,689*	*17,913*
Philips Group	**73,311**	**75,001**	**78,189**

Philips Group
Employment in FTEs

	2019	2020	2021
Balance as of January 1	**73,691**	**73,311**	**75,001**
Consolidation changes:			
Acquisitions	900	72	2,594
Divestments	(286)		(744)
Other changes	(994)	1,618	1,338
Balance as of December 31	**73,311**	**75,001**	**78,189**

Geographic footprint

Approximately 59% (2020: 61%) of the Philips workforce is located in mature geographies and 41% (2020: 39%) in growth geographies. In 2021, the number of employees in mature geographies decreased by 558. The number of employees in growth geographies increased by 2,629.

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

	2019	2020	2021
Western Europe	20,531	19,925	19,775
North America	21,473	21,118	21,807
Other mature geographies	4,681	4,664	4,683
Mature geographies	46,685	45,707	46,265
Growth geographies	26,626	29,294	31,923
Philips Group	**73,311**	**75,001**	**78,189**

Employee turnover

In 2021, employee turnover amounted to 17.6%, of which 10.0% was voluntary, compared to 14.0% (7.3% voluntary) in 2020. 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 2021

	Staff	Professionals	Management	Executives	Total
Female	28.0%	14.3%	12.8%	17.7%	20.9%
Male	20.6%	13.0%	12.2%	13.6%	15.5%
Philips Group	**24.3%**	**13.4%**	**12.3%**	**14.6%**	**17.6%**

Philips Group
Voluntary turnover 2021

	Staff	Professionals	Management	Executives	Total
Female	9.8%	10.5%	8.8%	13.9%	10.1%
Male	11.9%	9.2%	7.1%	6.2%	9.9%
Philips Group	**10.9%**	**9.6%**	**7.6%**	**8.1%**	**10.0%**

5.4.7 Equal opportunities and equal pay

Philips is committed to equal pay and will continue to investigate whether any deviations from this principle exist.

Many countries with a Philips presence – for example, Australia, the United Kingdom, Sweden, certain US states and India – have already undertaken pay equity reviews. In the US, Philips will be executing a Nationwide Pay Equity Project during 2022, building on work already completed at US state level.

In 2021, a study by EDGE (Economic Dividends for Gender Equality) of Philips in the Netherlands was completed, with Philips being certified for Gender Equality. The study found no statistical evidence of unequal pay. We continue to study gender pay parity using the EDGE methodology and plan to scale this application to cover 80% of Philips' global country presence by the end of 2022.

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 third 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". To develop living wage standards that are complete and have a reliable geographical scope, we combined forces with Valuing Nature, several local NGOs, WageIndicator and other global corporates.

In 2019, we conducted our first analysis of salaries and benefits for employees globally with respect to the living wage. This analysis covered 78 countries and we identified 31 employees in one country for whom wages and benefits were slightly below the defined living wage. Based on these results, our local HR teams made relevant adjustments for the year 2020.

In 2020, we performed the same analysis with the updated living wage data from WageIndicator. This time, all wages and benefits were above the defined living wage levels in all 78 countries.

The living wage analysis conducted in 2021 showed again that all wages and benefits at Philips were above the defined living wage levels in all 76 countries surveyed.

5.4.9 Health and Safety

In 2021, the COVID-19 global pandemic continued to significantly affect Philips' global operations in many ways, including government-mandated lockdowns, travel restrictions, and most importantly ensuring employee health and safety whilst maintaining critical operational commitments. Philips continued to deliver on its triple duty of care: meeting critical customer needs, ensuring the health and safety of employees, and ensuring business continuity. A Group Crisis Operations Team and local Crisis Management Teams continued to provide a global integrated response. This enabled Philips to disseminate a centralized and consistent message for every employee, regardless of market, business or location. A COVID-19 intranet site with guidance and information was maintained and received over 44,000 hits in 2021.

Working as a team across all functions, Philips was able to maintain manufacturing operations and ensure support for our customers, including front-line hospitals, to minimize interruption to key service and support activities. During 2021, approximately 5,168 Philips employees voluntarily reported a COVID-19 infection. Whilst most infections were of mild severity, there were unfortunately some more severe outcomes, including a small number of fatalities. However, less than 1% of contamination cases and none of the fatalities resulted from infections acquired during workplace activities. Cumulatively in 2020 and 2021, Philips recorded 7,374 COVID-19 cases (5,168 in 2021), 19 fatalities (13 in 2021).

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 213 TRCs in 2021, a 20% increase compared to 178 in 2020. While our workforce continued to expand in 2021, the TRC rate decreased from 0.24 per hundred FTEs in 2020 to 0.29 in 2021.

In 2021 we recorded 114 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 25% increase compared with 91 in 2020. The LWIC rate increased to 0.16 per 100 FTEs in 2021, compared with 0.12 in 2020. The number of Lost Workdays caused by injuries increased by 1,672 days (65%) to 4,236 days in 2021.

For more information on Health and Safety, please refer to Health and Safety performance, starting on page 258.

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 2021, we continued to develop our due diligence strategy by conducting Human Rights Impact Assessments (HRIA). In the last quarter of 2020, we deployed a new methodology, covering five manufacturing sites in China and over 4,000 employees. With these assessments, 60% of our at-risk sites have received a dedicated human rights impact assessment in the past three years (target 2023: 100%). In the first quarter of 2021, additional validation activities took place, followed by the creation of an action plan by local management. Results were shared in our Human Rights Report. Continuous support during the implementation of the action plan has been put in place.

Although the Human Rights Impact Assessment of selected sites did not cover the supply chain, learnings from these site assessments were used to develop and launch a new deep-dive approach for certain suppliers. This has been piloted in Q4 2021, with a focused assessment on human rights, compared with the broader Supplier sustainability, starting on page 26 assessment approach which covers sustainability more holistically.

In 2021, the human rights program was presented to our Health & Safety officers at a dedicated employee event. 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. For the upcoming year, we will strengthen our human rights due diligence, continue to engage in dialogues with those already trained, and expand tailored human rights communication and training to key audiences within Philips. 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 2021, 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 260.

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 Sustainability statements, starting on page 242.

For more information on our stakeholder engagement activities in 2021, please refer to Stakeholder engagement, starting on page 267.

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 79.

Please also refer to Corporate governance, starting on page 117 where the main elements of the company's corporate governance structure have been addressed.

5.5.2 Philips Business System

As we drive our transformation to become a solutions provider to our customers and consumers, we have adopted a single standard operating model that defines exactly how we want to work – the Philips Business System (PBS).

The 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.

It is designed to make Philips a simpler, faster, customer-focused, learning organization, in order to fulfill our purpose of improving the health and well-being of billions of people. One that aspires to the highest standards of quality and integrity in everything we do. Building on standard work and best practices, with clear accountabilities and a culture of continuous improvement and compliance. Applying our creativity to make a competitive difference in serving our customers. Making Philips the best place to work.

For more information on the PBS, please refer to How we create value, starting on page 12.

5.5.3 Quality & Regulatory

Our business success depends on the quality of our products, services and solutions, and our compliance with many global regulations and standards. In 2021, we continued our transformation journey to accelerate our customer-focused global processes, procedures, standards, and patient safety & quality mindset, all with the goal of maintaining the highest possible level of quality for our customers and their patients.

As a business with a significant global footprint, ensuring compliance with evolving regulations and standards, including data privacy and cybersecurity, involves increased levels of investment to meet the demands of increased regulatory enforcement activity. Our business deals in the secure electronic transmission, storage and hosting of sensitive information, including personal information, protected health information, financial information, intellectual property, and other sensitive information related to our customers and workforce. For information on how Philips manages cybersecurity risk, please refer to Operational risks, starting on page 85.

Quality

Philips is committed to delivering the highest quality products, services and solutions compliant with all applicable laws and standards. We continuously strive to raise our performance in ensuring quality, which is reflected in our continued substantial investment to embed quality through the standardization and adoption of industry best practices throughout our Quality Management System. Quality is an integral part of the leadership and culture of what we do at Philips. Through this quality system improvement program, our aim is to elevate and ensure consistency in how we work, collaborate and make decisions together as 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.

Regulatory Compliance

Philips actively maintains Quality Management Systems that establish processes for its product design, manufacturing and distribution processes; these standards are in compliance with Food and Drug Administration (FDA)/International Organization for Standardization (ISO) requirements. Our businesses must comply with regulatory pre-marketing and quality system requirements in every market we serve, and to specific requirements of local and national regulatory authorities including the US FDA, the European Medicines Agency (EMA), the National Medical Products Administration (NMPA) in China and comparable agencies in other countries. We also must comply with the European Union'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 Product Safety Regulations.

Often, new products that we introduce are subject to pre-market regulatory processes (e.g. pre-market approval (PMA) and pre-market notification (510(k)) for marketing of FDA-regulated devices in the USA, and CE Marking in the European Union). Failing to comply with the regulatory requirements can have significant legal and business consequences. The

number and diversity of regulatory bodies in the various markets we operate in globally adds complexity and time to product introductions.

In the European Union (EU), the Medical Device Regulation (EU-MDR) passed its date of application (May 26, 2021). Through the comprehensive EU-MDR program which has been running since 2018 and with a joint effort across all of Philips, we have passed this major milestone successfully. For a part of our product portfolio we make use of the Grace Period*) for various reasons including stock depletion, notified body capacity limitations and resource balancing. To achieve this major milestone we made an annual EU MDR investment of around EUR 30 million in 2021 and expect to have additional compliance costs for the new regulations of around EUR 13 million in 2022 to conclude the transition. We believe the global regulatory environment will continue to evolve, which could impact the cost, the time needed to approve, and ultimately, our ability to maintain existing approvals or obtain future approvals for our products.

Consent Decree

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 ECR) 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 again as a Consent Decree follow-up. Two 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.

Even with these successes, however, 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 also cannot currently predict whether additional monetary investment will be incurred to resolve this matter or the matter's ultimate impact on our business.

Philips Respironics voluntary recall notification

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.

At the time of the June 2021 recall/field safety notice, Philips had received a limited number of reports of possible patient impact due to foam degradation, and no reports regarding patient impact related to chemical emissions. Philips continues 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.

We are treating this matter with the highest possible seriousness, and are working to address this issue as efficiently and thoroughly as possible.

We are conducting a comprehensive test and research program and provided an update in December 2021 on the positive VOC test results related to the first-generation DreamStation devices.

The company has developed a comprehensive plan to replace the PE-PUR sound abatement foam used in earlier-generation devices with the new material used in the second-generation products such as DreamStation 2, which has been approved by the US FDA and regulatory authorities around the world, and has already begun this process. Philips Respironics has been working in close partnership with the US FDA, competent authorities, and other regulators around the world, as well as our 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 rather than repaired.

*) Where products, that were placed on the market under the predecessor of the EU-MDR, the EU-MDD, can continue to be placed on the market when meeting a subset of MDR requirements in addition to the MDD requirements.

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 100.

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 – 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 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.

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 2021, a total of 610 concerns were reported via Philips Speak Up (Ethics Line) and through our network of GBP Compliance Officers. This represents an increase of 7% from the total of 571 concerns in the previous reporting period (2020).

While this is a continuation of the upward trend reported since 2014, the year in which Philips updated its General Business Principles and deployed a strengthened global communication campaign, the increase is flattening. Specifically in 2021, we focused on increasing awareness on Integrity and on the importance of speaking up, through and following up on the deployment of our biennial Business Integrity Survey. We still 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 both 2020 and 2021 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 78.

The results of the monitoring measures in place are given in General Business Principles, starting on page 265.

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 78 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 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 127.

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. 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).

In 2021, Philips contributed to the communities where we operate through taxes paid (e.g. corporate income tax) and taxes collected (e.g. VAT). As part of its ESG commitments, Philips committed to provide transparency on its taxes paid and collected in the countries it operates in. Our Country Activity and Tax Report can be found on our website. Philips' total tax contribution in 2021, amounting to EUR 4,090 million, is presented by tax type in the following table.

Philips Group
Total Contribution 2021 per Tax Type in millions of EUR

	Corporate income tax paid	Customs duties	VAT [1]	Payroll Tax	Other Taxes	Total
Western Europe	583	13	320	906	84	1,904
North America	105	39	94	770	7	1,015
Other mature geographies	50	4	79	137	1	272
Growth geographies	79	113	329	320	57	897
Philips Group	**818**	**169**	**821**	**2,133**	**149**	**4,090**

[1] Includes VAT, GST and sales tax.

5.6 Philips' ESG performance at a glance

Below we show how Philips performed in 2021 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 CO_2-equivalent (net operational carbon footprint)

Taskforce on Climate-related Financial Disclosures (TCFD) implementation
Developed 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
- 19 tonnes waste sent to landfill
- All 25/25 industrial sites 'Zero Waste to Landfill' at year-end

Water consumption and withdrawal in water-stressed areas
- 703,104 m^3 total water intake
- 256,957 m^3 in water-stressed areas

Circular revenues *)
16% of revenues

Closing the loop *)
Closed the loop for over 3,000 systems returned to us

Social

Lives Improved *)
1.67 billion, of which 167 million in underserved communities

Diversity & inclusion
- 28% gender diversity in senior leadership positions
- 40% gender diversity in total workforce
- 79% Employee Engagement Score *)

Pay equality
- EDGE-certified for Gender Equality in the Netherlands
- US Nationwide Pay Equity project scheduled for 2022

Wage level
- 6,246 million EUR 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
- 0.29 Total Recordable Case rate per 100 FTEs
- 213 Total Recordable Cases

Training provided
- 830,000 training hours in Philips University
- 835,000 training completions

Absolute number and rate of employment
78,189 employees, 18% turnover

Supplier development program *)
351 companies, 430,000 employees impacted

Volunteering *)
37 new projects in 2020 reaching 17.3 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 Materiality Analysis performed

Anti-corruption
71,000 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
- 17,156 million EUR revenues
- 773 million EUR dividend declared
- 6.7 million EUR contribution to Philips Foundation
- 104 million EUR government grants

Financial investment contribution
- 2,699 million EUR total tangible assets
- 802 million EUR capital expenditure

Total R&D expenses
1.8 billion EUR invested in R&D (10.5% of revenues)

Total tax contribution
4,090 million EUR

*) 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 2021 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

Green House Gas (GHG) emissions	**0 kilotonnes CO_2-equivalent**
Land use and ecological sensitivity	**0 tonnes waste sent to landfill**
Water withdrawal	**4,756 m^3**
Circular revenues*)	**23.9%**

Social

Lives improved*)	**80 million**
Absolute number and rate of employment	**1,841 employees, 22% employee turnover**
Training provided	**24,975 hours**
Wage level	**56 million EUR employee benefit expenses**

Governance

Economic contribution	**244.7 million EUR revenues**
	176.8 million EUR cost of sales
Financial investment contribution	**15.1 million EUR tangible assets**
	3.8 million EUR capital expenditure
Total tax contribution	**72.8 million EUR**

*) Philips-specific metric

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 Voluntary I&D Committees addressed several focal areas: Women, Race, Disabilities, LGBTQIA+, Mental Health, Culture and Internal Communication. The aim is to make all employees in Blumenau, Barueri and Varginha aware of these important topics, generating empathy and appreciation that we are all unique individuals with distinct characteristics.

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 federal, state and municipal level to discuss the digitalization of health. Philips also attended stakeholder meetings as a board member of local medical technology trade associations.

China

Environmental

Green House Gas (GHG) emissions	**0 kilotonnes CO_2-equivalent**
Land use and ecological sensitivity	**0 tonnes waste sent to landfill**
Water withdrawal	**191,951 m^3**
Circular revenues*)	**8.2%**

Social

Lives improved*)	**470 million**
Absolute number and rate of employment	**8,045 employees, 17% employee turnover**
Training provided	**78,962 hours**
Wage level	**381 million EUR employee benefit expenses**

Governance

Economic contribution	**2,247.8 million EUR revenues**
	1,449.9 million EUR cost of sales
Financial investment contribution	**143.4 million EUR tangible assets**
	38.1 million EUR capital expenditure
Total tax contribution	**305.3 million EUR**

*) Philips-specific metric

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

Inclusion and diversity

Females in leadership positions rose from 22% in 2020 to 28%. Energy management training was delivered to over 1,000 employees. People development continued to focus on diversity, with female leaders mentored by senior leaders, and over 35 graduate trainees acting as reverse mentors. Philips China was named Top Employer and Healthiest Employer by Aon Hewitt China.

Philips Foundation and volunteering

Partnering with the Amity Foundation and Chinese Red Cross Society, Philips Foundation launched a volunteer competition to improve cardiac emergency response through a network of AEDs in remote locations and first-aid training in four cities. Philips Foundation also worked with the Chinese Red Cross Foundation and Peking Union Medical College to raise public awareness of cardiovascular disease.

Stakeholder engagement

In 2021, Philips cooperated with government and associations to discuss industry standards, policy design, research & innovation, and healthcare capability improvement post-pandemic. Philips also conducted continuous research on sustainability with China Center for International Economic Exchange.

France

Environmental

Green House Gas (GHG) emissions	**0 kilotonnes CO_2-equivalent**
Land use and ecological sensitivity	**- tonnes waste sent to landfill**
Water withdrawal	**- m^3**
Circular revenues*)	**10.8%**

Social

Lives improved*)	**39 million**
Absolute number and rate of employment	**1,006 employees, 13% employee turnover**
Training provided	**14,775 hours**
Wage level	**116 million EUR employee benefit expenses**

Governance

Economic contribution	**508.7 million EUR revenues**
	354.3 million EUR cost of sales
Financial investment contribution	**25.5 million EUR tangible assets**
	2.8 million EUR capital expenditure
Total tax contribution	**139.3 million EUR**

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

Communication efforts around invisible disability were intensified. 60% of Philips France's new Health Systems Key Account Management organization are women, and there is increased focus on building a pipeline of talented women. Further training was provided on topics such as Bias@Work, STEP and Energy Management.

Philips Foundation and volunteering

With the aim of raising awareness among the French population about the dangers of cardiovascular disease, Philips Foundation worked 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 2021, Philips engaged with the Ministry of Health to support the digital transformation of the healthcare system. Philips is also working closely with the Direction Générale de l'Offre de Soins on new initiatives related to value-based procurement.

*) Philips-specific metric

Germany

Environmental

Green House Gas (GHG) emissions	**0 kilotonnes CO_2-equivalent**
Land use and ecological sensitivity	**0 tonnes waste sent to landfill**
Water withdrawal	**39,365 m^3**
Circular revenues*)	**12.3%**

Social

Lives improved*)	**61 million**
Absolute number and rate of employment	**3,762 employees, 8% employee turnover**
Training provided	**32,016 hours**
Wage level	**400 million EUR employee benefit expenses**

Governance

Economic contribution	**2,261.2 million EUR revenues**
	1,456.6 million EUR cost of sales
Financial investment contribution	**168.5 million EUR tangible assets**
	23.0 million EUR capital expenditure
Total tax contribution	**310.4 million EUR**

*) Philips-specific metric

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

Mental Health Day was marked with a wide range of local activities, including support for ergonomics and psychological well-being. 150 people leaders were trained on Bias@Work. I&D activities included World Refugee Day, with Philips employees sharing their personal story of being on the run, and International Women's Day, Women Out Loud Talks and local Philips Women Lead Calls.

Philips Foundation and volunteering

Philips Foundation and Pink Ribbon Deutschland have joined forces to create a multilingual breast cancer awareness app. The app focuses on women with a migrant background and is available in seven languages. 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.

Stakeholder engagement

Philips engaged with the Ministry of Health and its federal institutions to support the digital transformation of the healthcare system. Philips has built a significant project pipeline targeting the funding elements of the National Future Hospital Act (KHZG), which will start to take effect for hospitals throughout Germany in 2022. Philips continued to help manage the federal stockpile of ventilators and patient monitoring equipment to extend and modernize intensive care capacity.

India

Environmental

Green House Gas (GHG) emissions	**0 kilotonnes CO_2-equivalent**
Land use and ecological sensitivity	**0 tonnes waste sent to landfill**
Water withdrawal	**11,559 m^3**
Circular revenues*)	**10.4%**

Social

Lives improved*)	**76 million**
Absolute number and rate of employment	**8,330 employees, 13% employee turnover**
Training provided	**107,760 hours**
Wage level	**193 million EUR employee benefit expenses**

Governance

Economic contribution	**768.1 million EUR revenues**
	409.0 million EUR cost of sales
Financial investment contribution	**79.4 million EUR tangible assets**
	21.0 million EUR capital expenditure
Total tax contribution	**161.9 million EUR**

*) Philips-specific metric

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
- Other

Inclusion and diversity

The Employee Resource Group-ISC Philips Women League was activated. The Philips Rainbow Network was launched at PIC Bangalore to build support for the LGBTQ+ community. A Bias@Work program was introduced. A Daily Management Board is in place at all sites for Diversity tracking.

Philips Foundation and volunteering

Philips Foundation, Prosus, Johnson & Johnson and Shell formed a coalition to provide over 800 ventilators to public hospitals in regions impacted by COVID-19. Philips Foundation and Philips India supported a project with Save the Children India and social enterprise ZMQ to use mobile health tools to help community health workers improve prevention and case management for childhood pneumonia. This has already improved care for over 200,000 under-five children.

Stakeholder engagement

Philips worked with industry associations to gain an extension to implement regulations for diagnostic imaging equipment. Another key achievement was the amendment of the Production Linked Incentive Policy to include LLP companies; this enabled Philips India to participate in key government 'Make in India' schemes. Besides ongoing medical education and solutions training, Philips organized high-impact training for some 1,000 senior nurses from the Manipal Group of private hospitals.

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Japan

Environmental

Green House Gas (GHG) emissions	**0 kilotonnes CO_2-equivalent**
Land use and ecological sensitivity	**- tonnes waste sent to landfill**
Water withdrawal	**- m^3**
Circular revenues*)	**37.5%**

Social

Lives improved*)	**46 million**
Absolute number and rate of employment	**2,257 employees, 8% employee turnover**
Training provided	**14,814 hours**
Wage level	**166 million EUR employee benefit expenses**

Governance

Economic contribution	**1,104.1 million EUR revenues**
	865.8 million EUR cost of sales
Financial investment contribution	**113.9 million EUR tangible assets**
	0.7 million EUR capital expenditure
Total tax contribution	**168.7 million EUR**

*) Philips-specific metric

Main business activities

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

Inclusion and diversity

We organized a learning week platform to deepen understanding of self-efficiency and self-affirmation. We also held unconscious bias training. Understanding and awareness of 'Inclusion' among employees went up from 63% in 2020 to 74% in 2021. On World Mental Health Day we organized a workshop on mental health attended by 300 employees. We held seminars on Pink Ribbon and Movember together with our customers.

Philips Foundation and volunteering

Philips Japan was unable to deploy volunteering activities in Japan in 2021 due to strict local measures designed to halt the spread of COVID-19.

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 2021 will be on Software as Medical Devices (SaMD) and cybersecurity, and we are discussing the handling and authorization system for these through the Japan Federation of Medical Devices Associations.

Poland

Environmental

Green House Gas (GHG) emissions	**0 kilotonnes CO_2-equivalent**
Land use and ecological sensitivity	**- tonnes waste sent to landfill**
Water withdrawal	**- m^3**
Circular revenues*)	**5.7%**

Social

Lives improved*)	**24 million**
Absolute number and rate of employment	**2,001 employees, 18% employee turnover**
Training provided	**46,548 hours**
Wage level	**62 million EUR employee benefit expenses**

Governance

Economic contribution	**251.9 million EUR revenues**
	149.0 million EUR cost of sales
Financial investment contribution	**15.4 million EUR tangible assets**
	0.4 million EUR capital expenditure
Total tax contribution	**53.3 million EUR**

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 extended our health and well-being program to include psychological well-being; this involved awareness sessions with leaders, a mental health self-evaluation tool, and virtual sessions with psychologists for all employees. We have activated a local Diversity Working Group and a community of Culture Ambassadors. Our gender ratio rose to 50/50.

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 federal, state and municipal level to discuss the digitalization of health. Philips also attended stakeholder meetings as a board member of local medical technology trade associations.

*) Philips-specific metric

Netherlands

Environmental

Green House Gas (GHG) emissions	**0 kilotonnes CO_2-equivalent**
Land use and ecological sensitivity	**18 tonnes waste sent to landfill**
Water withdrawal	**82,591 m^3**
Circular revenues*)	**7.5%**

Social

Lives improved*)	**17 million**
Absolute number and rate of employment	**11,153 employees, 9% employee turnover**
Training provided	**111,492 hours**
Wage level	**1,155 million EUR employee benefit expenses**

Governance

Economic contribution	**8,235.0 million EUR revenues** **4,990.4 million EUR cost of sales**
Financial investment contribution	**614.8 million EUR tangible assets** **68.7 million EUR capital expenditure**
Total tax contribution	**1,025.1 million EUR**

*) Philips-specific metric

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. 163 people took part in the Employment Scheme, which offers vulnerable external jobseekers work experience. We secured EDGE Assess certification for gender equality practices in the workplace. A European Black Employee Resource Group (eBERG) was founded.

Philips Foundation and volunteering

Together with Philips and Eindhoven Hartveilig, Philips Foundation helped extend the AED network to underprivileged areas in Eindhoven and increase awareness of the importance of AEDs and first responders in saving lives. It also teamed up with the Dutch Heart Foundation to create a digital diary app to help over-60s register symptoms related to heart failure.

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.

United Kingdom

Environmental

Green House Gas (GHG) emissions	**0 kilotonnes CO_2-equivalent**
Land use and ecological sensitivity	**- tonnes waste sent to landfill**
Water withdrawal	**- m^3**
Circular revenues*)	**17.3%**

Social

Lives improved*)	**33 million**
Absolute number and rate of employment	**1,105 employees, 19% employee turnover**
Training provided	**13,540 hours**
Wage level	**104 million EUR employee benefit expenses**

Governance

Economic contribution	**506.8 million EUR revenues**
	400.2 million EUR cost of sales
Financial investment contribution	**41.3 million EUR tangible assets**
	9.1 million EUR capital expenditure
Total tax contribution	**118.3 million EUR**

*) Philips-specific metric

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 first local celebration of PRIDE focused on allyship and other topics. A 2-day certified training was held for Mental Health Champions. We also trained over 100 line managers and offered employee sessions to support mental health at work and home. Hybrid Working Sessions facilitated adjustment to the new way of working. Volunteer-led Refugee Workplace Workshops were held to build job-seeking and interview skills.

Philips Foundation and volunteering

Together with Global Action Plan, Philips Foundation wrapped up the Clean Air for Schools Framework, a free online tool that shows teachers, parents and local authorities how to tackle air pollution in and around school grounds. Some 350,000 children in over 2,000 schools now have access to the Framework, or have already implemented parts.

Stakeholder engagement

Philips continues to engage with the government and the National Health Service to support the COVID-19 response. We maintain strong relations with the Association of British Health Technology Industries and Office of Life Sciences and are leading the formation of a sustainability working group with other members of AXREM, the association of health technology providers.

United States

Environmental

Green House Gas (GHG) emissions	**0 kilotonnes CO_2-equivalent**
Land use and ecological sensitivity	**1 tonnes waste sent to landfill**
Water withdrawal	**177,710 m^3**
Circular revenues*)	**13.5%**

Social

Lives improved*)	**330 million**
Absolute number and rate of employment	**21,200 employees, 18% employee turnover**
Training provided	**175,743 hours**
Wage level	**2,697 million EUR employee benefit expenses**

Governance

Economic contribution	**9,907.6 million EUR revenues**
	6,406.5 million EUR cost of sales
Financial investment contribution	**1,057.3 million EUR tangible assets**
	132.8 million EUR capital expenditure
Total tax contribution	**965.5 million EUR**

*) Philips-specific metric

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

Our 10 Employee Resource Groups are gaining momentum through increased employee membership. They facilitate company-sponsored diversity events to align with our cultural events calendar, with an emphasis on safe space dialogues and mental well-being. Leadership committed to increase representation of diverse talent in leadership positions. As a result, we have piloted a mentoring program with our Black high-performing talent. Juneteenth was designated as a 2022 paid holiday.

Philips Foundation and volunteering

Addressing the underserved status of indigenous populations in the US, Philips Foundation empowered healthcare workers in the Navajo Nation with point-of-care ultrasound education and equipment, enabling a sustainable education program that will increase impact year-on-year.

Stakeholder engagement

Philips was at the forefront of advocacy efforts at federal and state level to advance maternal health, especially for underserved communities, including partnering with the White House on its inaugural Maternal Health Call to Action. In several states, Philips supported new laws requiring Medicaid and commercial insurance coverage for remote patient monitoring. Additionally, Philips liaised with Congress to expand awareness on the Philips/Department of Veterans Affairs electronic Intensive Care Unit (eICU).

At a glance

Risk management

Risk management is integrated into our standard operating model, the Philips Business System

Explicitly connects our strategy and improvement initiatives to risk assessment

Discusses the risk dynamics to our broad range of objectives and our main responses

Dedicated focus on risks related to Patient Safety and ESG expectations

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 Risk factors, starting on page 82.

Risk management governance

The Executive Committee identifies and manages the risks Philips face 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, 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 our 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's purpose is to ensure 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 Security Steering Committee (SSC) and the Group Security function manage security (including cybersecurity) risks at Philips. 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, 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. It administers ESG reporting, monitors progress, assesses risks in relation to Philips' ESG strategy and makes recommendations to the Executive Committee on our ESG endeavors.

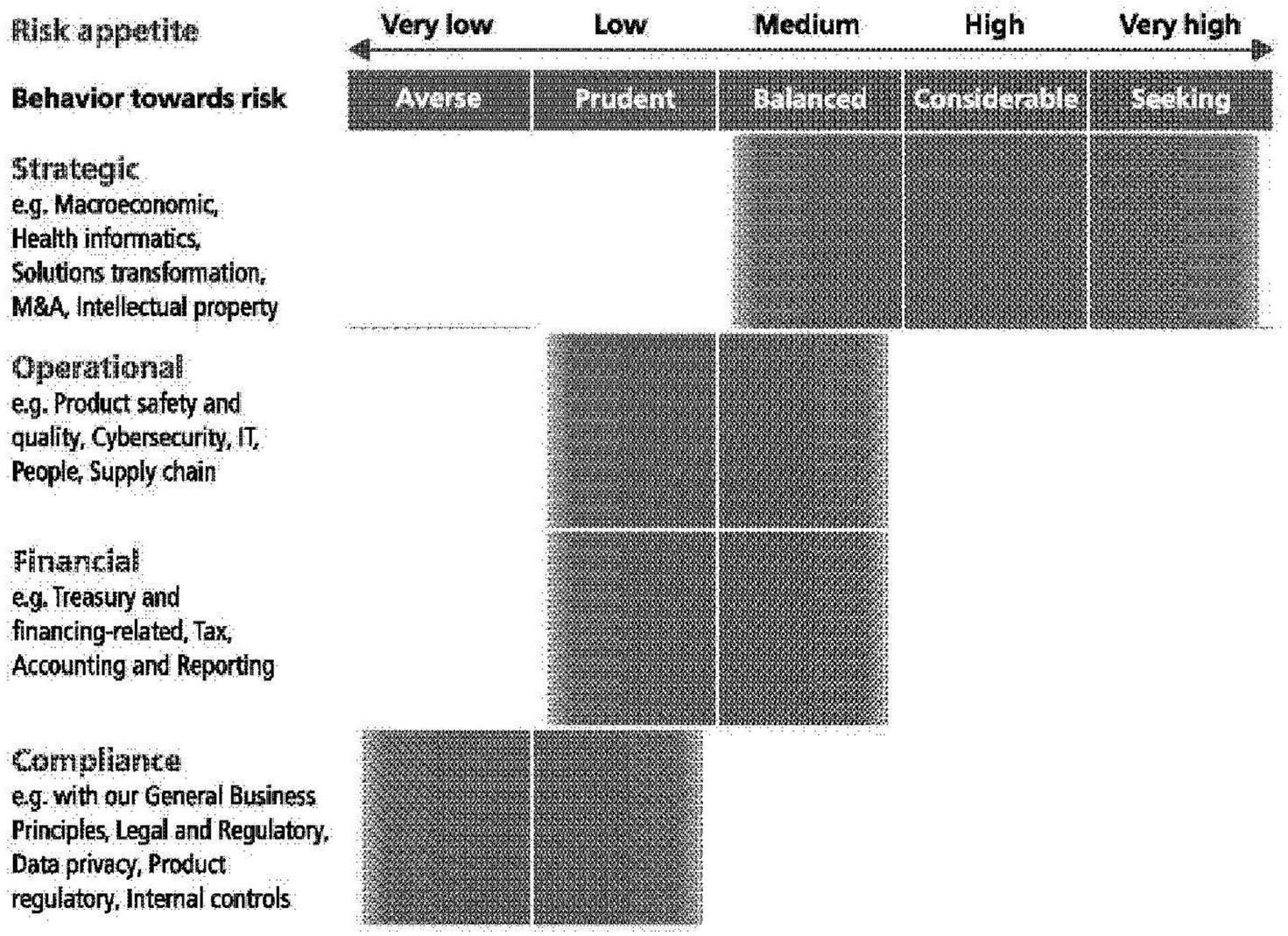
The Supervisory Board oversees Philips' risk management. The Audit Committee and the Quality & Regulatory Committee of the Supervisory Board assist the full Supervisory Board in fulfilling its risk management oversight responsibilities. The Audit Committee reviews the quality of risk management and controls, 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 of development, testing, manufacturing, marketing and servicing.

The Corporate governance, starting on page 117 chapter of this report addresses the main elements of the Company's corporate governance structure, reports on how it applies the principles and best practices of the Dutch Corporate Governance Code and provides certain 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 business principles and behaviors, authority schedules, policies, process standards and performance management systems – include or reflect risk-taking guidance.

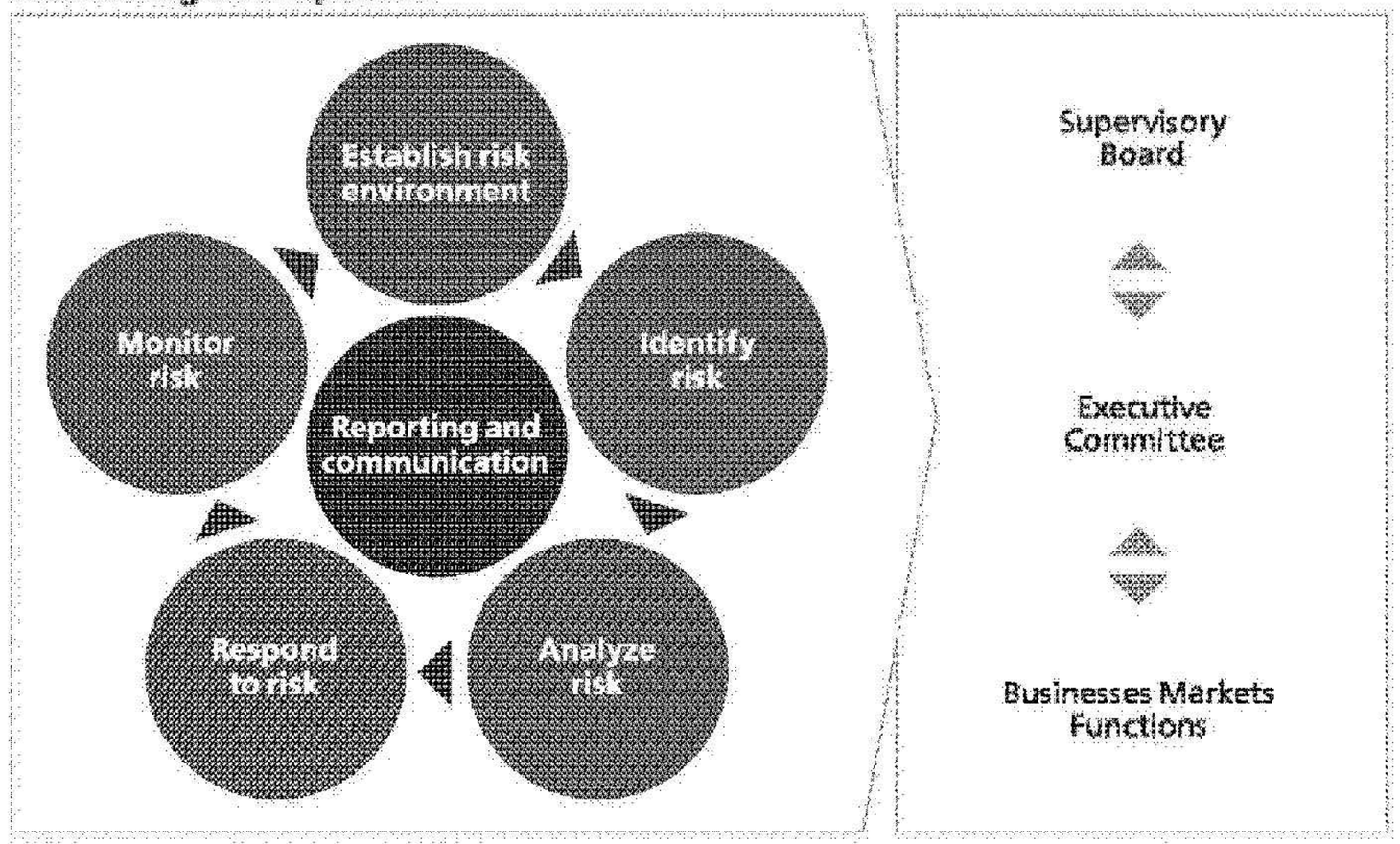
Philips' risk appetite differs depending on the type of risk, ranging from an averse to a seeking approach. We believe we must operate within the dynamics of the health technology industry and take the risks needed to ensure we continually revitalize our offerings and the way we work. At the same time, Philips attaches prime importance to integrity, sustainability, product quality and patient safety, including compliance with regulations and quality standards. Risk appetite for the four main risk categories is visualized below. Philips does not classify these risk categories in order of importance.



Risk management process

In order 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. The process is supported by regular risk workshops with management at Group, Business, Market and Function levels. During 2021, several risk management workshops were held to assess and respond to enterprise risks.

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 across the company to facilitate these risk assessments.
- Management discusses and monitors the risk profile and risk response effectiveness at least quarterly in its performance reviews and during Audit & Risk Committees, which are held for 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. This assessment considers various inputs such as risk assessments from Businesses, Markets and Functions, Philips Internal Audit findings, Legal and Insurance matters, the materiality analysis, and external research. 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 2021 to further strengthen risk management:

- Continued development of our COVID-19 response program with the aim of being better prepared to respond to potential future events;

- Continued improvement and consolidation of our Quality Management Systems;
- Operating a Risk & Compliance (R&C) Center of Excellence to drive continuous improvement, knowledge sharing, capability building and risk transparency across various R&C areas;
- Further integration of standard risk management practices in regular performance and strategy execution dialogues;
- Continued improvement of our security (including cyber, product and supply chain) risk management capabilities;
- Various improvements to supply chain related risk, including supplier risk management and business continuity management;
- Further deployment of the recommendations from the Taskforce on Climate-related Financial Disclosures, particularly related to climate adaptation and transition risks; and
- Increased use of data analytics and automation in controls monitoring, and ongoing development of our enterprise governance, risk and compliance IT platform.

Philips Business Control Framework

The Philips Business Control Framework (PBCF) sets the standard for Internal Control over Financial Reporting at Philips. The objective of the PBCF is to maintain integrated management control of the company's operations to ensure the integrity of the financial reporting, as well as compliance with 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. 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 unit, management is responsible for customizing the controls set for their business, risk profile and operations.

Each year, management's accountability for internal controls for financial reporting is evidenced through the formal certification statement sign-off. Any deficiencies noted in the design and operating effectiveness of Internal Controls over Financial Reporting which 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 Internal Controls over Financial Reporting, can be found in Management's report on internal control, starting on page 127

Philips General Business Principles (GBP)

As part of the Philips Business System, our GBP set the standard for our business conduct as a health technology company. 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, while 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 Legal Officer, and its members include the Chief Financial Officer, Chief Human Resources Officer and the Chief of International Markets. Furthermore, all our key markets have quarterly market compliance committees, which act as local satellites of the GBP Review Committee, dealing with GBP-related matters within 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 our annual GBP Dialogue 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 Self-Assessment, which is part of our Internal Control framework. In addition, we continue to expand the capabilities of our legal compliance monitoring team, serving both our business customers as well as compliance networks with actionable compliance data, thus further improving our compliance control framework.

The GBP are supported by established mechanisms that ensure standardized reporting and enable both 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 regarding questionable accounting or auditing matters.

The GBP and underlying policies, including the Financial and Procurement Code of Ethics, are published on the company website, at www.philips.com/gbp.

6.2 Risk factors

Philips believes the risks set out below are the material risks that could impact our ability to achieve our objectives. These risk factors may not, however, include all the risks that ultimately may affect Philips. Some risks not yet known to Philips, or currently believed not to be material, may ultimately have a major impact on Philips' business, revenues, income, assets, liquidity, capital resources, reputation and/or ability to achieve its business and ESG objectives. Philips defines risks in four main categories: Strategic, Operational, Compliance and Financial. Philips presents the risk factors within each risk category in order of its current view of their expected significance. This does not mean that a lower-listed risk factor may not have a material and adverse impact on Philips' business, revenues, income, assets, liquidity, capital resources, reputation, and/or ability to achieve its business and ESG objectives. Furthermore, other risk factors not listed below may ultimately prove to have more significant adverse consequences than those listed risk factors.

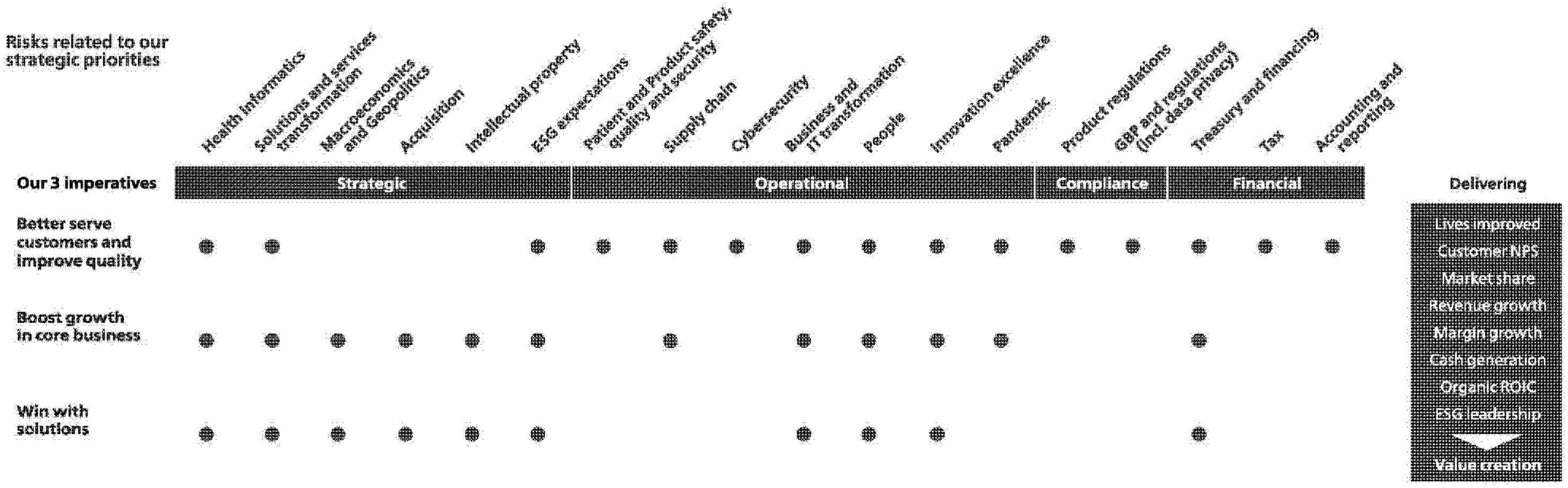
The visual below lists our material risks and how these relate to our strategic roadmap through their main connection points with our strategic imperatives. The improvement initiatives related to our strategic imperatives are also designed to address these risks. Compared to the previous year we have prioritized risk factors relating to Geopolitics, Patient safety and ESG and have de-emphasized risk factors related to Brexit and Pensions.

In the following sections we provide a description of each material risk factor, as well as our main 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. If 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 towards, and should be read in conjunction with, the Risk Appetite as described above.

6.3 Strategic risks

Philips may be unable to gain leadership in health informatics.

Fundamental developments in the health technology industry, such as use of Artificial Intelligence (AI) and Machine Learning (ML), digital platforms delivering insights at scale, and the shift towards cloud-based Software as a Service (SaaS) business models, are dramatically changing our business environment. Our informatics businesses may fall behind 'born digital' competitors if Philips fails to timely develop and globally commercialize capabilities, adjust business models, introduce new products and services in response to these changes. This could result in an inability to satisfy patient and customer 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 has put in place a framework of various initiatives intended to accelerate the transformation of informatics propositions. Initiatives include moving our propositions to the cloud, with a SaaS business model, extending our HealthSuite Platform (HSP) with the necessary data lake elements and associated AI/ML toolsets, so that both Philips businesses and customers can easily generate insights-at-scale, the accelerated creation of new Informatics propositions based upon HSP with explicit data and AI strategies, and the upgrade of our Informatics and Data Science talent and capabilities. In addition, to be able to participate in the China digital ecosystem, a software Innovation Center is being set up in China, and various local partnerships have been forged.

Philips may be unable to transform its business model to health technology solutions and services.

As Philips' business profile has shifted focus towards health technology, we believe we need to shift from transactional product-focused business models towards outcome-oriented, multi-year customer partnership business models enabled by solutions and value-added services. If this shift is made too slowly or is not successful, we may face a loss of customer relevance, inability to capture growth, and loss of market share. Given its health technology focus, Philips may have a reduced ability to offset such potential negative impacts on its health technology business by other businesses through a more diversified portfolio. The transition to solutions and services business models also raises a longer-term risk of (among other things) stronger customer dependency and default. Any of these factors may have a material adverse impact on Philips' business, financial condition and operating results.

Risk response: Philips is running multiple interconnected initiatives intended to enable and accelerate the transformation of its business model. Initiatives relate to the end-to-end support of our solutions offerings by our governance, processes and IT systems, making our solutions available through SaaS and PaaS, digital customer engagement and e-commerce channels, and through activation of our solutions in markets. Despite our health technology focused portfolio, it covers various products, solutions and services across the entire health continuum without significant dependence on a single product, solution, service or market. Where we engage in long-term service-based business models, we aim to run a disciplined deal process with strict acceptance criteria.

Philips' global operations are exposed to macroeconomic and geopolitical changes.

Philips' business environment can be adversely impacted by macroeconomic and geopolitical conditions in individual and global markets. There is general uncertainty with regard to macroeconomic factors, such as monetary and healthcare policies, regulatory change, public capital investments in healthcare ecosystems, consumer confidence and spending, pandemics, civil unrest and war amongst others. In particular, geopolitical tensions and protectionism have intensified and increasingly affect policies on trade, production, duties and taxation.

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 US, the EU (primarily the Netherlands) and China, and the majority of Philips' assets are located in these geographies. Changes in monetary, trade and tax policies in the US, China and EU may trigger reactions and countermeasures by and may have an adverse impact on other economies and international markets. Such measures may include tariffs, sanctions, local sourcing requirements, market access limitations, technology restrictions, data localization requirements and data transfer restrictions, import or export controls, mobility of talent, nationalization of assets, or restrictions on the repatriation of returns from foreign investments. These may lead to adverse impacts on global trade levels and flows, economic growth, financial market and political stability, all of which could adversely affect the demand for, and supply of, Philips' products and services. The factors described above, or other factors which may impact conditions relevant to Philips' business environment, are difficult to predict and may have a material adverse impact on Philips' business, financial condition and operating results. They can also make it more difficult to budget and 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, including pandemics (e.g. COVID-19). High-risk markets (i.e. exposed to high volatility) are regularly assessed for emerging risks, and if necessary, capital structure planning is performed.

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 (e.g. for China, the US, the EU). These market strategies cover various aspects such as manufacturing and assembly, innovation, hosting of health data, capability development and the leveraging of our in-depth knowledge of healthcare, Research & Development, our Quality Management Systems and sustainable global business models, and our brand. This local presence enables Philips to tailor its propositions to local market needs and activate them locally. In addition to local measures, Philips also optimizes its integrated supply chain organization, supplier base and manufacturing footprint from a global perspective, to enable agile responses to large and rapid shifts in demand and supply globally.

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. Acquisitions may expose Philips to integration and other risks in areas such as sales and service, logistics, regulatory compliance, legal claims, information technology and finance, and we may not be able to successfully or efficiently integrate new acquisitions with our existing operations, culture and systems. Integration challenges may adversely impact the realization of expected contributions from acquisitions. These transactions may incur significant costs, result in unforeseen operating difficulties, may also divert management

attention from other business priorities, and may ultimately be unsuccessful. Cost savings expected to be implemented or other assumptions underlying the business plan relating to a particular acquisition may not be realized. If we are unable to accomplish any of our objectives at the independent operating subsidiaries we acquire, we may not realize the anticipated benefits of acquisitions and we may experience lower than anticipated profits, or even 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 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 developed or 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. 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 Intellectual Property (IP) and the protection of existing IP in close co-operation with Philips' operating businesses and Innovation & Strategy. IP&S is a leading industrial IP organization providing IP solutions to Philips' businesses to support their growth, competitiveness and profitability. In addition, 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.

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 to address ESG issues, such as the EU Taxonomy Regulation which aims to define common rules for determining whether economic activities contribute to sustainability objectives. These regulatory and legislative initiatives in turn could also affect how our products or business operations are perceived by customers or other stakeholders. If our products or business operations do not meet the criteria for sustainability according to the *EU Taxonomy* Regulation (including the related delegated regulations) or any other similar regulations, this may negatively affect the views of our customers or other stakeholders. Philips may fail to fulfil internal or external ESG-related initiatives, aims or expectations, or may 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 ESG commitments towards 2025 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 a ESG Committee which monitors progress and assesses risks in relation to our ESG strategy and makes recommendations to the Executive Committee on the continuous improvement of our ESG endeavors. For more information, please refer to the Environmental, Social and Governance, starting on page 43 chapter in this report.

6.4 Operational risks

Products and services may fail quality or security standards, which may adversely affect patient safety and customer operations.

Our products and services, either new and/or in field use by our customers, may fail to meet product quality or product security standards, cause (patient) harm, negatively impact customer operations and their ability to provide healthcare, provide unauthorized access to patient records and medical devices through cyber security 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. Philips may experience issues with the quality of our products and services 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 activation, stop use, field recalls and repairs, as well as financial claims and liabilities, damage to our brand reputation, competitive disadvantage, regulatory non-compliance (refer to the Compliance risk section), and loss of market access and market share, any of which may have a material adverse impact on Philips' market valuation, revenue growth and operating results. Many of our products also have multiple software components, which may be exposed to security threats, including in the event of obsolescence or insufficient maintenance.

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 that 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, and 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 in a material adverse impact 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). 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. Next to continuous improvement we run a program with the aim to accelerate patient safety & quality. Quality is an integral part of the evaluation of all levels of management. We perform extensive programs to monitor and evaluate product performance and 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, Philips Respironics, initiated a voluntary recall notification for certain sleep and respiratory care products to address identified potential health risks, and the repair and replacement program in the US and several other markets is under way. While we believe our processes have become more robust, continuing to enhance our quality culture remains a top priority.

For further details refer to Provisions, starting on page 179 and Contingent assets and liabilities, starting on page 188.

Philips may be unable to ensure an effective supply chain.

Most of Philips' operations are conducted internationally, which exposes Philips to supply chain challenges. Philips produces and procures products and parts in various countries globally and in addition is partly dependent on the production and procurement of products and parts from Asian countries, and 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 factors such as geopolitics (e.g. US-China relations and protectionist measures taken in various markets), regional conflicts, natural disasters or extreme weather events, (the effects of which may be exacerbated by climate change), container imbalances or port congestions. As a recent example, our sales were impacted unfavorably by the intensified global supply chain issues, primarily related to the shortage of electronic components, poor ocean freight schedule reliability, and COVID-19 affecting suppliers. Although difficult to predict, supply chain headwinds are expected to continue throughout 2022, with a significant impact in the first quarter. There is currently scarcity in the availability of semi-conductors due to increased global demand, which is expected to continue in 2022: as a health technology company, Philips is dependent on the availability of semiconductors and continued scarcity may cause increased lead times and adversely impact our production capacity. Pandemics (e.g. resurgences of COVID-19 or mutations thereof) may disrupt supply chains due to rapid shifts in demand, need for production capacity adjustments and safety improvements in the environments for production, field service, installation and Research & Development in which our employees operate. Philips is also exposed to risks associated with delivery of products and services to customers (for example due to construction material or labor shortages), such as the issues with customer site readiness that Philips encountered in the

fourth quarter of 2021, which resulted in (among other things) postponement of equipment installations in hospitals. Such delivery risks may be exacerbated by insufficient staffing levels or staffing disruptions at Philips, its customers or other third-party service providers, including as a result of COVID-19. If Philips is not able to respond swiftly to those various factors, this may result in an inability to deliver on customer needs, ultimately resulting in loss of revenue and margin.

A general shortage of materials (sub-) components or means of transportation drives the risk of fluctuations in price. Philips purchases raw materials, including rare-earth metals, copper, steel, aluminum, noble gases and oil-related products. Commodities have been subject to volatile markets, and such volatility is expected to continue and costs to increase, including 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 (sub-) components, (raw) materials and transportation, reduce reliance thereon, or pass on increased costs to customers, then price increases could have a material adverse impact on Philips' business, financial condition and operating results.

Philips is also continuing the process of creating a leaner supply base and is continuing its initiatives to replace internal capabilities with less costly outsourced products and services, which may result in increased dependency on a concentration of external suppliers. These processes also need to be balanced with local market requirements, including those relating to local manufacturing and data storage. Although Philips works closely with its suppliers to avoid supply-related problems, there can be no assurance that it will not encounter supply problems in the future, 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. Furthermore, we are optimizing our integrated supply chain organization, forecasting analytics, supplier base and manufacturing footprint, stock management to enable agile responses to large and rapid shifts in demand and supply and a changing geopolitical risk landscape. Philips is making balanced investments in both global and local supply chains to reduce dependencies and lead times and to meet local market requirements.

Philips has deployed an integrated supplier 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 Taskforce on Climate related Financial Disclosures. Philips has deployed a global Business Continuity Management System, which is aligned to, and certified against, the ISO standard for Business Continuity.

Philips manages carbon pricing risk by reducing its full value chain carbon footprint and 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 long-term contracting and keeping physical inventories. Philips closely monitors price developments and takes pricing action where appropriate.

Philips could be exposed to a significant enterprise cybersecurity breach.

Philips relies on information technology to operate and manage its businesses and store confidential data (relating to employees, customers, intellectual property, suppliers and other partners). Philips' products, solutions and services increasingly contain sophisticated and complex information technology. We control and process confidential data related to patients and customers. 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 cyber-attacks globally. Considering the general increase in cyber-crime, our customers and other stakeholders are becoming more demanding regarding the cybersecurity of our products and services. As a multinational health technology company, Philips is inherently and increasingly exposed to the risk of cyber-attacks. Information systems may be damaged, disrupted (including the provision of services to customers) or shut down due to cyber-attacks. 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. Cyber-attacks 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, and other liabilities to regulators, customers and other partners, or penalties. 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 cyber-attacks 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 in our information systems and our products and services. The Security Steering Committee continuously monitors the risks, required investments and progress made on the program to reduce security risk. Risk workshops are held across the company to calibrate cybersecurity risks and the appropriate risk appetite.

Philips assesses and continuously improves key security controls for business applications and conducts vulnerability scans. 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 mandatory Security trainings across the company. Philips evaluates its supply chain and continuously monitors the security maturity of critical suppliers and their performance against contractually agreed security standards. 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 sector-specific Information Sharing and Analysis Centers (ISACs) and Cyber Emergency Response Teams (CERTs), to remain abreast of new threats.

Philips is exposed to risks in connection with business transformation and IT system changes and continuity.

Philips expects to engage in multiple transformation programs to support the shift of our business and enable our IT landscape for our health technology strategy. If we do not effectively execute and deliver on those transformation programs, including any upgrades to the Philips IT architecture, this may result in us not realizing our business growth, operational excellence and solutions ambitions, which may have a material adverse impact on our business, financial condition and operating results.

Philips continuously seeks to create a more open, standardized and cost-effective IT landscape, for instance through further outsourcing, offshoring, commoditization and ongoing reduction in the number of IT systems. These changes create third-party dependency risk with regard to the delivery of IT services, the availability of IT systems, and the scope and nature of 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 has a dedicated business transformation and implementation organization which drives end-to-end orchestration of transformations across the organization. To support the transformation programs, Philips has created 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 in terms of business disruption due to failure of the system.

Philips is dependent on its people for leadership and specialized skills and may be unable to attract and retain such personnel.

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 to attract talent in key capability segments and the heightened expectation of attrition post-pandemic increases the risk of loss of talent and critical skills. COVID-19 may continue to present challenges to team interactions and the onboarding of new people. 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 against high-performing external norms and across the organization. Philips performs deep-dives where necessary (for instance relating to the COVID-19 pandemic) 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 impactful collaboration.

COVID-19 and other pandemics could have an adverse effect on Philips' operations and employees.

COVID-19 continued to affect Philips' operations and results in 2021 and Philips continues to see uncertainty and volatility related to the impact of COVID-19 across the world and in underserved communities in particular. This is driven by, among other things, the effectiveness of vaccination programs, mutations of COVID-19, and potentially new viruses which may cause new pandemics. COVID-19 may continue to impact delivery on our triple duty of care in various ways: the health and safety of our employees (in various working environments, such as production, supply, field service, Research & Development, and working from home); meeting critical customer needs (for example, our production capacity and our ability to deliver, install and provide service); and business continuity (for example, our functional operations, supply chain, and commercial processes). Responses to the risks of COVID-19 are expected 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 or 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 being matured and helps Philips to be better prepared to respond to potential future events. Philips is focused on delivering on its triple duty of care:

- *Safeguarding the health and safety of employees (including personal hygiene measures and safety protocols, working from home protocol, safe working environments, personal protective equipment);*
- *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); and*
- *Ensuring business continuity (including liquidity measures and our Business Continuity Management System covering functional operations, the integrated supply chain and commercial processes).*

Philips may face challenges to drive operational 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 defining the right value propositions, the right architecture and platform creation, development, market acceptance, production and delivery ramp-up, potential quality issues or other defects in the early stages of introduction. This also depends on the ability to attract and retain skilled employees. Costs of developing new products and solutions may be reflected on Philips' balance sheet and may be subject to write-down or impairment depending on the performance of such products or services and the significance and timing of such write-downs or impairments are uncertain. 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, 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 and a corresponding innovation pipeline. Philips is driving a marketing transformation 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, with a focus on digital platform-based solutions and software-defined systems, leveraging data and AI at scale. New ways of working will be anchored in improved processes and tools in all aspects of customer needs-focused innovation (from exploration to launch in the market and eventually customer success management). This is part of a broader transformation program, based on Lean Management and enabled by a dedicated Business Transformation organization, to enable Philips' overall strategic imperatives.

6.5 Compliance risks

Philips is exposed to non-compliance of its products and services with various regulations and standards, including quality, product safety and security.

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), ASNM (France), BfArM (Germany), and IGZ (the Netherlands)). In the European Union (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 environmental laws and regulations could 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 security requirements in a variety of new and upcoming legislation dealing with market access of consumer goods, medical devices, information and communication technology (ICT) products, (cloud) services, and specific areas such as data protection, Artificial Intelligence 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 or claims for damages. Product safety incidents or user concerns could 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 and could also negatively impact Philips' reputation, brand, relationship with customers and market share.

Risk response: Philips is committed to 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 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 potential compliance issues, we actively engage with the regulatory authorities with respect to compliance and remediation where relevant. For example, in June 2021 our subsidiary, Philips Respironics, initiated a voluntary recall notification for certain sleep and respiratory care products to address identified potential health risks, and the US Food and Drug Administration (FDA) conducted an inspection of a Philips Respironics manufacturing facility in connection with the recall. We are working closely with the FDA to clarify and follow up on the inspectional findings and its recent requests related to comprehensive testing.

For more information, refer to the sub-section Quality & Regulatory, starting on page 62 in the Governance section of the ESG chapter in this report and Provisions, starting on page 179 and Contingent assets and liabilities, starting on page 188.

Philips is exposed to the risks of non-compliance with business conduct rules and regulations, including anti-bribery, healthcare compliance and data privacy.

In the execution of its strategy, Philips could be exposed to the risk of non-compliance with business conduct rules and regulations. 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, remuneration payments to agents, distributors, consultants and the like, 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 holding of personal health data and medical data, increases the importance of compliance with data privacy 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. For further details, please refer to the sub-section Legal proceedings within the Contingent assets and liabilities note to the Group Financial Statements.

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 through the deployment of various compliance and awareness programs, as well as the establishment of policies and processes that reinforce adherence. With respect to privacy, Philips has established a Privacy Framework, which includes policies, standards and procedures (such as Binding Corporate Rules), with the aim of ensuring compliance with applicable data protection laws and regulations and ensuring 'privacy by design' in all our services and solutions.

For more details, please refer to the sub-section Philips General Business Principles in the section headed "Our approach to risk management".

6.6 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 possible 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 (including the impact of the COVID-19 pandemic) 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 European Union, the United States 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 Russia, South Korea, Indonesia, India and Brazil.

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.

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 negative outlooks or 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, Philips committed approximately half of the EUR 1.5 billion share buyback program for capital reduction purposes by entering into a number of forward transactions, with settlement dates in 2022, 2023 and 2024. The remainder of the program was executed through open market purchases.

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 Details of treasury and other financial risks, starting on page 199.

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. Furthermore Philips is exposed to tax risks related to acquisitions and divestments, tax risks related to permanent establishments, tax risks relating to 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, but also 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 global Philips 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). A group of Market Tax Managers helps to manage the risks and overall tax governance by applying their knowledge of local markets (e.g. introduction of new tax law), among others in monthly reviews.

Please also refer to the disclosure Income taxes, starting on page 161 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 and 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 for when revenue can be recognized 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 working from home during a pandemic, 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 adversely affect Philips' financial condition, results of operation, 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 PCBF are our Financial Code of Ethics (to deter wrongdoings and to promote honest and ethical conduct, full, fair, accurate, timely, and understandable disclosures, and internal reporting of (suspected) violations) and standards on management testing of controls. Please also refer to the section for more information on our PBCF.

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 118 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 Cap Vista Pte Ltd. Member of the Council of Presidential Advisors of Singapore, Deputy Chairman of the Public Service Commission of Singapore.

Neelam Dhawan [1)]

Born 1959, Indian

Member of the Supervisory Board since 2012; third term expires in 2022

Non-Executive Board Member of ICICI Bank Limited, Yatra Online Inc, Skylo Technologies Inc and Capita plc. Chair of the Board of Directors at Capillary Technologies Ltd. Former Vice President, Global Sales and Alliance – Asia Pacific & Japan, Hewlett Packard Enterprise.

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; first term expires in 2022

Currently President and Chief Executive Officer of Intermountain Healthcare. Former Chief of International Business Development for Cleveland Clinic and Chief Executive Officer of Cleveland Clinic Abu Dhabi.

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 Chairman of the Board of Directors of Sulzer AG, 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 and Executive Committee of the Massachusetts Institute of Technology.

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 of 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; first term expires in 2022

With effect from April 1, 2022, CEO of Galapagos NV. Until January 1, 2022, Vice Chair of the Executive Committee and Chief Scientific Officer at Johnson & Johnson. Previously, Worldwide Chair of Pharmaceuticals at Johnson & Johnson, CEO of Virco and Chairman of Tibotec.

[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

Feike Sijbesma appointed as Chairman; changes in Supervisory Board composition

Regular discussion of strategy, risks, performance, quality and patient safety, ESG and succession planning

Deep-dives into strategy and performance of selected business clusters and markets

Reports of Supervisory Board committees

8 Supervisory Board report

Letter from the Chairman of the Supervisory Board

Dear Stakeholder,
2021 was a challenging, mixed year for Philips, as the company saw strong performance across most of its core businesses offset by a number of significant headwinds – increasing supply chain pressures, the COVID-19-related postponement of equipment installations, and the consequences of the voluntary recall by Philips Respironics. However, in view of the strong customer demand and record-high order book, the company expects to resume its growth and margin expansion trajectory in the course of 2022, with a comparable sales decline at the start of the year followed by a recovery and strong second half of the year.

In June, Philips' subsidiary Respironics initiated a voluntary recall notification for certain sleep and respiratory care products, to address potential health risks related to the sound abatement foam in these devices. Following the substantial ramp-up of production, service and repair capacity in close dialogue with regulators across the world, the repair and replacement program is well under way in the United States and several other markets. As a company wholly committed to patient safety, Philips fully understands the impact this issue has had on patients and care givers.

In September, Philips successfully completed the sale of the Domestic Appliances business, concluding its major divestments. We believe this will allow Philips to focus fully on continuing its transformation into a solutions company and extending its leadership in health technology.

Strategy and portfolio continue to resonate with customers

Health systems around the world are striving to transform the delivery of care, with the aim of improving health outcomes, patient and staff experience, and productivity. Philips' strategy and portfolio of innovations across the health continuum – supporting personal health, precision diagnosis, image-guided therapies and connected care, and leveraging the power of data and informatics – continues to resonate very well with customers.

In recent years, Philips has invested significantly in informatics and data science, as well as cloud technology, to enable the delivery of solutions across care settings. This drive continued in 2021 with the acquisitions of BioTelemetry and Capsule Technologies in particular, strengthening Philips' leadership in patient care management solutions for the hospital and the home.

Customers' appreciation for Philips' strategy was underlined by the 80 long-term strategic partnerships the company signed with hospitals and health systems around the world in the course of the year.

ESG commitments

As a purpose-driven company, Philips has adopted a fully integrated approach to doing business responsibly and sustainably. In 2021, Philips continued to deliver on the key commitments set out in its Environmental, Social & Governance (ESG) framework – e.g. by remaining carbon-neutral in its own operations, by engaging with suppliers and customers to help minimize environmental impact across the value chain, as well as by leading the transition to a circular economy and extending access to care for underserved communities. In 2021, Philips also published its first Country Activity and Tax Report, providing transparency on taxes paid and collected in the countries where it operates.

Supervisory Board

The Supervisory Board spent several sessions in 2021 reviewing, among other things, the Philips Respironics recall, quality, strategy, risk, business controls, financial and business performance, as well as its talent pipeline and succession planning, and Environmental, Social & Governance (ESG) programs.

At the AGM in May, the Supervisory Board was strengthened by the addition of Indra Nooyi and Chua Sock Koong. Indra Nooyi is a proven business leader in the consumer sectors, with a strong track record of delivering sustained profitable growth, while doing business sustainably and responsibly. Chua Sock Koong brings in-depth knowledge of information technology and the growth of digital services businesses, as well as extensive experience of business in Asia. Their strategic insights will be of great value to our Board and to Philips, as the company strives to expand its leadership in health technology solutions.

We are also very pleased to propose Herna Verhagen and Sanjay Poonen as new members of the Supervisory Board to the Annual General Meeting of Shareholders, which will be held on May 10, 2022. With her proven track record in driving a customer-first company culture and a background in e-commerce logistics, Herna Verhagen will bring valued and new perspectives to the Supervisory Board, while Sanjay Poonen's extensive experience in enterprise IT and cloud-enabled business models will further strengthen the Supervisory Board's digital competencies.

I am honored to have taken over the role as Chairman of the Supervisory Board in May 2021. I would like to record the Supervisory Board's gratitude to my predecessor, Jeroen van der Veer, for his many years of leadership. I also wish to thank Christine Poon and Orit Gadiesh, who stepped down from the Supervisory Board in 2021, and Neelam Dhawan, who will step down at the end of the Annual General Meeting of Shareholders in 2022, for their long-term counsel and support. Together with my fellow Supervisory Board members, I look forward to providing continued oversight of Philips as it acts on its purpose of improving people's health and well-being through meaningful innovation, and advising the Board of Management where applicable.

Feike Sijbesma
Chairman of the Supervisory Board

Introduction Supervisory Board Report

The Supervisory Board supervises and advises the Board of Management and Executive Committee in performing their management tasks and setting the direction of the business 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 2021 and other relevant information on its functioning.

Activities of the Supervisory Board

The overview below indicates key matters that we reviewed and/or discussed during meetings in the course of 2021:

- Regular assessments of the company's overall strategy to extend its leadership as a health technology company. These included reviews of the strategic priorities for each of the business clusters, the company's informatics strategy and its strategy in key markets and the Philips Business System (the company's standard operating model). An external expert provided the Supervisory Board with an external perspective on digital health in the coming five years and the challenges and opportunities this brings to the company;
- Regular reviews of the company's acquisitions, divestments and partnerships funnel;
- Selected acquisitions and divestments, including the acquisitions of BioTelemetry, Inc., Capsule Technologies, Inc., Cardiologs (closed on January 7, 2022), and Vesper Medical Inc. (closed on January 11, 2022) and the divestment of the Domestic Appliances business;
- The (business) performance of the Philips Group and its underlying businesses, as well as the company's flexibility under its capital structure and credit ratings to pay dividends and to fund capital investments, including share repurchases and other financial initiatives and the EUR 1.5 billion share buyback program the company announced on July 26, 2021;
- The (business) performance of companies previously acquired by the company;
- Oversight of the adequacy of financial and internal controls;
- Capital allocation, including the dividend policy and pay-out and the M&A framework;
- The performance of the Integrated Supply Chain and an update on the key transformation programs and the progress made;
- Geopolitical developments and their impact on Philips' business;
- Philips' annual management commitments, including the 2022 key performance indicators for the Executive Committee, the 2022 targets for such key performance indicators, and the annual operating plan for 2022;
- Quality & Regulatory compliance, systems and processes. In view of the Philips Respironics voluntary recall notification related to the sound abatement foam in certain sleep and respiratory care products (announced on June 14, 2021), the Supervisory Board regularly discussed this issue and the progress made with respect to the repair and replacement program with Management. Furthermore, the Supervisory Board was regularly updated on the internal Accelerating Patient Safety and Quality program that was launched by the company in the course of 2021. Also refer to the description of the activities of the Quality & Regulatory Committee in the section Report of the Quality & Regulatory Committee, starting on page 115 of this Supervisory Board report;
- The company's quality transformation journey, as embedded in the Philips Business System;
- Enterprise risk management, including updates on and improvements of the relevant processes, the outcome of the annual risk assessment dialogue with the Executive Committee, an update of the top risks faced by the Philips Group, the possible impact of such risks, and control and mitigation measures. Reference is made to the section Our approach to risk management;
- The succession of Jeroen van der Veer as Chairman of the Supervisory Board by Feike Sijbesma and the changes in the composition of the committees of the Supervisory Board;
- The company's People strategy, review of talent management, leadership and talent development, leadership culture, inclusion and diversity, and succession planning for executive management;
- 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 the launch of, and 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, as well as how ESG is embedded in the Philips Business System.

The Supervisory Board also conducted 'deep dives' into a range of topics including:

- Strategy and performance trajectory, and major innovations (including demonstrations of latest innovations) in the Personal Health, Diagnosis & Treatment and Connected Care segments;
- The strategy and performance of 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 non-financial information, prior to publication.

Supervisory Board meetings and attendance

In 2021, the members of the Supervisory Board convened for seven regular meetings and two extraordinary meetings. Moreover, we collectively and individually interacted with members of the Board of Management, 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. Indra Nooyi and Chua Sock Koong, appointed to the Supervisory Board with effect from May 6, 2021, 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 2021. All Supervisory Board members were present during the Supervisory Board meetings in 2021, with the exception of one member unable to attend the January 2021 meeting, one member unable to attend the February 2021 meeting, and one member unable to attend the October 2021 meeting. 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 members held private meetings. We, as members of the Supervisory Board, devoted sufficient time to engage (proactively if the circumstances so required) in our supervisory responsibilities.

Because of restrictions related to the COVID-19 pandemic, the meetings of the Supervisory Board and its committees were mostly held virtually and there have been limited local site visits by Supervisory Board members.

Composition, diversity and self-evaluation by the Supervisory Board

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 nine members. In 2021, there were a number of changes to the composition of the Board, all effective as per (the end of) the Annual General Meeting of Shareholders held in 2021. Indra Nooyi and Chua Sock Koong were each appointed as a member of the Supervisory Board for a term of four years. The term of appointment of Jeroen van der Veer and Christine Poon expired and Orit Gadiesh stepped down from the Supervisory Board. The Supervisory Board appointed Feike Sijbesma as Chair of the Supervisory Board, and Paul Stoffels as Vice-Chair and Secretary of the Supervisory Board.

The agenda for the upcoming 2022 Annual General Meeting of Shareholders will include proposals to re-appoint Paul Stoffels and Marc Harrison as members of the Supervisory Board and to appoint Herna Verhagen and Sanjay Poonen as new members of the Supervisory Board. At the end of the 2022 Annual General Meeting of Shareholders, the term of appointment of Neelam Dhawan will expire. She will step down from the Supervisory Board after having served a decade on the Supervisory Board. We, as members of the Supervisory Board, would like to take this opportunity to thank Neelam Dhawan for her contributions to our work and are very pleased with the availability of the proposed new members (subject to their appointment at the 2022 AGM).

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. As laid down in the Diversity Policy, the aim is that the Supervisory Board, Board of Management and Executive Committee comprise members with a European and a non-European background (nationality, working experience or otherwise) and overall at least four different nationalities, and that they comprise at least 30% male and at least 30% female members. The Supervisory Board's composition furthermore follows the profile included in the Rules of Procedure of the Supervisory Board, which aims for an appropriate combination of knowledge and experience among its members, encompassing marketing, manufacturing, technology and informatics, healthcare, financial, economic, social and legal aspects of international business and government and public administration in relation to the global and multiproduct character of Philips' businesses. The aim is also to have one or more members with an executive or similar position in business or society no longer than five years ago. The composition of the Supervisory Board shall be in accordance with the best practice provisions on independence of the Dutch Corporate Governance Code, 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.

The Supervisory Board spent time in 2021 considering its composition, as well as the composition of the Executive Committee (including the Board of Management). Currently, the composition of the Supervisory Board meets the above-mentioned gender diversity goals, as 44% of the Supervisory Board members (4 out of 9) are female. Overall, 32% (7 out of 22) of the positions to which the Diversity Policy applies (Supervisory Board and Executive Committee/Board of Management) are held by women. Upon the proposed (re-)appointments at the upcoming 2022 Annual General Meeting of Shareholders, 40% of the Supervisory Board members (4 out of 10) will be female and 30% of the positions to which the Diversity Policy applies will be held by women. The proposed (re)appointments are in accordance with the mandatory gender quota imposed by Dutch law, effective 2022, requiring that at least one-third of the supervisory board members are women (and at least one-third are men).

As explained in the report of the Corporate Governance and Nomination and Selection Committee and the section Inclusion & Diversity of this Annual Report, the company continues its efforts to enhance inclusion and diversity in the entire organization. Philips' company-wide commitment towards Inclusion & Diversity is reflected in the Inclusion & Diversity Policy, the General Business Principles and the Fair Employment Policy, which were all updated in 2021. The company continues to put in place measures to enhance diversity and inclusion at all levels within the organization. Philips has set a goal of 35% gender diversity in senior leadership positions (a subset of Management and Executive positions) by the end of 2025. The Supervisory Board expects these efforts to contribute to the achievement of the company's gender (and other) diversity goals, although there may be various pragmatic reasons – such as other relevant selection criteria and the availability of suitable candidates – that could have an impact on the achievement of our goals. The Supervisory Board will continue to devote attention to this topic in 2022.

In 2021, 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 2021 self-evaluation process for the Supervisory Board and its committees. This included drafting and submitting relevant questionnaires, interviewing members of the Supervisory Board as well as aggregating and reporting on the results. The questionnaires covered topics such as the composition of the Supervisory Board and the required profile (in terms of skills and experience, geographical coverage and diversity) of future Supervisory Board members, stakeholder oversight, strategic oversight, the management 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 (such as product and service quality), risk management, succession planning and human resources oversight, 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 and of the Supervisory Board's committees was evaluated separately.

The report on the results of the self-evaluation was shared and discussed in a private meeting of the Supervisory Board. The responses provided by the Supervisory Board members indicated that the Supervisory Board continues to be a well-functioning team, is of an appropriate size and benefits from expertise, diversity and international representation. A number of suggestions were made to further strengthen the Supervisory Board going forward, focusing among others on the following topics: knowledge of medical technology, the key regulatory regimes applicable to the company, the company's approach to research and development, product design, manufacturing and suppliers (including in the context of quality and patient safety), the overall control structure and reporting lines in the company and succession planning. Early 2022, the Chairman of the Supervisory Board discussed the results of the self-evaluation with each of the individual members of the Supervisory Board, and the evaluation of his own functioning with the Vice-Chairman. Finally, the Supervisory Board noted the smooth transition of the role of the Chairman in 2021.

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 [1]	Neelam Dhawan	Liz Doherty	Marc Harrison	Peter Löscher	Indra Nooyi [1]	David Pyott
Year of birth	1959	1962	1957	1959	1957	1964	1957	1955	1953
Gender	Male	Male	Female	Female	Female	Male	Male	Female	Male
Nationality	Dutch	Belgian	Singaporean	Indian	British/Irish	American	Austrian	American	British/American
Initial appointment date	2020	2018	2021	2012	2019	2018	2020	2021	2015
Date of (last) (re-)appointment	n/a	n/a	n/a	2020	n/a	n/a	n/a	n/a	2019
End of current term	2024	2022	2025	2022	2023	2022	2024	2025	2023
Independent	yes	yes	yes	yes	yes	yes	yes	yes	yes
Committee memberships [2]	RC [3] & CGNSC	RC & CGNSC [4]	AC [5]	AC	AC	QRC	AR & QRC	CGNSC [6]	AC [7], RC [8] & QRC
Attendance at Supervisory Board meetings	(9/9)	(8/9)	(7/7)	(9/9)	(9/9)	(9/9)	(9/9)	(7/7)	(9/9)
Attendance at Committee meetings	RC (3/3) CGNS (5/5)	RC (4/4) CGNSC (2/2)	AC (3/3)	AC (5/6)	AC (6/6)	QRC (6/7)	AC (6/6) QRC (7/7)	CGNSC (2/2)	AC (2/2) RC (3/3) QRC (7/7)
International business	yes	yes	yes	yes	yes	yes	yes	yes	yes
Marketing		yes		yes			yes	yes	yes
Manufacturing	yes	yes		yes	yes		yes	yes	
Technology & informatics	yes	yes	yes	yes	yes	yes	yes	yes	
Healthcare		yes				yes	yes		yes
Finance		yes	yes		yes	yes	yes	yes	yes

[1] Appointed as member of the Supervisory Board with effect from May 6, 2021

[2] CGNSC: Corporate Governance & Nomination and Selection Committee; AC: Audit Committee; RC: Remuneration Committee; QRC: Quality & Regulatory Committee

[3] Feike Sijbesma joined the Remuneration Committee in the course of 2021

[4] Paul Stoffels joined the Corporate Governance & Nomination and Selection Committee in the course of 2021

[5] Chua Sock Koong joined the Audit Committee in the course of 2021

[6] Indra Nooyi joined the Corporate Governance & Nomination and Selection Committee in the course of 2021

[7] David Pyott stepped down from the Audit Committee in the course of 2021

[8] David Pyott joined the Remuneration Committee in the course of 2021

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 2021

The financial statements of the company for 2021, 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 2021 financial statements. We likewise recommend to shareholders that they adopt the proposal of the Board of Management to make a distribution of EUR 0.85 per common share, in cash or shares at the option of the shareholder, against the net income of 2021.

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 2021.

February 22, 2022

The Supervisory Board

Feike Sijbesma
Paul Stoffels
Chua Sock Koong
Neelam Dhawan
Liz Doherty
Marc Harrison
Peter Löscher
Indra Nooyi
David Pyott

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 117 and to the following documents published on the company's website:

- Articles of Association
- Rules of Procedure 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 (who joined in the course of 2021) and Indra Nooyi (who joined after her appointment as member of the Supervisory Board at the 2021 Annual General Meeting of Shareholders). 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 2021, Corporate Governance and Nomination & Selection Committee members held five meetings and all Committee members attended these meetings.

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 appointment of Indra Nooyi and Chua Sock Koong as members of the Supervisory Board at the 2021 Annual General Meeting of Shareholders. This also resulted in the proposals to re-appoint Paul Stoffels and Marc Harrison as members of the Supervisory Board and to appoint Herna Verhagen and Sanjay Poonen as new members of the Supervisory Board at the upcoming 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, starting on page 107, setting out the performance review of the Board of Management and the Executive Committee members by the Remuneration Committee.

In 2021, the Committee devoted time to the appointment or reappointment of candidates to fill current and future vacancies on the Board of Management and the Executive Committee. This resulted in the re-appointment of Marnix van Ginneken as a member of the

Board of Management at the 2021 Annual General Meeting of Shareholders. Furthermore, Shez Partovi was appointed as a member of the Executive Committee in his role as Chief Innovation and Strategy Officer, effective July 2021, succeeding Jeroen Tas who stepped down from the Executive Committee at the same time. Rob Cascella and Henk de Jong stepped down from the Executive Committee effective April 2021 and September 2021 respectively.

With respect to corporate governance matters, the Committee discussed relevant developments and legislative changes, including the introduction in Dutch law of a gender quota for supervisory boards, expected Dutch legislation on virtual-only general meetings of shareholders, and European developments in the area of ESG reporting.

Diversity

In 2017, the Supervisory Board adopted a Diversity Policy for the Supervisory Board, Board of Management and Executive Committee, which 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, Board of Management and Executive Committee have the expertise needed for a good understanding of current affairs and longer-term risks and opportunities related to the company's business and sufficient diversity of views to provide appropriate challenge. The nature and complexity of the company's business is taken into account when assessing optimal board diversity, as well as the social and environmental context in which the company operates. As explained in its report, the full Supervisory Board spent time in 2021 considering its composition, as well as the composition of the Executive Committee (including the Board of Management). Pursuant to the Diversity Policy, the selection of candidates for appointment to the Supervisory Board, Board of Management and Executive Committee will be based on merit. With due regard to the above, the company shall seek to fill vacancies by considering candidates that bring a diversity of (amongst others) age, gender and educational and professional backgrounds.

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

Looking back at the decisions made during the year

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

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

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

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

Company performance despite headwinds

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

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

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

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

The composition of the Remuneration Committee and its activities

The Remuneration Committee is chaired by Paul Stoffels. Its other members are David Pyott and Feike Sijbesma. The Committee is responsible for preparing decisions of the Supervisory Board on the remuneration of individual members of the Board of Management and the Executive Committee, as well as the policies governing this remuneration. In performing its duties and responsibilities, the Remuneration Committee is assisted by an external consultant and an in-house remuneration expert. For a full overview of the responsibilities of the Committee, please refer to the Charter of the Remuneration Committee, as outlined in Chapter 3 of the Rules of Procedure of the Supervisory Board (which are published on the company's website).

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

July to September:	October to December:	January to March:	April to June:
• Review the Remuneration Policy in line with the business strategy and priorities and assess the need for changes	• Engage in stakeholder dialogues regarding the Remuneration Policy and proposed changes for the next year (if any)	• Evaluate business performance and achievement of Annual and Long-Term Incentive targets	• Effectuate compensation level changes
• Review the Remuneration Committee Charter	• Assess compensation levels against the median of the Quantum Peer Group for compensation benchmarking purposes	• Rigorous target setting of the performance metrics for the upcoming year and multi-year LTI cycle	• Prepare and hold the Annual General Meeting of Shareholders including a discussion on the implementation of the Remuneration Policy
	• Conduct scenario analyses	• Set compensation levels for the upcoming year based on the assessment against the Quantum Peer Group	
	• Prepare Remuneration Report for the previous year		

The Committee met five times in 2021. All Committee members were present during these meetings.

At Philips, our purpose is to improve people's health and well-being through meaningful innovation. The Remuneration Committee believes that the Remuneration Policy (and Long-Term Incentive Plan) for the Board of Management supports this purpose. Please refer to the Remuneration Report below, for the way the Remuneration Policy has been implemented in the year 2021.

Paul Stoffels
Chairman of the Remuneration Committee

8.2.2 Remuneration report 2021

In this Remuneration Report, the Supervisory Board provides a comprehensive overview, in accordance with article 2:135b of the Dutch Civil Code, of the remuneration paid and owed to the individual members of the Board of Management and the Supervisory Board respectively in the financial year 2021. The report will also be published as a stand-alone document on the company's website after the 2022 Annual General Meeting of Shareholders, the agenda of which will include an advisory vote on this Remuneration Report.

Board of Management

Summary of Remuneration Policy

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

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

Thus, the Remuneration Policy:

- Supports improving the company's overall performance and enhancing the long-term value of the company;
- Directly supports our purpose by:
  a) linking a part of remuneration to achieving our strategic imperatives through the criteria and targets included in the Annual and Long-Term Incentives;
  b) offering market competitive compensation compared to a peer group of business competitors and companies we compete with for executive talent;
  c) enabling us to motivate, retain and attract world-class talent in order to support our purpose of improving people's health and well-being through meaningful innovation and our goal of addressing our customers' healthcare challenges (delivering on the Quadruple Aim);
  d) stimulating share ownership to create alignment with shareholders and encourage employees to act as stewards and ambassadors of the company;
- Encourages the company and its employees to act responsibly and sustainably;
- Delivers value for our stakeholders, such as shareholders, customers, consumers and employees, by continuously engaging with them and make a positive contribution to society at large;
- Leads to fair and internally consistent pay levels by taking into account internal pay ratios.

Main elements of the Remuneration Policy

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

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

Compensation element	Purpose and link to strategy	Operation	Policy Level
Pension	Pension plan and pension contribution intended to result into an appropriate level at retirement.	1. Defined Contribution plan with fixed contribution (applicable to all executives in the Netherlands – capped at EUR 112,189). 2. Gross allowance of 25% of annual base compensation exceeding EUR 112,189. 3. Temporary gross transition allowance offsetting historical plan changes.	
Additional arrangements	To aid retention and remain competitive within the marketplace	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 2021

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

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

the weighting of US-based healthcare companies is more notable than for the Quantum Peer Group.

Philips Group
TSR Performance Peer Group 2021

US companies	European companies	Japanese companies
Becton Dickinson	Alcon	Canon
Boston Scientific	Elekta	Terumo
Cerner	Fresenius Medical Care	
Danaher	Getinge	
General Electric	Siemens Healthineers	
Hologic	Smith & Nephew	
Johnson & Johnson	Reckitt Benckiser	
Medtronic		
Resmed		
Stryker		

The Remuneration Policy and the Long-Term Incentive Plan allow changes to the peer groups to be made by the Supervisory Board without approval from the General Meeting of Shareholders in respect of up to three companies on an annual basis (for instance: following a delisting of a company or, a merger of two peer companies), or six companies in total during the four years following adoption and approval of the Remuneration Policy and the Long-Term Incentive Plan respectively (or, if earlier, until the adoption or approval of a revised Remuneration Policy or revised Long-Term Incentive Plan). Following the divestment of the Domestic Appliances business, the Supervisory Board has decided to remove Groupe SEB and De Longhi from the TSR Performance Peer Group and replace them with Alcon and Reckitt Benckiser. Furthermore, due to Hitachi's change in business portfolio, the Supervisory Board has decided to replace this TSR peer company with Canon. No changes were made to the Quantum Peer Group during 2021.

Services agreements

The members of the Board of Management are engaged by means of a services agreement (*overeenkomst van opdracht*). Termination of the contract by either party is subject to six months' notice period. The severance payment is set at a maximum of one year's annual base compensation. No severance payment is due if the agreement is terminated early on behalf of the Board of Management member or in the case of urgent cause (*dringende reden*) as defined in article 7:678 and further in the Dutch Civil Code. The term of the services agreement is aligned with the term for which the relevant member has been appointed by the General Meeting of Shareholders (which is a maximum period of four years, it being understood that this period expires no later than at the end of the AGM held in the fourth year after the year of appointment).

Philips Group
Contract terms for current members 2021

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

8.2.3 Remuneration of the Board of Management in 2021

The Supervisory Board has determined the 2021 pay-outs and awards to the members of the Board of Management, upon the proposal of the Remuneration Committee, in accordance with the Remuneration Policy and Long-Term Incentive Plan as adopted and approved respectively by our shareholders during the 2021 Annual General Meeting of Shareholders. In addition, the Supervisory Board has determined the 2021 pay-out of the 2019 Long-Term Incentive Plan, of which the performance period ended on December 31, 2021. This was done in accordance with the Long-Term Incentive Plan as approved during the 2017 Annual General Meeting of Shareholders.

The Remuneration Committee annually conducts a scenario analysis. This includes the calculation of remuneration under different scenarios, whereby different Philips performance assumptions and corporate actions are examined. The Supervisory Board concluded that the relationship between the strategic objectives and the chosen performance criteria for the 2021 Annual Incentive, as well as 2019 Long-Term Incentive performance criteria, were adequate.

Annual Base Compensation

The annual compensation of the members of the Board of Management has been reviewed as part of the regular remuneration review. In the case of Frans van Houten, the annual compensation remained unchanged in 2021 compared to 2020 at EUR 1,325,000. As a result of the review, the annual compensation of Abhijit Bhattacharya and Marnix van Ginneken has been increased per July 1, 2021, from EUR 785,000 to EUR 795,000 and EUR 595,000 to EUR 615,000 respectively. This increase was made to move the total compensation level closer to the market median level, as well as to reflect internal relativities. Typically, any salary increase is implemented on April 1, however all merit and promotional salary increases for senior management globally were delayed from April 1, 2021 to July 1, 2021.

2021 Annual Incentive

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

Company financial results (80% weighting)

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

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

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

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

To determine the payout levels for the individual goals, the Supervisory Board applies a holistic assessment as to the performance against the set goals as well as the relative weighting of the goal categories. These relative weightings are not in all cases equal, but such that any goal category remains relevant and aligned with the strategic priorities for the year. Pay-outs are above target given the progress the Company has made on its roadmap, despite the headwinds faced in 2021.

		Assessment of performance					
Financial performance criteria	**Weighting as % of target Annual Incentive**	threshold performance	target performance	maximum performance	realized performance	resulting payout as % of target	**Weighted pay-out as % of target Annual Incentive**
Comparable Sales Growth [1)]	30%	0.0%	2.0%	4.0%	0.3%	57.5%	17%
EBITA [1)]	30%	9.3%	11.3%	13.3%	5.1%	0.0%	0%
Free Cash Flow [1)]	20%	1,057	1,406	1,755	1,289	83.1%	17%
Total	80%						34%

[1)] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 225.

Board of Management Member	Individual Performance criteria	Assessment of performance	Weighted pay-out as% of target Annual Incentive
Frans van Houten	Strategy execution	• Strong management of M&A roadmap and realization of growth plans • Very successful management of the spin-off of the Domestic Appliances business • Sales % of total revenue coming from solutions to customers above target • Strong progress in embedding digital and data science throughout the portfolio	30%
	Quality & operational excellence	• Good progress with the realization of transformation objectives to enable the customer solutions strategy • Continuing to work on quality culture and measures	
	People & organization	• Significant progress made in the deployment of the Philips Business System • Employee engagement score at a level above the high-performance norms	
	Environmental, Social & Governance / Sustainability	• Strengthened the ESG approach further and delivered commitments above plan • Sustainability performance exceeding 2016-2021 objectives including a strong growth on Lives Improved, carbon neutral in own operations and growing circular revenues	
	Customer results	• Significant improvement in customer satisfaction, order book and overall market share	
	Strategy execution	• Very successful management of the spin-off of the Domestic Appliances business • Delivered on growth and profit improvement plans for India	
Abhijit Bhattacharya	Quality & operational excellence	• Significant productivity results delivering margin improvement partly offset by higher material and shipping costs • Pioneered sustaining engineering team in India • Good progress with the realization of transformation objectives to enable the customer solutions strategy and enterprise IT • Need to further improve forecasting processes	23%
	People & organization	• Employee engagement score above high-performance norms while further improved in the Finance Organization and improving gender balance	
	Customer results	• Strong order growth • Significant improvement on Customer NPS	
	Strategy execution	• Increased license income to a level exceeding defined targets • Very successful management of the spin-off of the Domestic Appliances business • Structural progress on company transformations, improved approach for Solutions business model, with solutions sales above target	
	Quality & operational excellence	• Further progression of consolidation and simplification of legal manufacturers and quality management systems in line with plan	
Marnix van Ginneken	People & organization	• Delivered on transforming the intellectual property & standards, government & public affairs and ESG organizations • Employee engagement score at a level above the high-performance norms	31%
	Environmental, Social & Governance / Sustainability	• Strengthened the ESG approach further and delivered commitments above plan • Sustainability performance exceeding 2016-2021 objectives including a strong growth on Lives Improved, carbon neutral in own operations and growing circular revenues	

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

Annual Incentive realization 2021 in EUR unless otherwise stated

	Annual incentive opportunity		Realized annual incentive			
	Target as a % of base compensation	Target Annual Incentive	Financial performance *(weighted pay-out %)*	Individual performance *(weighted pay-out %)*	Payout as % of target Annual Incentive [1]	Realized annual incentive
Frans van Houten	100%	1,325,000	34%	30%	64%	850,915
Abhijit Bhattacharya	80%	636,000	34%	23%	57%	360,103
Marnix van Ginneken	80%	492,000	34%	31%	64%	317,192

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

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 225.

2022 Annual Incentive

The Annual Incentive criteria consist of:

Financial criteria (80% weighting):

For the year 2022, the following financial indicators of the company's results are selected to ensure alignment with the key (strategic) priorities in the year:

- Profit/margin
- Revenue/growth
- Cash flow

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

Individual criteria (20% weighting):

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

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

For the year 2022, the following performance categories are selected to ensure alignment with the key (strategic) priorities in the year:

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

2019 Long-Term Incentive

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

TSR (50% weighting)

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

Philips Group
Performance-incentive zone for TSR in %

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

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

TSR results LTI Plan 2019 grant: 14.08%

	total return	rank number
Getinge	351.68%	1
Danaher	207.27%	2
ResMed	149.39%	3
Hitachi	114.31%	4
Hologic	79.20%	5
Siemens Healthineers	77.30%	6
Stryker	62.22%	7
Terumo	58.28%	8
General Electric	40.84%	9
De Longhi	40.39%	10
Cerner	34.93%	11
Medtronic	32.19%	12
Johnson & Johnson	27.14%	13
Groupe SEB	19.26%	14
Boston Scientific	15.86%	15
Philips	14.08%	16
Becton Dickinson	7.35%	17
Elekta	(0.64)%	18
Smith & Nephew	(2.33)%	19
Fresenius Medical	(14.8)%	20

Adjusted EPS growth (50% weighting)

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

Philips Group
LTI Plan EPS payouts

	Below threshold	Threshold	Target	Maximum	Actual
EPS (euro)	<1.31	1.31	1.51	1.71	1.43
Payout	0%	40%	100%	200%	76%

Philips Group
LTI Plan EPS realization

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

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

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

[3] Other adjustment items as referred to in the following text

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

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

Philips Group
Performance achievement and vesting levels

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

2022 Long-Term Incentive

The vesting of the 2022 Long-Term Incentive grant consisting of performance shares is subject to performance over a period of 3 years and based on two financial criteria and one non-financial criterion:

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

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

Pension

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

- Flex ES Pension Plan in the Netherlands, which is a Collective Defined Contribution plan with a fixed contribution of (currently) 30.3% (including an own contribution of 2%) of the maximum pensionable salary of EUR 112,189 (effective January 1, 2021) minus the offset. The Flex ES Plan has a target retirement age of 68 and a target accrual rate of 1.85%;
- A gross Pension Allowance equal to 25% of the base compensation exceeding EUR 112,189;
- A temporary gross Transition Allowance, for a maximum period of 8 years (first 5 years in full; year 6: 75%; year 7: 50%, year 8: 25%) for members of the Board of Management who were participants of the former Executive Pension Plan. The level of the allowance is based on the age and salary of the Board member on December 31, 2014.

Total remuneration costs in 2021

The following table gives an overview of the costs incurred by the company in 2021 and 2020 in relation to the remuneration of the Board of Management. Costs related to performance shares and restricted share right grants are recognized by the company over a number of years. Therefore, the costs mentioned below in the performance shares column are the accounting cost of multi-year Long-Term Incentive grants to members of the Board of Management. Actual payout to the members of the Board of Management varies per year depending on company performance, please refer to section 2019 Long-Term Incentive for more details on the actual vesting of the performance shares.

Philips Group
Remuneration Board of Management [1] in EUR

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

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

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

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

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

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

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

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

Internal pay ratios are a relevant input factor for determining the appropriateness of the implementation of the Remuneration Policy, as recognized in the Dutch Corporate Governance Code. For the 2021 financial year, the ratio between the annual total compensation for the CEO and the average annual total compensation for an employee was 63:1. The ratio decreased from 67:1 in 2020. Further details on the development of these amounts and ratios over time can be found in the following table. The average employee remuneration costs and company financial performance have been adjusted retroactively such that the Domestic Appliances business is excluded from the figures. Please note that the amounts presented in the following table reflect total remuneration costs to the company which differ from the actual payout to the members of the Board of Management.

Philips Group
Remuneration cost in EUR

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

[1] Based on total CEO compensation costs (EUR 5,452,299) as reported in section Total remuneration costs in 2021, starting on page 110

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

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

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

[5] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 225.

[6] Adjusted EBITA is presented for comparison purposes

Historical LTI grants and holdings

Number of performance shares (holdings)

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

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

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

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

[1] The shares vested in 2021 are subject to a 2-year holding

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

Number of stock options (holdings)

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

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

	grant date	vesting date	exercise price (in EUR)	expiry date	opening balance at January 1, 2021	number of stock options awarded in 2021	number of stock options exercised in 2021	share price on exercise date	number of stock options expired in 2021	closing balance at December 31, 2021
F.A. van Houten	4/23/2012	4/23/2015	14.82	4/23/2022	75,000	-	-	-	-	75,000
	1/29/2013	1/29/2014	22.43	1/29/2023	55,000	-	-	-	-	55,000
A. Bhattacharya	1/30/2012	1/30/2014	15.24	1/30/2022	20,000	-	-	-	-	20,000
	4/23/2012	4/23/2015	14.82	4/23/2022	16,500	-	-	-	-	16,500
	4/18/2011	4/18/2014	20.90	4/18/2021	8,400	-	8,400	46.66	-	0
M.J. van Ginneken	1/30/2012	1/30/2014	15.24	1/30/2022	10,000	-	-	-	-	10,000
	4/23/2012	4/23/2015	14.82	4/23/2022	8,400	-	-	-	-	8,400

Share ownership guidelines

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

Philips Group
Share ownership Board of Management

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

[1] As ratio of Annual Base Compensation

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

Remuneration of the Supervisory Board in 2021

Summary of the Remuneration Policy

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

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

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

In compliance with the Dutch Corporate Governance Code, the 2020 Remuneration Policy provides that the remuneration for the members of the Supervisory Board is not dependent on the results of the company and does not include any shares (or rights to shares). Nevertheless, members of the Supervisory Board are encouraged to hold shares in the company for the purpose of long-term investment to reflect their confidence in the future course of the company. The company does not grant personal loans to members of the Supervisory Board.

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

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

Philips Group
Remuneration Supervisory Board in EUR

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

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

Remuneration of the Supervisory Board in 2021

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

Philips Group
Remuneration of the Supervisory Board [1] in EUR

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

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

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

8.3 Report of the Audit Committee

The Audit Committee is chaired by Liz Doherty. Its other members are Neelam Dhawan, Peter Löscher and Chua Sock Koong (who joined in the course of 2021). 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 2021, the Audit Committee held five regular meetings (including an education session) and an additional education session which all Audit Committee members attended, with the exception of one member unable to attend the April 2021 meeting of the Audit Committee.

The CEO, CFO, Chief 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 Legal Officer, also met separately with each of the CEO, CFO, Head of Internal Audit and external auditor after every 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 a number of matters that were reviewed and/or discussed during Committee meetings in the course of 2021:

- The company's 2021 annual and interim financial statements, including the field action provision of EUR 719 million in connection with the Philips Respironics of the voluntary recall notification related to the sound abatement foam in certain sleep and respiratory care products (announced on June 14, 2021), and non-financial information prior to publication.
- Matters relating to accounting policies, financial risks, reporting and compliance with accounting standards. Key accounting judgements 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 Legal Officer's review of litigation and other claims, and material investigations) and follow-up actions and appropriate measures were examined thoroughly. The Committee was updated on and engaged in a focused discussion about information and product security-related risks;
- Each quarter, the Committee reviewed the company's cash flow generation, liquidity and financing headroom, its ability under its capital structure and credit ratings to pay dividends and to fund capital investments, including share repurchases and other financial initiatives. The Committee also monitored ongoing goodwill impairment indicators (including in the Sleep & Respiratory Care business) and reviewed the goodwill impairment tests performed in the fourth quarter, risk management, information and cybersecurity risks, legal compliance and developments in regulatory investigations, as well as legal proceedings including antitrust investigations and related provisions. The Committee also reviewed the Philips Respironics voluntary recall notification related to the sound abatement foam in certain sleep and respiratory care products (announced on June 14, 2021) and in particular the field action provision taken by the company in relation to this issue;
- Specific finance topics included dividend policy, share repurchases, capital spending and the company's debt financing strategy. The Committee was also updated on the company's foreign exchange risk strategy and policy;
- The Committee engaged in a post-investment review of projects in the area of Information Technology, Research & Development, Real Estate, Operations and other cash spend, and assessed the actual spend and timing of such projects against the original budget and timing;
- With regard to Internal Audit, the Committee reviewed and approved the revised Internal Audit charter, annual audit plan, 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;
- With regard to the external auditor, the Committee reviewed the performance of the external auditor in conducting the group and statutory audits as required by the Auditor Policy and the results of the 2020 EY service quality review program for Philips;
- With regard to the external audit, the Committee reviewed the proposed 2021 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;
- The Committee reviewed and challenged 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 156;
- 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, in particular compliance with section 404 of the US Sarbanes-Oxley Act and its requirements regarding assessment, review and monitoring of internal controls. 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 Committee held an education session on the current pensions footprint of the company and the key de-risking strategies deployed by the company since 2014, which have led to a significant reduction of the long-term employee benefit footprint since then. The Committee also held an education session on the company's efforts and actions taken with respect to compliance with the General Business Principles and related policies, including the governance thereof, the internal intake process to ensure reported concerns are adequately followed-up under all circumstances, as well as an update on current cases under discussion with regulatory authorities globally and the company's internal compliance programs.

In February 2022, 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 2021 financial statements included in the Annual Report 2021 and the Annual Report on Form 20-F respectively. In February 2022, the Committee also reviewed the draft of the company's 2021 Country Activity and Tax Report.

During each 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 software. 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 software. 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 2021, the Quality & Regulatory Committee held seven meetings and all Committee members attended these meetings, with the exception of one member unable to attend the April 2021 meeting of the Quality & Regulatory Committee.

The Chief Executive Officer, the Chief 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 2021:

- The company's transformation strategy, focusing on patients and customers to ensure the safety and efficacy of the company's products and solutions;
- Review of progress and next steps in the transformation of the structure and processes of the company's Quality & Regulatory function, with the goal of building a best-in-class Quality & Regulatory organization, underpinned by investments in strategic-level executive Quality & Regulatory talent;
- Review of 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 across the organization. This particularly covered findings, related matters and follow-up actions taken by the company to address these findings. This includes the progress made in line with the terms of the Consent Decree in place for parts of the company's Emergency Care and Hospital Patient Monitoring businesses with the US Department of Justice, representing the US Food and Drug Administration (FDA), and the progress made with respect to closing the open warning letter from the FDA in relation to the company's Hospital Respiratory Care business;
- 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. The Committee reviewed matters associated with this issue, such as interactions with regulatory authorities globally,

engagement with patients, physicians, customers and durable medical equipment providers, testing, health hazard evaluations, and the status of the repair and remediation plan;
- The internal Accelerating Patient Safety and Quality program that was launched by the company in the course of 2021;
- Regulatory developments, including the company's preparations, challenges, risks and mitigating actions to deploy the EU Medical Device Regulation across all relevant parts of the organization, in view of the Date of Application (May 26, 2021);
- Quality & Regulatory deep-dives for the Diagnosis & Treatment and Personal Health segments.

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 79.

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 section 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 described in more detail in Strategy and Businesses, starting on page 9. Here, reference is also 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 Social performance, starting on page 55, Philips promotes a behavior and competency-driven growth and performance culture, which is anchored by the integrity norms described in the GBP. The Message from the CEO, starting on page 5 explains how the company's strategy was executed in 2021; in this regard, please refer also to Financial performance, starting on page 27.

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 fulfilment 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 93. Please also refer to Supervisory Board, starting on page 91 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 Composition, diversity and self-evaluation by the Supervisory Board, starting on page 91.

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 Audit Committee, the Remuneration 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, 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 included in the Annual Report. 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. 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 100.

Pursuant to Dutch law, the shareholders are entitled to vote on the adoption of the remuneration policies for each of the Board of Management and the Supervisory Board at the Annual General Meeting (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). In addition, shareholders have an advisory vote at each Annual General Meeting of Shareholders on the remuneration report relating to the preceding financial year (as prepared by the Remuneration Committee and included in the Annual Report).

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 2021.

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 2021, nor were any loans or guarantees outstanding as of December 31, 2021.

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 Netherlands 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 99. 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 93 and to Report of the Corporate Governance and Nomination & Selection Committee, starting on page 99

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 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 2021.

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 2021 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, 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, 2021, the issued share capital amounted to EUR 176,779,793.80 divided into 883,898,696 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 Section 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, 2021, approximately 91% of the common shares were held through the system of Euroclear Nederland (Euroclear shares) and approximately 9% of the common shares were represented by New York Registry Shares issued in the name of approximately 866 holders of record, including Cede & Co. Cede & Co which acts as nominee for The Depository Trust Company holding 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 2021 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 5, 2022. This authorization is limited to a maximum of 10% of the number of shares issued as of May 6, 2021.

In addition, at the 2021 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 5, 2022. The maximum number of shares the company may hold will not exceed 10% of the issued share capital as of May 6, 2021. 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 78 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 127

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 and 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.

Dutch law requires the separation of audit and non-audit services. The external auditor may only provide audit and audit-related services and is prohibited to provide 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 2021, 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 section 2:344 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, 2021.

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 177.

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 Netherlands 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 5.19% and 6.31% of the voting rights (December 27, 2021); T. Rowe Price Group, Inc.: substantial holding of 3.04% and 3.02% of the voting rights (January 19, 2022); UBS Group AG: substantial holding of 3.64% and 3.64% of the voting rights (February 9, 2022). The AFM register also shows a notification by Philips of a substantial holding of 4.08% in its own share capital and no voting rights (December 28, 2021).

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, Sections 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).

10 Group financial statements

Introduction

This section of the Annual Report contains the audited consolidated financial statements including the notes thereon that have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code.

All standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee effective 2021 have been endorsed by the EU, consequently, the accounting policies applied by Koninklijke Philips N.V. (Royal Philips) also comply with IFRS as issued by the IASB. 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 152).

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 2022 Annual General Meeting of Shareholders.

The following sections and chapters:

- 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 27
- Environment, Social and Governance, starting on page 43
- Risk management, starting on page 78
- Sub-section 'Diversity' in Report of the Corporate Governance and Nomination & Selection Committee, starting on page 99
- Corporate governance, starting on page 117
- Forward-looking statements and other information, starting on page 235
- Sustainability statements, starting on page 242 but excluding 13.6 Assurance report of the independent auditor

form the management report within the meaning of section 2:391 of the Dutch Civil Code.

The sections Strategy and Businesses, Financial performance and Environment, Social and Governance provide an extensive analysis of the developments during the financial year 2021 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 section 2:392 of the Dutch Civil Code, please refer to Independent auditor's report, starting on page 217 and the Appropriation of profits, starting on page 217.

Please refer to Forward-looking statements and other information, starting on page 235 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
Frans van Houten
Abhijit Bhattacharya
Marnix van Ginneken

February 22, 2022

10.1 Management's report on internal control

Management's 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 13a15 (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, 2021, it has concluded that, as of December 31, 2021, 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, 2021, 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
Frans van Houten
Abhijit Bhattacharya
Marnix van Ginneken

February 22, 2022

10.1.1 Changes in internal control over financial reporting

There were no changes in our internal control over financial reporting during 2021 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 127. The report set out in section Independent auditor's report on internal control over financial reporting, starting on page 128, 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, 2021, based on COSO criteria.

Ernst & Young Accountants LLP has also issued a report on the 2021 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 217.

Ernst & Young Accountants LLP has also issued a report on the consolidated financial statements 2020 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 22, 2022.

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, 2021, 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, 2021, 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, 2021 and 2020, 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, 2021, and the related notes and our report dated February 22, 2022 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 22, 2022

10.4 Consolidated statements of income

Philips Group
Consolidated statements of income in millions of EUR
For the year ended December 31

	2019	2020	2021
Sales	17,147	17,313	17,156
Cost of sales	(9,249)	(9,493)	(9,988)
Gross margin	**7,899**	**7,820**	**7,168**
Selling expenses	(4,125)	(4,054)	(4,258)
General and administrative expenses	(586)	(630)	(599)
Research and development expenses	(1,790)	(1,822)	(1,806)
Other business income	154	122	186
Other business expenses	(186)	(173)	(138)
Income from operations	**1,366**	**1,264**	**553**
Financial income	114	158	149
Financial expenses	(233)	(202)	(188)
Investments in associates, net of income taxes	1	(9)	(4)
Income before taxes	**1,248**	**1,211**	**509**
Income tax expense	(258)	(212)	103
Income from continuing operations	**990**	**999**	**612**
Discontinued operations, net of income taxes	183	196	2,711
Net income	**1,173**	**1,195**	**3,323**
Attribution of net income			
Net income attributable to Koninklijke Philips N.V. shareholders	1,167	1,187	3,319
Net income attributable to non-controlling interests	5	8	4

Philips Group
Earnings per common share attributable to Koninklijke Philips N.V. shareholders in EUR unless otherwise stated

	2019	2020	2021
Basic earnings per common share in EUR			
Income from continuing operations attributable to shareholders	1.07	1.09	0.67
Net income attributable to shareholders	1.27	1.31	3.67
Diluted earnings per common share in EUR			
Income from continuing operations attributable to shareholders	1.06	1.08	0.67
Net income attributable to shareholders	1.25	1.29	3.65

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

	2019	2020	2021
Net income for the period	1,173	1,195	3,323
Pensions and other-post employment plans:			
Remeasurement	30	51	134
Income tax effect on remeasurements	3	(12)	(21)
Financial assets fair value through OCI:			
Net current-period change, before tax	82	-	(39)
Income tax effect on net current-period change			1
Total of items that will not be reclassified to Income Statement	**114**	**39**	**74**
Currency translation differences:			
Net current period change, before tax	218	(1,040)	1,078
Income tax effect on net current-period change	-	1	(5)
Reclassification adjustment for (gain) loss realized	4		36
Reclassification adjustment for (gain) loss realized, in discontinued operations	16		69
Cash flow hedges:			
Net current-period change, before tax	(53)	69	(52)
Income tax effect on net current-period change	6	(17)	18
Reclassification adjustment for (gain) loss realized	33	(6)	(14)
Total of items that are or may be reclassified to Income Statement	**225**	**(992)**	**1,129**
Other comprehensive income for the period	**340**	**(953)**	**1,203**
Total comprehensive income for the period	**1,512**	**242**	**4,527**
Total comprehensive income attributable to:			
Shareholders of Koninklijke Philips N.V.	1,507	235	4,520
Non-controlling interests	5	6	7

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

		2020	2021
	Non-current assets		
11	Property, plant and equipment	2,682	2,699
12	Goodwill	8,014	10,637
13	Intangible assets excluding goodwill	2,997	3,650
17	Non-current receivables	230	224
18	Investments in associates	240	426
19	Other non-current financial assets	430	630
29	Non-current derivative financial assets	6	2
9	Deferred tax assets	1,820	2,216
15	Other non-current assets	66	129
	Total non-current assets	**16,486**	**20,613**
	Current assets		
16	Inventories	2,993	3,450
17	Other current financial assets	-	2
15	Other current assets	424	493
29	Current derivative financial assets	105	61
9	Income tax receivable	150	180
17 26	Current receivables	4,156	3,787
4	Assets classified as held for sale	173	71
30	Cash and cash equivalents	3,226	2,303
	Total current assets	**11,227**	**10,347**
	Total assets	**27,713**	**30,961**

		2020	2021
31	**Equity**		
	Equity	11,870	14,438
	Common shares	*182*	*177*
	Reserves	*(340)*	*748*
	Other	*12,028*	*13,514*
31	Non-controlling interests	31	36
	Group equity	**11,901**	**14,475**
	Non-current liabilities		
19	Long-term debt	5,705	6,473
29	Non-current derivative financial liabilities	86	119
20 21	Long-term provisions	1,458	1,315
9	Deferred tax liabilities	59	83
24	Non-current contract liabilities	403	446
9	Non-current tax liabilities	291	544
23	Other non-current liabilities	74	56
	Total non-current liabilities	**8,077**	**9,037**
	Current liabilities		
19	Short-term debt	1,229	506
29	Current derivative financial liabilities	77	83
9	Income tax payable	57	128
25	Accounts payable	2,119	1,872
22	Accrued liabilities	1,678	1,784
24	Current contract liabilities	1,239	1,491
20 21	Short-term provisions	522	998
4	Liabilities directly associated with assets held for sale	30	1
23	Other current liabilities	785	587
	Total current liabilities	**7,735**	**7,450**
	Total liabilities and group equity	**27,713**	**30,961**

Amounts may not add up due to rounding.

10.7 Consolidated statements of cash flows

Philips Group
Consolidated statements of cash flows [1] in millions of EUR
For the year ended December 31

	2019	2020	2021
Cash flows from operating activities			
Net income (loss)	1,173	1,195	3,323
Results of discontinued operations, net of income tax	(183)	(196)	(2,711)
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Depreciation, amortization, and impairment of fixed assets	1,343	1,462	1,323
Impairment of goodwill and other non-current financial assets	97	144	15
Share-based compensation	96	112	108
Net loss (gain) on sale of assets	(78)	(1)	55
Interest income	(25)	(13)	(18)
Interest expense on debt, borrowings, and other liabilities	174	159	152
Income taxes	258	212	(103)
Investments in associates, net of income taxes	6	8	4
Decrease (increase) in working capital	(791)	(98)	(401)
Decrease (increase) in receivables and other current assets	*(234)*	*92*	*(39)*
Decrease (Increase) in inventories	*(202)*	*(578)*	*(581)*
Increase (decrease) in accounts payable, accrued and other current liabilities	*(354)*	*387*	*219*
Decrease (Increase) in non-current receivables, other assets and other liabilities	124	41	(13)
(20) Increase (decrease) in provisions	29	(91)	427
Other items	77	96	(164)
Interest paid	(171)	(148)	(151)
Interest received	25	13	17
Dividends received from investments in associates	12	4	14
Income taxes paid	(354)	(390)	(249)
Net cash provided by (used for) operating activities	**1,813**	**2,511**	**1,629**

	2019	2020	2021
Cash flows from investing activities			
Net capital expenditures	(891)	(876)	(729)
Purchase of intangible assets	*(138)*	*(114)*	*(107)*
Expenditures on development assets	*(327)*	*(296)*	*(259)*
Capital expenditures on property, plant and equipment	*(486)*	*(485)*	*(397)*
(8) *Proceeds from sales of property, plant and equipment*	*60*	*19*	*33*
(21) Net proceeds from (cash used for) derivatives and current financial assets	385	(13)	48
(21) Purchase of other non-current financial assets	(63)	(131)	(124)
(21) Proceeds from other non-current financial assets	162	65	124
(3) Purchase of businesses, net of cash acquired	(252)	(317)	(3,098)
(4) Net proceeds from sale of interests in businesses, net of cash disposed of	146	4	107
Net cash provided by (used for) for investing activities	**(512)**	**(1,267)**	**(3,672)**
Cash flows from financing activities			
(17) Proceeds from issuance (payments on) short-term debt	23	16	(25)
(17) Principal payments on short-term portion of long-term debt	(756)	(298)	(302)
(19) Proceeds from issuance of long-term debt	847	1,065	76
Re-issuance of treasury shares	58	46	23
Purchase of treasury shares	(1,376)	(343)	(1,636)
Dividends paid to shareholders of Koninklijke Philips N.V.	(453)	(1)	(482)
Dividends paid to shareholders of non-controlling interests	(2)	(2)	(2)
Net cash provided by (used for) financing activities	**(1,660)**	**483**	**(2,347)**
Net cash provided by (used for) continuing operations	**(359)**	**1,727**	**(4,390)**
(4) **Net cash provided by (used for) discontinued operations**	**98**	**129**	**3,403**
Net cash provided by (used for) continuing and discontinued operations	**(262)**	**1,856**	**(986)**
Effect of changes in exchange rates on cash and cash equivalents	(2)	(55)	65
Cash and cash equivalents at the beginning of the year	1,688	1,425	3,226
Cash and cash equivalents at the end of the period	**1,425**	**3,226**	**2,303**

[1] For a number of reasons, principally the effects of translation differences and consolidation changes, certain items in the statements of cash flows do not correspond to the differences between the balance sheet amounts for the respective items in the accompanying notes of the consolidated financial statements.

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	Currency translation differences [1]	Fair value through OCI	Cash flow hedges	Capital in excess of par value	Retained earnings	Treasury shares at cost	Total shareholders' equity	Non-controlling interests	Group equity
		reserves			other					
Balance as of Jan. 1, 2019	**185**	**739**	**(181)**	**(10)**	**3,487**	**8,232**	**(399)**	**12,055**	**29**	**12,084**
Total comprehensive income (loss)		239	82	(13)		1,200		1,507	5	1,512
Dividend distributed	2				319	(775)		(453)	(2)	(456)
Minority Buy-out						(3)		(3)	(3)	(6)
Transfer of gain on disposal of equity investments at FVTOCI to retained earnings			(204)			204				
Purchase of treasury shares							(621)	(621)		(621)
Re-issuance of treasury shares					(246)	11	266	31		31
Forward contracts						706	(706)			
Share call options						28	(58)	(30)		(30)
Cancellation of treasury shares	(8)					(1,308)	1,316			
Share-based compensation plans					101			101		101
Income tax share-based compensation plans					10			10		10
Balance as of Dec. 31, 2019	**179**	**978**	**(303)**	**(24)**	**3,671**	**8,296**	**(201)**	**12,597**	**28**	**12,625**
Total comprehensive income (loss)		(1,036)	-	46		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 Dec. 31, 2020	**182**	**(58)**	**(305)**	**23**	**4,400**	**7,828**	**(199)**	**11,870**	**31**	**11,901**

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	Currency translation differences [1]	Fair value through OCI	Cash flow hedges	Capital in excess of par value	Retained earnings	Treasury shares at cost	Total shareholders' equity	Non-controlling interests	Group equity
Balance as of Dec. 31, 2020	**182**	**(58)**	**(305)**	**23**	**4,400**	**7,828**	**(199)**	**11,870**	**31**	**11,901**
Total comprehensive income (loss)		1,175	(39)	(48)		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 Dec. 31, 2021	**177**	**1,117**	**(344)**	**(25)**	**4,646**	**9,344**	**(476)**	**14,438**	**36**	**14,475**

[1] Cumulative translation adjustments related to investments in associates were EUR 32 million at December 31, 2021 (2020: EUR 48 million, 2019: EUR 44 million).

Amounts may not add up due to rounding.

10.9 Notes

Notes to the Consolidated financial statements of the Philips Group

Significant accounting policies

The Consolidated financial statements in the Group financial statements section have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code.

All standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee effective 2021 have been endorsed by the EU; consequently, the accounting policies applied by Philips also comply with IFRS as issued by the IASB. These accounting policies have been applied by group entities.

The Consolidated financial statements have been prepared on a going concern basis.

The Consolidated financial statements have been prepared under the historical cost convention, unless otherwise indicated.

The Consolidated financial statements are presented in euros, which is the presentation currency. Due to rounding, amounts may not add up precisely to the totals provided.

Use of estimates

The preparation of the Consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These estimates inherently contain a degree of uncertainty. Actual results may differ from these estimates under different assumptions or conditions.

In the process of applying the accounting policies, management has made estimates and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the reported amounts of assets and liabilities within the next financial year, as well as to the disclosure of contingent liabilities at the date of the Consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The company evaluates these estimates and judgments on an ongoing basis and bases the estimates on historical experience, current and expected future outcomes, third-party evaluations and various other assumptions that Philips believes are reasonable under the circumstances. Existing circumstances and assumptions about future developments may change due to circumstances beyond the company's control and are reflected in the assumptions if and when they occur. The results of these estimates form the basis for making judgments about the carrying value of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. The company revises material estimates if changes occur in the circumstances or if there is new information or experience on which an estimate was or can be based. See note COVID-19, starting on page 148 which includes further details on the impact of the pandemic on these significant judgments and estimates.

The areas where the most significant judgments and estimates are made are goodwill, deferred tax asset recoverability, recognition and measurement of provisions, valuation of inventories, impairments, classification and measurement of financial instruments, the accounting for an arrangement containing a lease, the assessment whether a lease option to extend or cancel a lease in which the company is a lessee is reasonably certain to be exercised or not, revenue recognition, tax risks and other contingencies, assessment of control, classification of assets and liabilities held for sale and the presentation of items of profit and loss and cash flows as continuing or discontinued, as well as when determining the fair values of acquired identifiable intangible assets, contingent considerations and investments based on an assessment of future cash flows (e.g. earn out arrangements as part of acquisitions). For further discussion of these significant judgements and estimates, reference is made to the respective accounting policies and notes within these Consolidated financial statements that relate to the above topics.

Further judgment is applied when analyzing impairments of goodwill and intangible assets not yet ready for use that are performed annually and whenever a triggering event has occurred to determine whether the carrying value exceeds the recoverable amount. These analyses are generally based on estimates of discounted future cash flows. Furthermore, the company applies judgment when actuarial assumptions are established to anticipate future events that are used in calculating post-employment benefit expenses and liabilities. These factors include assumptions with respect to interest rates, rates of increase in healthcare costs, rates of future compensation increases, turnover rates and life expectancy.

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 judgements, 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.

Changes in presentation from the prior year

Accounting policies have been applied consistently for all periods presented in these consolidated financial statements, except for the item mentioned below. In addition, certain prior-year amounts have been reclassified to conform to the current year presentation.

Domestic Appliances
Prior-period financial statements have been restated for the treatment of the Domestic Appliances business as a discontinued operation, see further information in Discontinued operations and assets classified as held for sale, starting on page 152 and Acquisitions and divestments, starting on page 153.

Specific choices within IFRS
In certain instances, IFRS allows alternative accounting treatments for measurement and/or disclosure. Philips has adopted one of the treatments as appropriate to the circumstances of the company. The most important of these alternative treatments are mentioned below.

Tangible and intangible fixed assets
Under IFRS, an entity shall choose either the cost model or the revaluation model as its accounting model for tangible and intangible fixed assets. In this respect, items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The useful lives and residual values are evaluated annually. Furthermore, the company chose to apply the cost model, meaning that costs relating to product development, the development and purchase of software for internal use and other intangible assets are capitalized and subsequently amortized over the estimated useful life. Further information on Tangible and Intangible fixed assets can be found in Property, plant and equipment, starting on page 165 and in Intangible assets excluding goodwill, starting on page 170, respectively.

Employee benefit accounting
IFRS does not specify how an entity should present its service costs related to pensions and net interest on the net defined-benefit liability (asset) in the Consolidated statements of income. With regards to these elements, the company presents service costs in Income from operations and the net interest expenses related to defined-benefit plans in Financial expense.

Further information on employee benefit accounting can be found in Post-employment benefits, starting on page 182.

Cash flow statements
Under IFRS, an entity shall report cash flows from operating activities using either the direct method (whereby major classes of gross cash receipts and gross cash payments are disclosed) or the indirect method (whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows). In this respect, the company chose to prepare the cash flow statements using the indirect method.

Furthermore, interest cash flows are presented in cash flows from operating activities rather than in cash flows from financing or investing activities, because they enter into the determination of profit or loss. The company chose to present dividends paid to shareholders of Koninklijke Philips N.V. as a component of cash flows from financing activities, rather than to present such dividends as cash flows from operating activities, which is an allowed alternative under IFRS.

Consolidated statements of cash flows can be found in Consolidated statements of cash flows, starting on page 132.

Policies that are more critical in nature

Revenue recognition
Revenue from the sale of goods in the normal course of business is recognized at a point in time when the performance obligation is satisfied and it is based on the amount of the transaction price that is allocated to the performance obligation. The transaction price is the amount of the consideration to which the company expects to be entitled in exchange for transferring the promised goods to the customer. 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 for the contracts where no explicit interest rate is mentioned if the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds six months. Revenue for the sale of goods is recognized when control of the asset is transferred to the buyer and only when it is highly probable that a significant reversal of revenue will not occur when uncertainties related to a variable consideration are resolved.

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. Examples of delivery conditions are 'Free on Board point of delivery' and 'Costs, Insurance Paid point of delivery', where the point of delivery may be the shipping warehouse or any other point of destination as agreed in the contract with the customer and where control is transferred to the customer.

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 defined as the price that would be charged for the goods or service in a separate transaction under similar conditions to similar customers, which within the company is mainly the Country Target Price (CTP). The transaction price determined (taking into account variable considerations) is allocated to performance obligations based on 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 in order 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.

Revenues are recorded net of sales taxes. A variable consideration is recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently 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.

Expenses incurred for shipping and handling of internal movements of goods are recorded as cost of sales. Shipping and handling related to sales to third parties are recorded as selling expenses. 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 billed to customers are distinct and separate performance obligations and recognized as revenues. Expenses incurred for sales commissions that are considered incremental to the contracts are recognized immediately in the Consolidated statements of income as selling expenses as a practical expedient under IFRS 15 Revenue from Contracts with Customers.

Revenue from services is recognized over a period of 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.

Royalty income from brand license arrangements is recognized based on a right to access the license, which in practice means over the contract period based on a fixed amount or reliable estimate of sales made by a licensee.

Royalty income from intellectual property rights such as technology licenses or patents is recognized based on a right-to-use the license, which in practice means at a point in time based on the contractual terms and substance of the relevant agreement with a licensee. However, revenue related to intellectual property contracts with variable consideration where a constraint in the estimation is identified, is recognized over the contract period and is based on actual or reliably estimated sales made by a licensee.

The company receives payments from customers based on a billing schedule or credit period, as established in our contracts. Credit periods are determined based on standard terms, which vary according to local market conditions. Amounts posted in deferred revenue for which the goods or services have not yet been transferred to the customer and amounts that have either been received or are due, are presented as Contract liabilities in the Consolidated balance sheets.

Income taxes

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.

Further information on income tax can be found in Income taxes, starting on page 161.

Provisions

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 is recognized as interest expense. The accounting and presentation for some of the company's provisions is as follows:

- Field action provision –This provision relates to the Philips Respironics 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
- Product warranty – 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.
- Environmental provisions – The environmental provisions relate to cost of environmental remediation in various countries. Measurement of liabilities associated with environmental obligations is based on current legal and constructive requirements. Liabilities and expected insurance recoveries, if any, are recorded separately. The carrying amount of environmental liabilities is regularly reviewed and adjusted for new facts and changes in law.
- Restructuring-related provisions – The provision for restructuring mainly relates to the estimated costs of initiated restructurings, 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. When such restructurings require discontinuance and/or closure of lines of activities, the anticipated costs of closure or discontinuance are included in restructuring provisions. A liability is 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.
- Legal provisions – Legal provisions relate to legal proceedings, including regulatory and other governmental proceedings. In relation to legal claim provisions and settlements, the relevant balances are transferred to Other liabilities at the point when the amount and timing of cash outflows are no longer uncertain. Settlements which are agreed for amounts in excess of existing provisions are reflected as increases in Other liabilities.

Further information on provisions can be found in Provisions, starting on page 179.

Goodwill

The measurement of goodwill at initial recognition is described in the Basis of consolidation note. Goodwill is subsequently measured at cost less accumulated impairment losses.
Further information on goodwill can also be found in Goodwill, starting on page 167.

Intangible assets other than goodwill

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.

Further information on intangible assets other than goodwill can be found in Intangible assets excluding goodwill, starting on page 170.

Discontinued operations and non-current assets held for sale

Non-current assets and disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the Consolidated balance sheets. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the Consolidated balance sheets.

A discontinued operation is a component of an entity 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; or is a subsidiary acquired exclusively with a view to sell.

If a discontinued operation is sold in stages as part of a single coordinated plan until it is completely sold, then the Investment in associate that is recognized upon sale of a portion that results in Philips having significant influence in the operation (rather than control) is continued to be treated as discontinued operation provided that the held for sale criteria are met.

Non-current assets held for sale and discontinued operations are carried at the lower of carrying amount or fair value less cost of disposal. Any gain or loss from disposal, together with the results of these operations until the date of disposal, is reported separately as discontinued operations. 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 in the Consolidated balance sheets are not represented when a non-current asset or disposal group is classified as held for sale. Comparatives are represented for presentation of discontinued operations in the Consolidated statements of cash flows and Consolidated statements of income.

Adjustments in the current period to amounts previously presented in discontinued operations that are directly related to the disposal of a discontinued operation in a prior period, and for which no specific arrangements were made at the time of divestment, are classified separately in discontinued operations. 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.

Further information on discontinued operations and non-current assets held for sale can be found in Discontinued operations and assets classified as held for sale, starting on page 152.

Impairment

Impairment of goodwill and intangible assets not yet ready for use

Goodwill and intangible assets not yet ready for use are not amortized but are tested for impairment annually and whenever impairment indicators require. In case of goodwill and intangible assets not yet ready for use, either internal or external sources of information are considered indicators that an asset or a CGU may be impaired. In most cases the company identified 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.

Further information on impairment of goodwill and intangible assets not yet ready for use can be found in Goodwill, starting on page 167 and Intangible assets excluding goodwill, starting on page 170 respectively.

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 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.

Impairment of financial assets
The company recognizes an allowance for expected credit losses (ECLs) for trade receivables, contract assets, lease receivables, debt investments carried at fair value through Other comprehensive income (FVTOCI) and amortized cost. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the company expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognized in two stages. For credit risk exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (12-month ECLs). The company considers a financial asset to be in default when the counterparty is unlikely to pay its credit obligations to the company in full or when the financial asset is past due. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (lifetime ECLs). When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information, such as forecast economic conditions that affect the ability of the customers to settle the receivables.

For all trade receivables, contract assets and lease receivables, the company applies the IFRS 9 simplified approach to measuring ECLs, which uses the lifetime ECL allowance. To measure the ECLs on trade receivables, contract assets and lease receivables, the company takes into account credit-risk concentration, collective debt risk based on average historical losses, specific circumstances such as serious adverse economic conditions in a specific country or region, and other forward-looking information. Trade receivables, contract assets and lease receivables are written off when there is no reasonable expectation of recovery of the asset, for example because of bankruptcy or other forms of receivership.

Further information on financial assets can be found in Other financial assets, starting on page 172.

Other policies

Basis of consolidation
The Consolidated financial statements comprise the financial statements of Koninklijke Philips N.V. and all subsidiaries that the company controls, i.e. when it is exposed or has rights to variable returns from its involvement with the investee and 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.

Loss of control
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 152.

Business combinations
Business combinations are accounted for using the acquisition method. Under the acquisition method, the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree are recognized at the acquisition date, which is the date on which control is transferred to the company.

The company measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interest in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the company incurs are expensed as incurred.

Any contingent consideration payable is recognized at fair value at the acquisition date and initially is 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 to the fair value of the contingent consideration are recognized in the Consolidated statements of income.

Non-controlling interests are measured on the basis of their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Further information on business combinations can be found in Acquisitions and divestments, starting on page 153.

Acquisitions of and adjustments to non-controlling interests
Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Investments in associates (equity-accounted investees)
Associates are all entities over which the company has significant influence, but no control. Significant influence is presumed with a shareholding of between 20% and 50% of the voting rights or when the company has board representation through which it is able to exercise significant influence. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The carrying amount of an investment 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 companies 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, from the date that significant influence commences until the date that significant influence ceases. 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. When the company's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term loans) is reduced to zero and recognition of further losses is discontinued except to the extent that the company has incurred legal or constructive obligations or made payments on behalf of the associate. Unrealized gains on transactions between the company and its associates are eliminated to the extent of the company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Remeasurement differences of an equity stake resulting from gaining control over an investee that was previously recorded as an associate are recorded under Investments in associates.

Further information on investments in associates can be found in Interests in entities, starting on page 155.

Foreign currencies

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 Group financial statements. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or the valuation in cases where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Consolidated statements of income, except when deferred in Other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign currency differences arising from translations are recognized in the Consolidated statements of income, except for equity investments measured at fair value through OCI which are recognized in Other comprehensive income. If there is an impairment which results in foreign currency differences being recognized, these differences are reclassified from Other comprehensive income to the Consolidated statements of income.

All foreign exchange differences are presented as part of Cost of sales, with the exception of 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 a non-wholly-owned subsidiary, the

relevant 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.

Financial instruments

Non-derivative financial assets

Recognition and initial measurement

Non-derivative financial assets are recognized when the company becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets in the normal course of business are accounted for at the trade date. Dividend and interest income are recognized when earned. Gains or losses, if any, are recorded in Financial income and expense. Non-derivative financial assets are derecognized when the rights to receive cash flows from the asset have expired or the company has transferred its rights to receive cash flows from the asset.

At initial recognition, the company measures a financial asset at its fair value plus, in the case of a financial asset not measured at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the Consolidated statements of income.

Classification and subsequent measurement

The company classifies its non-derivative financial assets in the following measurement categories:

- those that are measured subsequently at fair value (either through OCI (FVTOCI) or profit or loss (FVTPL);
- those that are measured at amortized cost.

In assessing the classification, the company considers the business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will be recorded in either the Consolidated statements of income or in Other comprehensive income (OCI). For investments in equity instruments that are not held for trading, this will depend on whether the company has made an irrevocable election at the time of initial recognition to account for the equity investment at FVTOCI. For investments in these equity instruments, the company does not subsequently reclassify between FVTOCI and FVTPL. For debt investments, assets are reclassified between FVTOCI, FVTPL and amortized cost only when its business model for managing those assets changes.

Non-derivative financial assets comprise cash and cash equivalents, receivables and other financial assets.

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. Further information on cash and cash equivalents can be found in Cash flow statement supplementary information, starting on page 186.

Receivables

Receivable balances that are held to collect are subsequently measured at amortized cost and are subject to impairment as explained in the impairment section of this note. Receivables that are held to collect and sell are subsequently measured at FVTOCI and are also subject to impairment. The company derecognizes receivables on entering into factoring transactions if the company has transferred substantially all risks and rewards or if the company does not retain control over those receivables. Further information on receivables can be found in Receivables, starting on page 173.

Other (non-)current financial assets

Other (non-)current financial assets include both debt instruments and equity instruments.

Debt instruments include those subsequently carried at amortized cost, those carried at FVTPL and those carried at FVTOCI. Classification depends on the company's business model for managing the asset and the cash flow characteristics of the asset.

Debt instruments that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortized cost and are subject to impairment. Interest income from these financial assets is included in Financial income using the effective interest rate method. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI and are subject to impairment. Movements in the carrying

amounts are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses, which are recognized in the Consolidated statements of income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to the Consolidated statements of income. Interest income from these financial assets is included in Financial income using the effective interest rate method.

Debt instruments that do not meet the criteria for amortized cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognized in the Consolidated statements of income in the period in which it arises.

Equity investments are subsequently measured at fair value. Equity instruments that are held for trading are measured at FVTPL. For equity instruments that are not held for trading, the company makes an irrevocable election at the time of initial recognition whether to account for the equity investment at FVTPL or FVTOCI. Where management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to the Consolidated statements of income following the derecognition of the investment. Dividends from such investments continue to be recognized in the Consolidated statements of income when the company's right to receive payments is established.

Further information on other (non-)current financial assets can be found in Other financial assets, starting on page 172.

Debt and other financial liabilities
Debt and other financial liabilities, excluding derivative financial liabilities and provisions, are initially measured at fair value and, in the case of debt and payables, net of directly attributable transaction costs. Debt and other financial liabilities are subsequently measured at amortized cost using the effective interest rate. 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 and other financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or has expired.

Further information on debt and other financial liabilities can be found in Debt, starting on page 177.

Equity
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 purchases 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 equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

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.

Further information on equity can be found in Equity, starting on page 174.

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.

Offsetting and master netting agreements
The company presents financial assets and financial liabilities on a gross basis as separate line items in the Consolidated balance sheets.

Master netting agreements may be entered into when the company undertakes a number of financial instrument transactions with a single counterparty. Such an agreement provides for a net settlement of all financial instruments covered by the agreement in the event of default or certain termination events associated with any of the transactions. A master netting agreement may create a right to offset that becomes enforceable and affects the realization or settlement of individual financial assets and financial liabilities only following a specified termination event. However, if this contractual right is subject to certain limitations then it does not necessarily provide a basis for offsetting, unless both of the offsetting criteria are met, i.e. there is a legally enforceable right and an intention to settle net or simultaneously.

Property, plant and equipment

The costs 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. 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 leading to an extension of the original lifetime or capacity.

Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the asset.

Further information on property, plant and equipment can be found in Property, plant and equipment, starting on page 165.

Leases

The company determines whether an arrangement constitutes or contains a lease at inception, which is based on the substance of the arrangement at the inception of the lease. 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
Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate at the lease commencement date is used, which is based on an assessment of interest rates the company would have to pay to borrow funds, including the consideration of factors such as the nature of the asset and location, collateral, market terms and conditions, as applicable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

Each lease payment is allocated between the liability and finance charges. The interest element of the finance cost is charged to the Consolidated statements of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs;
- restoration costs.

The right-of-use assets are subsequently accounted for using principles for property, plant and equipment. Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the Consolidated statements of

income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture considered to be of low value (i.e. less than EUR 5,000).

The company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal.

The company leases various items of real estate, vehicles and other equipment. Rental contracts are typically made for fixed periods but may have extension or termination options.

The related year end disclosures pertaining to leases as lessee have been disclosed in respective notes according to the nature of the reported item. Below are the references with respect to IFRS 16 year-end disclosures as lessee:

- For disclosure on Right-of-use assets and related movement, refer to Property, plant and equipment, starting on page 165;
- Short-term and low-value leases, are disclosed in Income from operations, starting on page 156;
- Disclosures regarding interest expenses on lease liabilities, are disclosed in Financial income and expenses, starting on page 160;
- For disclosure on leasing related cash outflow and the split between interest and principal payments, refer to the Consolidated statements of cash flows, starting on page 132 and Cash flow statement supplementary information, starting on page 186;
- For disclosure on sale and leaseback transactions, refer to Details of treasury and other financial risks, starting on page 199;
- For disclosure on lease liabilities and maturity analysis, refer to Debt, starting on page 177;
- Other qualitative and quantitative disclosures regarding the nature of lessee's leasing activities and future lease obligations, refer to Details of treasury and other financial risks, starting on page 199;

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 terms in the Statement of income.

The related year end disclosures pertaining to leases as lessor have been disclosed in respective notes according to the nature of the reported item. Below are the references with respect to IFRS 16 year-end disclosures as lessor:

- For disclosures on lease income and sublease income, refer to Income from operations, starting on page 156;
- Other qualitative disclosures regarding the nature of lessor's leasing activities and risk management, refer to Details of treasury and other financial risks, starting on page 199.

Inventories

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, taking into account 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. 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.

Further information on inventories can be found in Inventories, starting on page 173.

Employee benefit accounting

A defined-contribution plan is a post-employment benefit plan under which an entity 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.

A defined-benefit plan is a post-employment benefit plan other than a defined-contribution plan. Plans for which the company has no legal or constructive obligation to pay further amounts, but to which it does pay non-fixed contributions, are also treated as a defined-benefit plan. The net pension asset or liability recognized in the Consolidated balance sheets in respect of defined-benefit post-employment 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 post-employment 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.

The company recognizes gains and losses on the settlement of a defined-benefit plan when the settlement occurs. The gain or loss on settlement is the difference between the present value of the defined-benefit obligation being settled, as determined on the date of settlement, and the settlement price, including any plan assets transferred and any payments made directly by the company in connection with the settlement. 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.

Further information on post-employment benefit accounting can be found in Post-employment benefits, starting on page 182.

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 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 179 in the Other provisions section.

Share-based payment

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Share-based compensation, starting on page 190.

The grant-date fair value of equity-settled share-based payment awards granted to employees is recognized as personnel expense, with a corresponding increase in equity, over the vesting period of the award. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of income for a period represents the movement in cumulative expense recognized at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant-date fair value of awards, but the likelihood of the conditions being met is assessed as part of the company's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant-date fair value. No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met.

The dilutive effect of outstanding options and shares is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Earnings per share, starting on page 164).

Financial income and expenses

Financial income comprises interest income on funds invested (including financial assets), dividend income, net gains on the disposal of financial assets, net fair value gains on financial assets at FVTPL, net gains on the remeasurement to fair value of any pre-existing interest in an acquiree, and net gains on foreign exchange impacts that are recognized in the Consolidated statements of income.

Interest income is recognized on an accrual basis in the Consolidated statements of income, 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.

Financial expenses comprise interest expenses on borrowings, unwinding of the discount on provisions and contingent consideration, losses on disposal of financial assets, net fair value losses on financial assets at FVTPL, impairment losses recognized on financial assets (other than trade receivables), net interest expenses related to defined-benefit plans, interest on lease liabilities and net losses on foreign exchange impacts that are recognized in the Consolidated statements of income.

Further information on financial income and expenses can be found in Financial income and expenses, starting on page 160.

Government grants
Grants from governments are recognized at their fair value where there is a reasonable assurance that the grant will be received and the company will comply with all attached conditions. Government grants relating to costs are deferred and recognized in the Consolidated statements of income as a reduction of the related costs over the period necessary to match them with the 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.

Financial guarantees
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.

Cash flow statements
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.

Segment information
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 exists. Segment accounting policies are the same as the accounting policies applied by the company.

Earnings per Share
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 during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the Net income (loss) attributable to shareholders and the weighted average number of common shares outstanding during the period, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprises forward purchase contracts, restricted shares, performance shares and share options granted to employees.

Further information on earnings per share can be found in Earnings per share, starting on page 164.

New standards and interpretations

IFRS accounting standards adopted as from 2021
The company applies, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2021.

2020-8 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform – Phase 2
The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no material impact on the consolidated financial statements of the company. The status of the IBOR transition project and the exposure to IBOR have been disclosed in Details of treasury and other financial risks, starting on page 199.

2021-3 Amendments to IFRS 16 Leases – Covid-19 related rent concessions beyond June 30, 2021
On May 28, 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment was intended to apply until June 30, 2021, but as the impact of the Covid-19 pandemic is continuing, on March 31, 2021, the IASB extended the period of application of the practical expedient to June 30, 2022.The amendment applies to annual reporting periods beginning on or after April 1, 2021. This amendment had no material impact on the consolidated financial statements of the company.

IFRS accounting standards to be adopted from 2022 onwards
A number of amendments to existing standards have been issued and are mandatory for the company beginning on or after January 1, 2022, or later periods, and the company has not early-adopted them. The changes to those standards are not expected to have a material impact on the company's financial statements.

COVID-19

In 2021 the pandemic continued to affect the global economy and there remains uncertainty and volatility related to the impact of COVID-19, including global supply chain challenges. Where relevant, the impact of the COVID-19 pandemic and resulting uncertainties on the company's results, balance sheet and cash flows have been considered and are reflected in amounts reported.

The impact of the pandemic on significant accounting matters is disclosed below. Other areas have also been affected, but did not have a significant impact and are therefore not separately disclosed. COVID-19 did not result in any other material adjustments to the carrying amounts of assets and liabilities during the year-ended December 31, 2021, other than the impacts on the EPD business as disclosed in Intangible assets excluding goodwill, starting on page 170 and Provisions, starting on page 179.

Estimates and uncertainties

As a result of the uncertainties associated with the nature of the COVID-19 pandemic, and in line with existing accounting policies, 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 our Significant accounting policies, starting on page 135, those which are primarily impacted by COVID-19 include impairment testing, valuation of inventories, measurement of financial instruments and the determination of fair values (for example fair values of acquired identifiable intangible assets, contingent considerations and certain investments). These significant judgments and estimates are further discussed below.

Impairment testing

Impairment testing of goodwill and intangible assets not ready for use

Goodwill and intangible assets not yet ready for use are not amortized but are tested for impairment annually and whenever impairment indicators require such testing. In addition, for all goodwill and intangible assets not yet ready for use an annual impairment test was performed during 2021. In determining the recoverable amounts, consideration was given to the uncertainties embedded in the discounted cash flow projections and the appropriateness of key assumptions used in light of the pandemic, which included increased uncertainties around forecasted revenues, costs and other factors. Further details on these impairment procedures and the results thereof are disclosed in Goodwill, starting on page 167 and Intangible assets excluding goodwill, starting on page 170.

Impairment testing 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. Where such an instance was identified, the impact of the pandemic and resulting uncertainties have been taken into account when assessing the recoverable amount. Further details on the results of these impairment procedures are disclosed in Intangible assets excluding goodwill, starting on page 170.

Impairment testing of financial assets

The company recognizes an allowance for expected credit losses (ECLs) for trade receivables, contract assets, lease receivables and debt investments carried at fair value through Other comprehensive income (FVTOCI) and amortized cost. In line with the accounting policy disclosed in the Significant accounting policies, starting on page 135, for all financial assets to which the company applies the simplified approach, updated assessments on the lifetime ECL allowance are made regularly, taking into the account uncertainties resulting from the pandemic. In addition, for those assets to which the company does not apply the simplified approach to measuring ECLs, assessments were made regularly to assess whether a significant increase in credit risk was observed as a result of COVID-19. In those instances, the allowance was updated to also reflect lifetime ECLs.

In making these assessments, all reasonable and supportable information was considered. Examples of indicators identified included counterparties breaching their agreed payment terms and counterparties requesting extended payment terms or (partial) waivers. In addition, forward looking elements were taken into consideration such as a deterioration of the credit rating of a counterparty or changes in risks associated with specific countries or regions due to COVID-19. Albeit the methodology applied is consistent with prior periods, certain of these factors triggered by the pandemic required updated assessments of the ECLs. Relevant financial assets were individually assessed and additional ECL allowances were accounted for in those cases where deemed necessary. The overall impact of the increase in the level of ECLs did not have a material impact on the company's financial assets. The company further concluded that none of the agreed changes with counterparties resulted in a substantial modification of such instruments under IFRS 9 Financial instruments.

Fair values

Certain of the company's financial instruments and other assets and liabilities are carried at fair value. The fair values included in these Consolidated financial statements reflect market participant views and market data at the measurement date under current market conditions. This implies that due to the increased volatility and uncertainty in the financial markets due to the pandemic, these fair values are subject to significant estimates, in particular for assets and liabilities for which the fair value is based on unobservable inputs (sometimes referred to as Level 3 measurements). Expectations around future cash flows, discount rates and other significant valuation inputs related to the asset or liability as of December 31, 2021 have become subject to a greater level of uncertainty. The fair values determined taking into account these revised input parameters have been reflected in the consolidated balance sheet as of December 31, 2021. Other than the impacts on the EPD business as disclosed in Intangible assets excluding goodwill, starting on page 170, starting on page 186 and Provisions, starting on page 179, there was no significant impact as a result

of the pandemic on any individual assets or liabilities carried at fair value. For further information, refer to Fair value of financial assets and liabilities, starting on page 196.

Employee benefit accounting

COVID-19 also had an impact on the company's long-term employee benefits, including defined-benefit plans. Volatility in the financial markets following the COVID-19 outbreak resulted in increased judgment being required in setting key parameters used in determining these benefits, including discount rates, mortality rates, retention rates and other assumptions supporting the actuarial calculations. In those situations, we established the most appropriate parameters with the help of actuaries and taking into consideration relevant economic conditions. For our funded defined-benefit plans, increased fluctuations in the fair values of the plan assets during the financial year ended December 31, 2021 also caused further volatility in the net obligation. Neither of these impacts were significant for the balances as of December 31, 2021.

Provisions other than employee benefits

As described in the Significant accounting policies, starting on page 135, the accounting for provisions requires significant judgment around the amount and timing of the outflow of economic benefits required to settle the obligation. As a result of the pandemic, volatility increased in our supplier commitments and customer demand for many of our businesses, requiring the company to assess its related contracts for onerous elements. In doing so, the company applied assumptions and estimates in relation to future demand forecasts, expected costs of termination and the likely outcomes of ongoing negotiations with suppliers. No other provisions were materially impacted by COVID-19.

Inventories

The company's inventories are stated at the lower of cost or net realizable value. In determining the appropriate level of provision for obsolescence, changes in the aging of inventory items in certain businesses and markets due to COVID-19 were considered throughout the year. In addition, current and potential excess stock levels were analyzed, incorporating the impact COVID-19 had on demand in 2021 as well as revised expectations of future demand for these items. No material change in the provision for obsolescence was identified as a result of these procedures.

Taxes

In response to COVID-19, many governments have changed tax regulations aimed at deferring tax filings and payments, providing tax relief and offering financial assistance. Apart from applied payment deferrals on social contribution payments, the company has no material payment deferrals. In determining the recoverability of deferred tax assets, the company took into account the uncertainties caused by the COVID-19 pandemic in its projections on the results of future operations that will generate taxable income, which did not result in a significant impact.

Treasury and other financial risks

In terms of liquidity the company has a solid liquidity position and the company's liquidity risk management procedures have not changed significantly during 2021 because of COVID-19. No significant concentration risks have been identified as a result of COVID-19 and the company continues to have access to its existing lines of credit. These lines of credits, along with other financial risks to which Philips is exposed, are disclosed in Details of treasury and other financial risks, starting on page 199, starting on page 219. In 2021, COVID-19 did not have a significant impact on other financial risks, including how we manage those.

Information by segment and main country

Philips Group
Information on income statements in millions of EUR

	sales	sales including intercompany	depreciation and amortization [1]	Adjusted EBITA [2,3]
2021				
Diagnosis & Treatment [4]	8,635	8,846	(459)	1,071
Connected Care	4,593	4,638	(384)	488
Personal Health	3,410	3,441	(130)	599
Other	*519*	*610*	*(350)*	*(105)*
Inter-segment eliminations		(379)		
Philips Group	**17,156**	**17,156**	**(1,323)**	**2,054**
2020				
Diagnosis & Treatment	8,175	8,289	(536)	818
Connected Care	5,568	5,644	(415)	1,198
Personal Health	3,173	3,172	(144)	426
Other	*396*	*479*	*(368)*	*(165)*
Inter-segment eliminations		(272)		
Philips Group	**17,313**	**17,313**	**(1,462)**	**2,277**

	sales	sales including intercompany	depreciation and amortization [1]	Adjusted EBITA [2] [3]
2019				
Diagnosis & Treatment	8,485	8,576	(564)	1,078
Connected Care	4,674	4,705	(326)	620
Personal Health	3,516	3,511	(140)	672
Other	*472*	*556*	*(313)*	*(100)*
Inter-segment eliminations		(201)		
Philips Group	**17,147**	**17,147**	**(1,343)**	**2,270**

[1] Includes impairments; for impairment values please refer to Property, plant and equipment, starting on page 165 and intangible assets excluding goodwill, starting on page 170

[2] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 225.

[3] For reconciliation Adjusted EBITA, refer to the following table.

[4] In 2019 Philips' Emerging Businesses were moved out of segment Other into segment Diagnosis & Treatment to enable these businesses with better access to downstream capabilities. While these businesses remain in (semi-)incubator phase, in 2021 they received a corporate funding out of segment Other of EUR 16 million (2020: EUR 38 million, 2019: EUR 54 million) to support them during their emerging idea-to-market business phase.

As required by IFRS 8 Operating Segments, 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 is presented as discontinued operation and therefore no longer part of the Operating Segment Personal Health. The comparative results have been restated to reflect the treatment of the Domestic Appliances business as a discontinued operation.

Philips focuses on improving people's lives through meaningful innovation across the health continuum – from healthy living and prevention to diagnosis, treatment and home care. The Diagnosis & Treatment unites the businesses related to the promise of precision diagnosis and disease pathway selection, and the businesses related to image-guided, minimally invasive treatments. The Connected Care businesses focuses on patient care solutions, advanced 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 businesses focuses on healthy living and preventative care.

The Executive Committee of Philips is deemed to be the chief operating decision maker (CODM) for IFRS 8 segment reporting purposes. The key segmental performance measure is Adjusted EBITA*), which Management believes is the most relevant measure to evaluate the results of the segments.

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 [1] 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**	**(732)**	**585**	**(242)**
Amortization and impairment of intangible assets	322	153	148	15	6
Impairment of goodwill	15	2	13		
EBITA [1]	890	1,097	(571)	600	(236)
Restructuring and acquisition-related charges	95	7	93	(1)	(5)
Other items	1,069	(32)	965	-	136
Adjusted EBITA [1]	**2,054**	**1,071**	**488**	**599**	**(105)**

	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**	**711**	**356**	**(300)**
Amortization and impairment of intangible assets	377	209	134	16	18
Impairment of goodwill	144	-	144		
EBITA [1]	1,784	706	989	371	(282)
Restructuring and acquisition-related charges	195	29	97	31	37
Other items	299	83	112	24	81
Adjusted EBITA [1]	**2,277**	**818**	**1,198**	**426**	**(165)**
2019					
Net Income	1,173				
Discontinued operations, net of income taxes	(183)				
Income tax expense	258				
Investments in associates, net of income taxes	(1)				
Financial expenses	233				
Financial income	(114)				
Income from operations	**1,366**	**660**	**269**	**589**	**(152)**
Amortization and impairment of intangible assets	344	177	141	18	8
Impairment of goodwill	97	19	78		
EBITA [1]	1,807	856	488	607	(144)
Restructuring and acquisition-related charges	310	149	64	42	54
Other items	153	73	67	23	(11)
Adjusted EBITA [1]	**2,270**	**1,078**	**620**	**672**	**(100)**

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 225.

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]
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**
2019		
Netherlands	391	2,148
United States	6,626	9,864
China	2,427	340
Japan	1,185	550
Germany	805	308
United Kingdom	436	611
France	380	46
Other countries	4,898	1,119
Total main countries	**17,147**	**14,986**

[1] The sales are reported based on country of destination.

[2] Consists of Property plant and equipment, Intangible assets excluding goodwill and Goodwill

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 225.

Discontinued operations and assets classified as held for sale

In 2021, 2020 and 2019 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

	2019	2020	2021
Domestic Appliances	202	206	2,698
Other	(19)	(10)	13
Discontinued operations, net of income taxes	**183**	**196**	**2,711**

Discontinued operations: Domestic Appliances

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

	January to December		
	2019	**2020**	**2021**
Sales	2,335	2,222	1,516
Costs and expenses	(2,054)	(1,944)	(1,322)
Income from operations	280	279	194
Result on the sale of discontinued operations			3,241
Income before tax	**280**	**279**	**3,435**
Income tax expense [1)]	(79)	(72)	6
Income tax related the sale of discontinued operations			(743)
Results from discontinued operations	**202**	**206**	**2,698**

[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 13 million in 2021 (2020: a net loss of EUR 10 million, 2019: a net loss of EUR 19 million)

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

	2019	2020	2021
Net cash provided by (used for) operating activities	111	129	85
Net cash provided by (used for) investing activities	(14)		3,319
Net cash provided by (used for) discontinued operations	**98**	**129**	**3,403**

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.

In 2020, net cash provided by 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

In 2019, net cash provided by discontinued operations was EUR 98 million and consisted primarily of cash flows provided by operating activities of the Domestic Appliances business, partly offset by a payment related to a divestment formerly reported as discontinued operations.

Assets classified as held for sale

As of December 31, 2021 assets held for sale consists of property, plant and equipment mainly related to the APAC Center Singapore building.

As of December 31, 2020, assets held for sale mainly consisted of the Personal Emergency Response Services (PERS) and Senior Living business (previously named the Aging and Caregiving (ACG) business) which was divested on June 30, 2021. For further information, refer to Acquisitions and divestments, starting on page 153.

Acquisitions and divestments

2021

Acquisitions

In 2021 Philips completed two acquisitions, BioTelemetry, Inc. and Capsule Technologies, Inc., that involved an aggregate net cash outflow of EUR 2,824 million. Upon acquisition, the company recognized aggregated Goodwill of EUR 2,102 million, Other intangible assets of EUR 840 million and related Deferred tax liabilities of EUR 206 million.

The preliminary 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	78	14
Inventories	11	11
Receivables and other current assets	75	97
Cash	205	19
Total Assets	**1,083**	**368**
Liabilities		
Accounts payable and other payables	(278)	(98)
Deferred tax liabilities	(160)	(46)
Long-term liabilities	(69)	(11)
Acquired provision for contingent considerations	(16)	
Total Liabilities	**(523)**	**(155)**
Total identifiable net assets at fair value	**560**	**214**
Goodwill arising on acquisition	1,776	325
Purchase consideration transferred	**2,337**	**539**

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 2022. As of December 31, 2021, the valuation studies necessary to determine the fair value of the intangible assets and the valuation of goodwill are preliminary.

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 1,776 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 325 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 152.

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 our Statement of Income.

2020

Acquisitions

Philips completed three acquisitions in 2020. The acquisitions involved an aggregated net cash outflow of EUR 259 million and a contingent consideration of EUR 70 million at fair value. Including final purchase price adjustment processed in the course of 2021, the aggregated impact on Goodwill of EUR 168 million, Other intangible assets of EUR 184 million and Deferred tax liabilities generated from the Intangible assets of EUR 45 million.

Intact Vascular, Inc. (Intact Vascular) was the most notable acquisition and is discussed below. The remaining two acquisitions involved an aggregated net cash outflow of EUR 29 million. Including final purchase price adjustments, the two acquisitions resulted in an

increase in Goodwill of EUR 20 million. Other intangible assets and the related Deferred tax liabilities increased by EUR 15 million and EUR 2 million respectively.

Intact Vascular

On September 4, 2020, Philips acquired all shares of Intact Vascular, headquartered in Wayne, Pennsylvania. Intact Vascular is a developer of medical devices for minimally invasive peripheral vascular surgery. Philips acquired Intact Vascular to expand its portfolio of minimally invasive therapy options for Peripheral Artery Disease with the Tack Endovascular System, an implant that restores blood flow in small limb vessels, promotes healing and preserves limbs. The Company has purchased shares for an amount of EUR 241 million cash and a contingent consideration of EUR 70 million.

As of the acquisition date, Intact Vascular forms part of the Image-guided therapy business portfolio of the Diagnosis & Treatment segment.

In 2020, acquisition-related costs of EUR 2 million were recognized in General and administrative expenses.

The condensed opening balance sheet of Intact Vascular was as follows:

Intact Vascular
Opening Balance sheet in millions of EUR

	at acquisition date
Assets	
Intangible assets excluding goodwill	169
Deferred tax assets	24
Inventories	2
Receivables and other current assets	1
Cash	10
Total Assets	**207**
Liabilities	
Accounts payable and other payables	(2)
Deferred tax liabilities	(42)
Total Liabilities	**(44)**
Total identifiable net assets at fair value	**163**
Goodwill arising on acquisition	148
Total purchase on acquisition	**311**
Of which:	
Purchase consideration transferred	(241)
Provision for contingent consideration	(70)

Goodwill recognized in the amount of EUR 148 million mainly represents revenue synergies expected from the combination of Philips' interventional imaging platform and diagnostic and therapeutic devices with Intact Vascular's unique, specialized implantable device to optimize the treatment of patients with Peripheral Artery Disease (PAD). Intact Vascular Goodwill is not tax deductible.

The provision for contingent consideration represents a Long-term provision of EUR 70 million, due in 2022 and 2023. The contingent consideration is based on a specified percentage of forecast revenue share, for which the maximum amount is unlimited. The estimated fair value of the contingent consideration is re-measured at each reporting period. Therefore, any changes in the fair value impacts reported earnings in each reporting period, thereby resulting in variability in earnings. For more details about the fair value measurements, refer to Fair value of financial assets and liabilities, starting on page 196

The majority of the Intangible assets balance relates to Technology, 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 Technology is based on an estimate of positive future cash flows associated with incremental profits related to excess earnings, discounted at a rate of 15.0%. The amortization period of Technology is 14 years.

Intact Vascular is an early stage revenue acquisition. As of the acquisition date, Intact Vascular contribution to sales and net income was not material. The same applies to the combined entity for the reporting period as though the acquisition date had been as of the beginning of the reporting period.

Divestments

Philips did not complete any divestments in 2020.

Interests in entities

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, 2021 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
2021

Legal entity name	Principal country of business
Philips (China) Investment Company, Ltd.	China
Philips GmbH	Germany
Philips Medizin Systeme Böblingen GmbH	Germany
Philips Medical Systems Technologies Ltd.	Israel
Philips India Limited	India
Philips Japan, Ltd.	Japan
Philips Consumer Lifestyle B.V.	Netherlands
Philips Medical Systems Nederland B.V.	Netherlands
ATL International LLC	United States
AllParts Medical LLC	United States
Discus Holdings LLC	United States
Philips Healthcare Informatics Inc.	United States
Philips North America LLC	United States
Philips Oral Healthcare LLC	United States
Philips USA Export Corporation	United States
Spectranetics LLC	United States

Information related to non-controlling interests

As of December 31, 2021, four consolidated subsidiaries are not wholly owned by Philips (December 31, 2020: six). In 2021, Sales to third parties and Net income for these subsidiaries in aggregate are EUR 522 million (December 31, 2020: EUR 468 million) and EUR 39 million (December 31, 2020: EUR 6 million) respectively.

Investments in associates

Philips has investments in a number of associates. During 2021, Philips purchased six investments in associates for a total amount of EUR 232 million. The most notable investment was a EUR 125 million investment in Candid Care Co. None of the investments are regarded as individually material from the point of view of the consolidated financial statements.

Due to loss of significant influence in American Well Co. during 2021, Philips reclassified the investment to Other non-current financial asset at FVTOCI (Level 1). On reclassification, Philips recorded a gain of EUR 33 million in Other operating income. For more information about Other-non current financial assets at FVTOCI, refer to Other financial assets, starting on page 172 and Fair value of financial assets and liabilities, starting on page 196.

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, 2021, Philips' shareholding in Philips Medical Capital, LLC had a carrying value of EUR 27 million (December 31, 2020: EUR 26 million).

The company does not have any material exposures to losses from interests in unconsolidated structured entities other than the invested amounts.

Income from operations

For information related to Sales on a segment and geographical basis, refer to Information by segment and main country, starting on page 149.

Philips Group
Sales and costs by nature in millions of EUR

	2019	2020	2021
Sales	17,147	17,313	17,156
Costs of materials used	(4,197)	(4,221)	(4,142)
Employee benefit expenses	(6,097)	(6,289)	(6,246)
Depreciation and amortization [1]	(1,343)	(1,462)	(1,323)
Shipping and handling	(509)	(554)	(645)
Advertising and promotion	(741)	(696)	(752)
Lease expense [2]	(50)	(34)	(19)
Other operational costs [3] [4]	(2,811)	(2,741)	(3,524)
Other business income (expenses)	(33)	(51)	48
Income from operations	**1,366**	**1,264**	**553**

[1] Includes impairments; for impairment values please refer to Property, plant and equipment, starting on page 165 and Intangible assets excluding goodwill, starting on page 170

[2] Lease expense relates to short-term and low value leases.

[3] 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 IT and HR, 3rd party workers, consultants, warranty, patents, costs for travelling, external legal services and EUR 104 million government grants recognized in 2021 (2020: EUR 98 million 2019: EUR 87 million). The grants mainly relate to research and development activities and business development.

[4] The significant increase in other operational costs 2021 versus 2020 is mainly due to the field action provision. For more details on the field action provision, please refer to Provisions, starting on page 179.

Sales composition and disaggregation

Philips Group
Sales composition in millions of EUR

	2019	2020	2021
Goods	12,476	12,491	11,981
Services	3,811	4,058	4,374
Royalties	381	301	383
Total sales from contracts with customers	**16,668**	**16,851**	**16,738**
Other sources [1]	479	462	418
Sales	**17,147**	**17,313**	**17,156**

[1] Other sources mainly relates to leases, including sublease income from right-of-use assets and related services of EUR 293 million (2020: EUR 325 million 2019: EUR 307 million)

At December 31, 2021, the aggregate amount of the transaction price allocated to remaining performance obligations from a sale of goods and services was EUR 14,305 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.

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 [1]	Total sales [2]
Diagnosis & Treatment	5,407	3,177	8,583	52	8,635
Connected Care	3,135	1,090	4,227	366	4,593
Personal Health	3,403	6	3,410		3,410
Other	*195*	*323*	*518*	-	*519*
Philips Group	**12,142**	**4,596**	**16,738**	**418**	**17,156**

[1] Other sources mainly relates to leases, including sublease income from right-of-use assets and related services of EUR 293 million

[2] Represents revenue from external customers as required by IFRS 8 Operating Segments.

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 [1]	Total sales [2]
Diagnosis & Treatment	5,132	2,998	8,129	46	8,175
Connected Care	4,208	943	5,152	417	5,568
Personal Health	3,170	4	3,173		3,173
Other	*69*	*327*	*396*	-	*396*
Philips Group	**12,580**	**4,272**	**16,851**	**462**	**17,313**

[1] Other sources mainly relates to leases, including sublease income from right-of-use assets and related services of EUR 325 million

[2] Represents revenue from external customers as required by IFRS 8 Operating Segments.

Philips Group
Disaggregation of Sales per segment in millions of EUR

	2019				
	Sales at a point in time	Sales over time	Total sales from contracts with customers	Sales from other sources [1]	Total sales [2]
Diagnosis & Treatment	5,428	2,989	8,417	68	8,485
Connected Care	3,545	718	4,263	411	4,674
Personal Health	3,513	3	3,516		3,516
Other	*168*	*303*	*472*	-	*472*
Philips Group	**12,655**	**4,013**	**16,668**	**479**	**17,147**

[1] Other sources mainly relates to leases, including sublease income from right-of-use assets and related services of EUR 307 million

[2] Represents revenue from external customers as required by IFRS 8 Operating Segments.

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 [1]**	**Total sales [2]**
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**

[1] Other sources mainly relates to leases, including sublease income from right-of-use assets and related services of EUR 293 million

[2] Represents revenue from external customers as required by IFRS 8 Operating Segments.

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 [1]	Total sales [2]
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**	**4,272**	**16,851**	**462**	**17,313**

[1] Other sources mainly relates to leases, including sublease income from right-of-use assets and related services of EUR 325 million

[2] Represents revenue from external customers as required by IFRS 8 Operating Segments.

Philips Group
Disaggregation of Sales per geographical cluster in millions of EUR

	2019				
	Sales at a point in time	Sales over time	Total sales from contracts with customers	Sales from other sources [1]	Total sales [2]
Western Europe	2,359	931	3,290	38	3,328
North America	4,901	1,889	6,789	114	6,904
Other mature geographies	1,125	357	1,482	322	1,804
Total mature geographies	**8,385**	**3,176**	**11,561**	**474**	**12,036**
Growth geographies	4,270	837	5,107	5	5,112
Sales	**12,655**	**4,013**	**16,668**	**479**	**17,147**

[1] Other sources mainly relates to leases, including sublease income from right-of-use assets and related services of EUR 307 million

[2] Represents revenue from external customers as required by IFRS 8 Operating Segments.

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

	2019	2020	2021
Salaries and wages [1]	5,080	5,204	5,129
Post-employment benefits costs	370	418	396
Other social security and similar charges:			
Required by law	537	556	529
Voluntary	111	111	192
Employee benefit expenses	**6,097**	**6,289**	**6,246**

[1] Salaries and wages includes EUR 115 million (2020: EUR 119 million, 2019: EUR 103 million) of share-based compensation expenses.

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 182.

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 193.

Employees

The average number of employees by category is summarized as follows:

Philips Group
Employees in FTEs

	2019	2020	2021
Production	31,222	35,482	38,618
Research & development	11,669	10,812	10,751
Other	22,924	22,474	22,543
Employees	**65,815**	**68,769**	**71,912**
3rd party workers	5,614	4,998	4,533
Philips Group	**71,429**	**73,767**	**76,445**

Employees consist of those persons working on the payroll of Philips and whose costs are reflected in the Employee benefit expenses table. 3rd party workers consist of personnel hired on a per-period basis, via external companies.

Philips Group
Employees per geographical location in FTEs

	2019	2020	2021
Netherlands	11,252	11,146	11,142
Other countries	60,177	62,621	65,303
Philips Group	**71,429**	**73,767**	**76,445**

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

	2019	2020	2021
Depreciation of property, plant and equipment	611	691	630
Amortization of software	66	76	88
Amortization of other intangible assets	344	377	322
Amortization of development costs	323	319	284
Depreciation and amortization	**1,343**	**1,462**	**1,323**

[1] Includes impairments; for impairment values please refer to Property, plant and equipment, starting on page 165 and Intangible assets excluding goodwill, starting on page 170.

Depreciation of property, plant and equipment is primarily included in cost of sales. Amortization of the categories of other intangible assets are reported in selling expenses for brand names and customer relationships and are reported in cost of sales for technology based and other intangible assets. Amortization of development cost is included in research and development expenses.

Shipping and handling

Shipping and handling costs are included in cost of sales and selling expenses in Consolidated statements of income, starting on page 129. Further information on when costs are to be reported to cost of sales or selling expenses can be found in Significant accounting policies, starting on page 135.

Advertising and promotion

Advertising and promotion costs are included in selling expenses in Consolidated statements of income, starting on page 129.

Audit fees

The following table shows the fees attributable to the fiscal years 2019, 2020 and 2021 for services rendered by the respective Group auditors.

Philips Group
Agreed fees in millions of EUR

	2019			2020			2021		
	EY NL [1]	EY Network	Total	EY NL [1]	EY Network	Total	EY NL [1]	EY Network	Total
Audit fees	**8.4**	**6.2**	**14.6**	**9.0**	**5.6**	**14.6**	**9.7**	**5.3**	**15.0**
consolidated financial statements	8.4	3.4	11.8	9.0	2.9	11.9	9.7	2.7	12.4
statutory financial statements		2.8	2.8		2.7	2.7		2.6	2.6
Audit-related fees [2]	**0.5**	**0.3**	**0.8**	**2.2**	**0.5**	**2.7**	**0.6**	**0.2**	**0.8**
divestment				1.5	0.2	1.7			
sustainability assurance	0.4		0.4	0.5		0.5	0.5		0.5
other	0.1	0.3	0.4	0.2	0.3	0.5	0.1	0.2	0.3
Tax fees									
All other fees									
Fees	**8.9**	**6.5**	**15.4**	**11.2**	**6.1**	**17.3**	**10.3**	**5.5**	**15.8**

[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

	2019	2020	2021
Result on disposal of businesses:			
income	69	-	-
expense	(1)	-	(75)
Result on disposal of fixed assets:			
income	4	2	24
expense	-	-	(5)
Result on other remaining businesses:			
income	81	120	161
expense	(88)	(30)	(43)
Impairment of goodwill	(97)	(144)	(15)
Other business income (expense)	**(33)**	**(51)**	**48**
Total other business income	154	122	186
Total other business expense	(186)	(173)	(138)

The result on disposal of businesses was mainly due to divestment of non-strategic businesses. For more information refer to Acquisitions and divestments, starting on page 153.

The result on disposal of fixed assets was mainly due to the sale of real estate assets.

The result on other remaining businesses mainly relates to revaluation of contingent consideration, non-core revenue and various legal matters.

In 2021 revisions to EPD's forecast resulted in a EUR 67 million decrease in the fair value of the respective contingent consideration liability, comprised of EUR 41 million 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, and is reflected in Other business income. In 2020 revisions to EPD's forecast due to delays in commercialization caused by the need to do more work on the maturity of the technology resulted in a EUR 101 million decrease in the fair value of the respective contingent consideration liability and is reflected in Other business income. For information on contingent consideration, refer to Provisions, starting on page 179.

In 2021 a gain of EUR 33 million related to a minority participation was recognized in Other business income. For information refer to Interests in entities, starting on page 155.

For information on impairment of goodwill, refer to Goodwill, starting on page 167.

Financial income and expenses

Philips Group
Financial income and expenses in millions of EUR

	2019	2020	2021
Interest income	25	13	18
Interest income from loans and receivables	10	8	7
Interest income from cash and cash equivalents	15	5	11
Dividend income from financial assets	52	3	2
Net gains from disposal of financial assets	2	2	-
Net change in fair value of financial assets at fair value through profit or loss	17	129	95
Other financial income	17	12	33
Financial income	**114**	**158**	**149**
Interest expense	(196)	(173)	(159)
Interest on debt and borrowings	(167)	(154)	(147)
Finance charges under lease contract	(6)	(6)	(5)
Interest expenses - pensions	(22)	(13)	(8)
Provision-related accretion and interest	(23)	(22)	(14)
Net foreign exchange losses	(2)	4	-
Other financial expenses	(12)	(11)	(15)
Financial expense	**(233)**	**(202)**	**(188)**
Financial income and expenses	**(119)**	**(44)**	**(39)**

In 2021, Financial income and expenses decreased by EUR 5 million year-on-year, mainly due to higher other financial income and decreased interest expenses, 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 expenses on borrowings and provisions, and interest expenses on pensions. The increase in other financial income is mainly due to higher interest income on tax.

In 2020, Financial income and expenses decreased by EUR 75 million year-on-year, mainly due to fair value gains of EUR 133 million from investments in limited life funds (mainly Gilde Healthcare) and other investments recognized at fair value through profit or loss. The fair value gain from investments in limited life funds is caused by IPO's by certain of the investments held by the limited life funds. Net interest expense in 2020 was EUR 11 million lower than in 2019, mainly due to lower interest expenses on borrowings and interest expenses on pensions. Dividend income from financial assets decreased by EUR 49 million versus 2019.

Income taxes

The income tax benefit of continuing operations amounted to EUR 103 million (2020: EUR 212 million tax expense, 2019: EUR 258 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

	2019	2020	2021
Income before taxes of continuing operations [1]	**1,247**	**1,220**	**513**
Current tax (expense) benefit	(251)	(380)	(298)
Deferred tax (expense) benefit	(8)	167	401
Income tax expense of continuing operations	**(258)**	**(212)**	**103**

[1] Income before tax excludes the result of investments in associates.

Income tax expense of continuing operations excludes the tax expense of the discontinued operations of EUR 737 million (2020: EUR 81 million, 2019: EUR 70 million).

The components of income tax expense of continuing operations are as follows:

Philips Group
Current income tax expense in millions of EUR

	2019	2020	2021
Current year tax (expense) benefit	(248)	(390)	(291)
Prior year tax (expense) benefit	(3)	10	(7)
Current tax (expense)	**(251)**	**(380)**	**(298)**

Philips Group
Deferred income tax expense in millions of EUR

	2019	2020	2021
Changes to recognition of tax loss and credit carry forwards	56	6	129
Changes to recognition of temporary differences	(32)	19	(1)
Prior year tax (expense) benefit	(9)	(8)	20
Tax rate changes	4	12	10
Origination and reversal of temporary differences, tax losses and tax credits	(27)	138	245
Deferred tax (expense) benefit	**(8)**	**167**	**401**

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 25.0% (2020: 25.0% 2019: 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 %

	2019	2020	2021
Weighted average statutory income tax rate in %	25.3	25.2	22.7
Recognition of previously unrecognized tax loss and credit carryforwards	(4.9)	(0.5)	(26.9)
Unrecognized tax loss and credit carryforwards	0.1	0.0	1.9
Changes to recognition of temporary differences	2.6	(1.6)	0.3
Non-taxable income and tax incentives	(11.2)	(12.9)	(40.6)
Non-deductible expenses	6.1	7.0	19.3
Withholding and other taxes	4.1	0.6	7.2
Tax rate changes	(0.2)	(1.0)	(1.9)
Prior year tax	0.7	(0.2)	(2.4)
Tax expense (benefit) due to change in uncertain tax treatments	(2.0)	1.2	4.4
Others, net	0.2	(0.2)	(4.0)
Effective income tax rate	**20.8**	**17.6**	**(20.0)**

The effective income tax rate is lower than the weighted average statutory income tax rate in 2021 mainly due to benefits from the recognition of deferred tax assets on loss carryforwards and recurring favorable tax incentives related to R&D investments and export activities, partially offset with various non-deductible items. The effective income tax rate for 2021 is further impacted by the lower income before tax in 2021, as compared to 2020 and 2019, whereas Withholding and other taxes had a lower impact on the 2020 effective income tax rate, due to a one-off benefit from a decrease in tax rate. The recognition of deferred tax assets on loss carryforwards is the result from an intra-group business transfer and is presented under Recognition of previously unrecognized tax loss and credit carryforwards.

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 2021 and 2020 respectively are presented in the following tables.

The net deferred tax assets of EUR 2,134 million (2020: EUR 1,761 million) consist of deferred tax assets of EUR 2,216 million (2020:EUR 1,820 million) and deferred tax liabilities of EUR 83 million (2020: EUR 59 million). Of the total deferred tax assets of EUR 2,216 million at December 31, 2021 (2020: EUR 1,820 million), EUR 12 million (2020: EUR 35 million) is recognized in respect of entities in various countries where there have been tax losses in the current or preceding period. Management's projections support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilize these deferred tax assets.

At December 31, 2021 the temporary differences associated with investments, including potential income tax consequences on dividends, for which no deferred tax liabilities are recognized, aggregate to EUR 298 million (2020: EUR 275 million). The increase in the deferred tax assets on intangible assets mainly comprises the recognition of deferred tax assets on temporary differences resulting from an intra-group business transfer.

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.

Philips Group
Deferred tax assets and liabilities in millions of EUR

	Balance as of January 1, 2020	recognized in income statement	other [1]	Balance as of December 31, 2020	Assets	Liabilities
Intangible assets	132	147	(39)	240	379	(140)
Property, plant and equipment	58	(22)	(4)	32	65	(32)
Inventories	252	77	(16)	313	317	(4)
Other assets	56	37	4	97	135	(38)
Pensions and other employee benefits	269	4	(27)	245	251	(6)
Other liabilities	334	81	(30)	384	436	(52)
Deferred tax assets on tax loss carryforwards	620	(133)	(38)	449	449	
Set-off deferred tax positions					(212)	212
Net deferred tax assets	**1,721**	**190**	**(151)**	**1,761**	**1,820**	**(59)**

[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, 2020	Unrecognized balance as of December 31, 2020	**Total Balance as of December 31, 2021**	**Unrecognized balance as of December 31, 2021**
Within 1 year	5	1	1,593	1,592
1 to 2 years	1,546	1,541	6	-
2 to 3 years	13	3	9	-
3 to 4 years	235	-	7	-
4 to 5 years	23	-	18	-
Later	1,026	24	751	21
Unlimited	1,428	951	1,567	934
Total	**4,276**	**2,520**	**3,951**	**2,547**

At December 31, 2021, the amount of deductible temporary differences for which no deferred tax asset has been recognized in the balance sheet was EUR 33 million (2020: EUR 33 million).

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 (2021: EUR 544 million, 2020: EUR 291 million, increase due to lower 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.

Earnings per share

Philips Group
Earnings per share in millions of EUR unless otherwise stated [1]

	2019	2020	2021
Income from continuing operations	**990**	**999**	**612**
Income (loss) attributable to non-controlling interest, from continuing operations	5	8	4
Income from continuing operations attributable to shareholders	985	991	608
Income from Discontinued operations	**183**	**196**	**2,711**
Income from Discontinued operations attributable to shareholders	183	196	2,711
Net income attributable to shareholders	**1,167**	**1,187**	**3,319**
Weighted average number of common shares outstanding (after deduction of treasury shares) during the year	921,062,109	907,721,150	904,271,675
Plus incremental shares from assumed conversions of:			
Options	1,288,001	757,622	387,125
Performance shares	5,896,049	5,561,501	2,548,891
Restricted share rights	2,524,606	2,584,728	2,376,736
Forward contracts			70,329
Dilutive potential common shares	**9,708,656**	**8,903,851**	**5,383,080**
Diluted weighted average number of shares (after deduction of treasury shares) during the year	**930,770,765**	**916,625,001**	**909,654,754**
Basic earnings per common share in EUR			
Income from continuing operations attributable to shareholders	1.07	1.09	0.67
Income from Discontinued operations attributable to shareholders	0.20	0.22	3.00
Net income attributable to shareholders	1.27	1.31	3.67
Diluted earnings per common share in EUR [2]			
Income from continuing operations attributable to shareholders	1.06	1.08	0.67
Income from Discontinued operations attributable to shareholders	0.20	0.21	2.98
Net income attributable to shareholders	1.25	1.29	3.65
Dividend distributed per common share in euros	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

Property, plant and equipment

Philips Group
Property, plant and equipment in millions of EUR

	land and buildings		machinery and installations		other equipment		prepayments and construction in progress		total	
	owned	**right-of-use**	**owned**	**right-of-use**	**owned**	**right-of-use**	**owned**	**right-of-use**	**owned**	**right-of-use**
Balance as of January 1, 2021										
Cost	1,076	1,147	1,506	199	1,572	213	261	1	4,415	1,560
Accumulated depreciation	(539)	(310)	(1,028)	(144)	(1,185)	(86)			(2,752)	(540)
Book value	**537**	**837**	**478**	**55**	**387**	**126**	**261**	**1**	**1,663**	**1,020**
Change in book value:										
Capital expenditures	9	150	62	21	77	44	261		409	215
Assets available for use	72	2	110		117	3	(305)		(5)	5
Acquisitions	-	43	9		43				53	43
Depreciation	(53)	(157)	(144)	(32)	(158)	(63)			(355)	(252)
Impairments	(1)	1	(6)	(5)	(11)	-	-		(18)	(4)
Transfer (to) from AHFS	(87)	(7)	(16)		(46)	(1)	(20)		(170)	(8)
Reclassifications	6	-	2		(10)	2	1	(1)	-	1
Translations differences and other	23	44	14	(2)	16	(4)	10	-	65	39
Total changes	**(31)**	**77**	**33**	**(18)**	**29**	**(20)**	**(53)**	**(1)**	**(22)**	**38**
Balance as of December 31, 2021										
Cost	1,097	1,332	1,585	176	1,382	216	208		4,273	1,724
Accumulated depreciation	(591)	(418)	(1,074)	(139)	(967)	(109)			(2,632)	(666)
Book value	**506**	**914**	**511**	**37**	**415**	**107**	**208**		**1,641**	**1,058**

Philips Group
Property, plant and equipment in millions of EUR

	land and buildings		machinery and installations		other equipment		prepayments and construction in progress		total	
	owned	**right-of-use**	**owned**	**right-of-use**	**owned**	**right-of-use**	**owned**	**right-of-use**	**owned**	**right-of-use**
Balance as of January 1, 2020										
Cost	876	1,355	1,531	251	1,549	232	323	1	4,279	1,839
Accumulated depreciation	(395)	(326)	(1,055)	(188)	(1,184)	(105)			(2,634)	(618)
Book value	**481**	**1,029**	**476**	**63**	**365**	**127**	**323**	**1**	**1,645**	**1,221**
Change in book value:										
Capital expenditures	28	80	60	53	84	97	399	2	571	231
Assets available for use	117	2	162		160	3	(441)	(2)	(2)	2
Depreciation	(47)	(161)	(167)	(55)	(180)	(73)			(394)	(289)
Impairments	(3)	(5)	(13)	(4)	(16)		-	-	(32)	(10)
Reclassifications		(64)	(7)	(7)	(1)	(21)	(3)		(11)	(91)
Translations differences and other	(39)	(43)	(33)	5	(25)	(6)	(17)	-	(114)	(44)
Total changes	**56**	**(192)**	**2**	**(8)**	**22**	**(1)**	**(62)**		**17**	**(201)**
Balance as of December 31, 2020										
Cost	1,076	1,147	1,506	199	1,572	213	261	1	4,415	1,560
Accumulated depreciation	(539)	(310)	(1,028)	(144)	(1,185)	(86)			(2,752)	(540)
Book value	**537**	**837**	**478**	**55**	**387**	**126**	**261**	**1**	**1,663**	**1,020**

Land with a book value of EUR 39 million (2020: EUR 47 million) is not depreciated.

The expected useful lives of property, plant and equipment are as follows:

Philips Group
Useful lives of property, plant and equipment in years

Buildings	from 5 to 50 years
Machinery and installations	from 3 to 20 years
Other equipment	from 1 to 10 years

Goodwill

The changes in 2020 and 2021 were as follows:

Philips Group
Goodwill in millions EUR

	2020	2021
Balance as of January 1:		
Cost	10,182	9,094
Impairments	(1,528)	(1,080)
Book value	**8,654**	**8,014**
Changes in book value:		
Acquisitions	189	2,095
Impairments	(144)	(15)
Divestments and transfers to assets classified as held for sale	(12)	(189)
Translation differences and other	(673)	732
Balance as of December 31:		
Cost	9,094	11,793
Impairments	(1,080)	(1,156)
Book value	**8,014**	**10,637**

In 2021, goodwill increased by EUR 2,623 million, primarily as a result of 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 153.

In 2020, goodwill decreased by EUR 640 million, mainly due to translation differences which impacted goodwill denominated in USD and impairments totaling EUR 144 million related to Population Health Management (PHM). The decrease was partially offset by goodwill increases from the acquisition of Intact Vascular for an amount of EUR 155 million and other acquisitions as well as changes in the provisional opening balance sheet position for certain 2019 acquisitions (refer to Acquisitions and divestments, starting on page 153).

Goodwill reallocations in 2021 and 2020

In 2021 there was a change to the CGU structure following an internal reorganization (effective Q1 2021). This 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 Q4 2020, the PHM CGU was split, resulting in a separate CGU for the Personal Emergency Response Services (PERS) and Senior Living business (previously named the Aging and Caregiving (ACG) business) in anticipation of its future divestment. The remaining PHM goodwill was allocated to the PERS CGU and remaining PHM CGU based on relative fair value. The goodwill allocated to the remaining PHM CGU was immaterial. An additional CGU change in 2020 resulted in a goodwill reallocation across certain CGUs, none of which had a significant impact on headroom or led to goodwill impairments.

In addition in 2021 and 2020, 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 2021 a total impairment 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. At June 30, 2021 the PERS CGU was divested. 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 and in Other business expenses in the Statement of Income. For further information refer to Acquisitions and divestments, starting on page 153 .

In the fourth quarter of 2020, the PHM CGU was split, resulting in a separate CGU for the PERS business in anticipation of its future divestment. The impairment test indicated that the pre-split PHM's carrying balance of EUR 303 million exceeded the recoverable amount of EUR 195 million, resulting in a EUR 108 million goodwill impairment charge. After the PHM impairment, further described below, remaining goodwill in the amount of EUR 63 million was allocated to the PERS CGU and remaining PHM CGU based on their relative fair value. Upon reallocation, standalone impairment tests were completed for PERS and the remaining PHM business. This second impairment test indicated that the PERS carrying balance of EUR 186 million exceeded the recoverable amount of EUR 150 million resulting in a EUR 36 million impairment charge. In total, EUR 144 million of impairment charges were recorded within the Connected Care segment, in the line Other business expenses in the statement of income.

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, Image-Guided Therapy and Sleep & Respiratory Care is considered to be significant in comparison to the total book value of goodwill for the Group at December 31, 2021. The amounts associated as of December 31, 2021 are presented in the following table:

Philips Group
Goodwill allocated to the cash-generating units in millions of EUR

	2020	2021
Ambulatory Monitoring & Diagnostics [1]		1,897
Hospital Patient Monitoring [2]	1,246	1,663
Image-Guided Therapy	2,610	2,802
Sleep & Respiratory Care	1,915	2,031
Other (units carrying a non-significant goodwill balance)	2,244	2,245
Book value	**8,014**	**10,637**

[1] Includes provisional goodwill related to the acquisition of BioTelemetry, see Acquisitions and divestments, starting on page 153

[2] Previously named Monitoring & Analytics. Includes provisional goodwill related to the acquisition of Capsule Technologies, see Acquisitions and divestments, starting on page 153

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 to dispose 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%[*)] 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 2022 to 2024. Projections were extrapolated with stable or declining growth rates for an extrapolation period of 4 years (2025-2028), after which a terminal value was calculated per 2029. In the case of acquisitions made during 2021, the acquisition business case is used as management's forecast for the initial forecast and extrapolation period. For the terminal value calculation, growth rates were capped at a historical long-term average growth rate. In the 2020 value-in-use tests the initial forecast period was 4 years and the extrapolation period 3 years, this reflected the internal forecasting process at that time.

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 2021 the impact of COVID-19 has gradually reduced, however there continues to be uncertainty and volatility related to the impact of the pandemic, including global supply chain challenges. Where relevant, and to the extent possible, the estimated impact of the COVID-19 pandemic, supply chain challenges and resulting uncertainties have been reflected in the forecasts used for the VIU calculations. As was the case in 2020, 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. These scenarios take into account the expected impact of COVID-19, amongst other factors. In 2020 the forecasted sales growth rates were impacted by the COVID-19 consequences and uncertainties. In general these uncertainties have reduced throughout 2021, meaning that the current year assumptions are impacted to a lesser extent.

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.

Key assumptions and sensitivity analysis relating to cash-generating units to which a significant amount of goodwill is allocated

In 2021 cash flow projections of Ambulatory Monitoring & Diagnostics, 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 2021

	compound sales growth rate [1]			
	initial forecast period	extrapolation period [2]	used to calculate terminal value [3]	pre-tax discount rates
Ambulatory Monitoring & Diagnostics	24.5%	11.9%	2.5%	7.3%
Hospital Patient Monitoring [4]	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 4 year extrapolation period, after which no further growth is assumed for the terminal value calculation

[4] Previously named Monitoring & Analytics.

The assumptions used for the 2020 cash flow projections were as follows:

Philips Group
Key assumptions 2020

	compound sales growth rate [1]			
	initial forecast period	extrapolation period [2]	used to calculate terminal value [3]	pre-tax discount rates
Hospital Patient Monitoring [4]	(0.3)%	3.3%	2.5%	9.4%
Image-Guided Therapy	8.6%	4.9%	2.5%	9.0%
Sleep & Respiratory Care	(1.2)%	4.4%	2.5%	9.7%

[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 4 year extrapolation period, after which no further growth is assumed for the terminal value calculation

[4] Previously named Monitoring & Analytics.

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.

The results of the annual impairment tests of Sleep & Respiratory Care 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. This is due to the 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, and the associated legal matters. For further details refer to Provisions, starting on page 179 and Contingent assets and liabilities, starting on page 188. Based on the annual impairment test of Sleep & Respiratory Care, it was noted that an increase of 200 basis points in the pre-tax discount rate, a 840 basis points decline in the compound long-term sales growth rate or a 29% 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 Ambulatory Monitoring & Diagnostics, 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

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.

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 225.

**) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 225.

Intangible assets excluding goodwill

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**
Changes in book value:								
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 changes	**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**

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, 2020								
Cost	709	2,476	2,491	2,387	578	784	154	9,579
Amortization/ impairments	(524)	(1,587)	(1,530)	(1,795)	(56)	(527)	(94)	(6,113)
Book value	**184**	**890**	**961**	**592**	**523**	**257**	**59**	**3,466**
Changes in book value:								
Additions		1	12	-	305	127	2	449
Assets available for use				373	(374)		-	-
Acquisitions	8	1	175	-			-	185
Amortization	(26)	(121)	(103)	(221)	-	(84)	(4)	(560)
Impairments	-	(1)	(118)	(62)	(44)	(2)	(8)	(235)
Transfers to assets classified as held for sale	(33)	(55)	(1)	(8)	(2)	(3)		(102)
Translation differences and other	(13)	(64)	(58)	(53)	(10)	-	(6)	(204)
Total changes	**(65)**	**(239)**	**(92)**	**30**	**(125)**	**38**	**(15)**	**(468)**
Balance as of December 31, 2020								
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**

Acquisitions in 2021 involved Intangible assets of EUR 841 million in aggregate (2020: EUR 185 million). For more information, refer to Acquisitions and divestments, starting on page 153.

Impairments in 2021 were EUR 126 million (2020: EUR 235 million) and mainly relate to technology (EUR 57 million) and product development (EUR 51 million). The most notable impairment in 2021 is in the Diagnosis & Treatment segment, for technology assets in Image Guided Therapy-Systems (IGT Systems) of EUR 55 million. This impairment charge is based on a trigger-based test on the CGU EPD, a business category and an innovator in image-guided procedures for cardiac arrhythmias (heart rhythm disorders). The impairment charge is a result of more severe short-term impacts of COVID-19 and the competitive environment. The basis of the recoverable amount used in this test is the value in use, and an after-tax discount rate of 6.5% is applied. After the impairment charge the recoverable amount of the related intangible assets is EUR 29 million.

Other notable impairments in 2021 were in the Connected Care segment, for product development in the Sleep & Respiratory Care (S&RC) business of EUR 35 million. The impairment in the S&RC business is due to delays in commercialization as a result of product improvements needed in combination with resource constraints as a result of the Respironics voluntary recall notification.

In 2021 the impact of COVID-19 has gradually reduced, however there continues to be uncertainty and volatility related to the impact of the pandemic, including global supply chain challenges. Where relevant, and to the extent possible, the estimated impact of the COVID-19 pandemic, supply chain challenges and resulting uncertainties have been taken into account when assessing the valuation of intangible assets excluding goodwill. As was the case in 2020, 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. These scenarios take into account the expected impact of COVID-19, amongst other factors.

The amortization of intangible assets is specified in Income from operations, starting on page 156.

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 9.6 years as of December 31, 2021 (2020: 9.1 years).

The most notable intangible assets as of December 31, 2021 relate to the BioTelemetry customer relationships and technology with a carrying 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. The most notable intangible assets as of December 31, 2020 relate to the Spectranetics customer relationships and technology with a carrying value of EUR 287 million and EUR 212 million and a remaining amortization period of 17 years and 12 years, respectively.

Other financial assets

Other current financial assets

In 2021, Other current financial assets increased from EUR 0 million to EUR 2 million.

In 2020, Other current financial assets decreased from EUR 1 million to EUR 0 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 2021 and 2020 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, 2021	248	146	37	430
Changes:				
Acquisitions/additions	54	59	10	123
Sales/redemptions/ reductions	(122)	0	(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**

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, 2020	136	72	40	248
Changes:				
Acquisitions/additions	44	82	4	131
Sales/redemptions/ reductions	(59)	(3)	(2)	(65)
Value adjustment through OCI	-	3	-	3
Value adjustment through P&L	133	-	-	133
Translation differences and other	(6)	(5)	(6)	(17)
Reclassifications	-	(3)	-	(3)
Balance as of December 31, 2020	**248**	**146**	**37**	**430**

At December 31, 2021, equity investments of EUR 273 million (2020: EUR 119 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.

In 2021, reclassifications refer to previous investments in associates that were reclassified to Other non-current financial assets at FVTOCI following the loss of significant influence. The main movement in Other non-current financial assets at FVTPL is related to the value adjustments through P&L of EUR 95 million, which is mainly due to fair value gains from investments in limited life funds.

Other assets

Other non-current assets

Other non-current assets in 2021 were EUR 129 million (2020: EUR 66 million). These mainly related to prepaid expenses.

Other current assets

Other current assets of EUR 493 million (2020: EUR 424 million) included contract assets EUR 290 million (2020: EUR 229 million), EUR 31 million (2020: EUR 26 million) accrued income and EUR 172 million (2020: EUR 169 million) for prepaid expense mainly related to Diagnosis & Treatment businesses and Connected Care businesses.

Inventories

Inventories are summarized as follows:

Philips Group
Inventories in millions of EUR

	2020	2021
Raw materials and supplies	992	1,143
Work in process	537	646
Finished goods	1,464	1,660
Inventories	**2,993**	**3,450**

The write-down of inventories to net realizable value was EUR 177 million in 2021 (2020: EUR 180 million). The write-down is included in cost of sales.

Receivables

Non-current receivables

Non-current receivables are associated mainly with customer financing in the Diagnosis & Treatment businesses amounting to EUR 44 million (2020: EUR 29 million), for Signify indemnification amounting to EUR 46 million (2020: EUR 55 million), advance income tax payments amounting to EUR 78 million for which Philips expects to get a refund (2020: EUR 78 million) and insurance receivables in Other in the US amounting to EUR 37 million (2020: EUR 38 million).

Current receivables

Current receivables of EUR 3,787 million (2020: EUR 4,156 million) at December 31, 2021 included trade accounts receivable (net of allowance) of EUR 3,559 million (2020: EUR 3,928 million), accounts receivable other of EUR 188 million (2020: EUR 191 million) and accounts receivable from investments in associates of EUR 40 million (2020: EUR 37 million).

The accounts receivable, net, per segment are as follows:

Philips Group
Accounts receivables-net in millions of EUR

	2020	2021
Diagnosis & Treatment	1,653	1,759
Connected Care	1,124	980
Personal Health	1,017	575
Other	*133*	*245*
Accounts receivable-net	**3,928**	**3,559**

The aging analysis of accounts receivable, net, is set out below:

Philips Group
Aging analysis in millions of EUR

	2020	2021
current	3,413	3,075
overdue 1-30 days	189	160
overdue 31-180 days	224	245
overdue > 180 days	102	79
Accounts receivable-net	**3,928**	**3,559**

The above net accounts receivable represent current and overdue but not fully impaired receivables.

The changes in the allowance for doubtful accounts receivable are as follows:

Philips Group
Allowance for accounts receivable in millions of EUR

	2020	2021
Balance as of January 1	211	195
Additions charged to expense	19	4
Deductions from allowance [1]	(17)	(17)
Transfer to assets held for sale	(1)	(8)
Other movements	(16)	16
Balance as of December 31	**195**	**190**

[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 per December 31, 2021 are allowances for individually impaired receivables of EUR 188 million (2020: EUR 186 million) .

Equity

Common shares

As of December 31, 2021, authorized common shares consist of 2 billion shares (December 31, 2020: 2 billion; December 31, 2019: 2 billion) and the issued and fully paid share capital consists of 883,898,696 common shares, each share having a par value of EUR 0.20 (December 31, 2020: 911,053,001; December 31, 2019: 896,733,721).

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, 2021, 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, 2021 (December 31, 2020: 2 billion; December 31, 2019: 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 rights to receive common shares in the future (refer to Share-based compensation, starting on page 190).

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 upon exercise of options, restricted and performance share programs, 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 issued, 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

	2019	2020	2021
Balance as of January 1	914,184,087	890,973,790	905,128,293
Dividend distributed	9,079,538	18,080,198	6,345,968
Purchase of treasury shares	(40,390,495)	(8,669,622)	(45,486,392)
Delivery of treasury shares	8,100,660	4,695,170	4,194,577
Issuance of new shares		48,757	
Balance as of December 31	**890,973,790**	**905,128,293**	**870,182,445**

The following transactions took place resulting from former and current share-based remuneration plans:

Philips Group
Employee option and share plan transactions

	2019	2020	2021
Shares acquired	5,497,675	5,351,411	3,996,576
Average market price	EUR 34.25	EUR 33.81	EUR 36.15
Amount paid	EUR 188 million	EUR 181 million	EUR 144 million
Shares delivered	8,100,660	4,695,170	4,194,577
Average price (FIFO)	EUR 32.87	EUR 34.35	EUR 34.14
Cost of delivered shares	EUR 266 million	EUR 161 million	EUR 143 million
Total shares in treasury at year-end	5,268,467	5,924,708	5,726,708
Total cost	EUR 180 million	EUR 199 million	EUR 201 million

The following transactions took place for capital reduction purposes:

Philips Group
Share capital transactions

	2019	2020	2021
Shares acquired	34,892,820	3,318,211	41,489,816
Average market price	EUR 34.29	EUR 39.21	EUR 36.22
Amount paid	EUR 1,196 million	EUR 130 million	EUR 1,503 million
Cancellation of treasury shares (shares)	38,541,356	3,809,675	33,500,000
Cancellation of treasury shares (EUR)	EUR 1,316 million	EUR 152 million	EUR 1,216 million
Total shares in treasury at year-end	491,464		7,989,816
Total cost	EUR 22 million		EUR 287 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 1,636 million. A cash inflow of EUR 23 million from treasury shares mainly includes settlements of share-based remuneration plans.

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 2021, Philips used methods (i) and (ii) to repurchase shares for capital reduction purposes and methods (ii) and (iii) to repurchase shares for share-based compensation plans.

Forward share repurchase plans / contracts

Forward contracts to repurchase shares for share-based compensation plans

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 varying between 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 for an amount of EUR 174 million to acquire 5 million shares with settlement dates varying between October 2021 and November 2022 and a weighted average forward price of EUR 34.85. As of December 31, 2021, a total of 1.5 million shares under this program were acquired (all were settled in the fourth quarter of 2021). This resulted in EUR 61 million increase in retained earnings against treasury shares.

On October 22, 2018, Philips announced and started a share repurchase program for an amount of up to EUR 174 million to cover its long-term incentive and employee stock purchase plans, after which it repurchased shares via an intermediary to allow for buybacks in the open market during both open and closed periods. On November 12, 2018, Philips announced to extend this program and entered into three forward contracts for an amount of EUR 319 million to repurchase 10 million shares with settlement dates varying between October 2019 and November 2021 and a weighted average forward price of EUR 31.89. As of December 31, 2021, a total of 10 million shares under this program had been acquired (4 million shares in the fourth quarter of 2019, 4 million shares in the fourth quarter of 2020 and 2 million shares in the fourth quarter of 2021). This resulted in EUR 319 million increase in retained earnings against treasury shares (EUR 130 million, EUR 126 million and EUR 62 million pertaining to 2019, 2020 and 2021, respectively).

As of December 31, 2021, the remaining forward contracts to cover obligations under share-based remuneration plans related to 5.5 million shares and amounted to EUR 203 million.

Forward contracts to repurchase shares for capital reduction purposes

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 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, 2021, all of these forward contracts were outstanding.

On January 29, 2019, Philips announced a share buyback program for an amount of up to EUR 1.5 billion. Philips started the program in the first quarter of 2019. On March 23, 2020, Philips announced that 50.3% of the program had been completed through repurchases by an intermediary to allow for purchases in the open market during both open and closed periods, and that the remainder of the program would be executed through one or more individual forward transactions. Consequently, in the first half of 2020 Philips entered into four forward contracts for an amount of EUR 745 million to acquire 20 million shares with settlement dates varying between June 2021 and December 2021 and a weighted average forward price of EUR 36.40. As of December 31, 2021, all shares under this program were acquired (of which 2.5 million shares in the second quarter of 2021, 2.5 million shares in the third quarter of 2021 and 15.5 million shares in the fourth quarter of 2021). This resulted in EUR 745 million increase in retained earnings against treasury shares.

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 2021, the company unwound 374,826 EUR-denominated and 121,750 USD-denominated call options against the transfer of the same number of its own shares (496,576 shares) and an additional EUR 9 million cash payment to the buyer of the call options.

As of December 31, 2021, the remaining EUR-denominated and USD-denominated call options related to 295,630 and 152,565 shares, respectively.

Shares cancellation
In December 2021 Philips completed the cancellation of 33.5 million of its common shares (with a cost price of EUR 1,228 million). The cancelled shares were acquired as part of the Philips' EUR 1.5 billion share repurchase programs announced on January 29, 2019 and EUR 1.5 billion share repurchase programs announced on July 26, 2021, respectively.

Dividend distribution

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).

A proposal will be submitted to the 2022 Annual General Meeting of Shareholders to pay a dividend of EUR 0.85 per common share, in cash or shares at the option of the shareholder, against the net income of the company for 2021.

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.

2019
In June 2019, Philips settled a dividend of EUR 0.85 per common share, representing a total value of EUR 775 million (including costs). Shareholders could elect for a cash dividend or a share dividend. Approximately 42% of the shareholders elected for a share dividend, resulting in the issuance of 9,079,538 new common shares. The settlement of the cash dividend involved an amount of EUR 453 million (including costs).

Limitations in the distribution of shareholders' equity
As of December 31, 2021, pursuant to Dutch law, certain limitations exist relating to the distribution of shareholders' equity of EUR 1,947 million. Such limitations relate 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 loss related to cash flow hedges of EUR 25 million and unrealized loss related to fair value through OCI financial assets of EUR 344 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 654 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, 2020, these limitations in distributable amounts were EUR 831 million and related to common shares of EUR 182 million, as well as to legal reserves required by Dutch law included under retained earnings of EUR 626 million and unrealized currency translation differences of EUR 58 million. The unrealized losses related to fair value through OCI financial assets of EUR 305 million and unrealized gain related to cash flow hedges of EUR 23 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 our 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 [1] in millions of EUR unless otherwise stated

	2019	2020	2021
Long-term debt	4,939	5,705	6,473
Short-term debt	508	1,229	506
Total debt	**5,447**	**6,934**	**6,980**
Cash and cash equivalents	1,425	3,226	2,303
Net debt [1]	**4,022**	**3,708**	**4,676**
Shareholders' equity	12,597	11,870	14,438
Non-controlling interests	28	31	36
Group equity	**12,625**	**11,901**	**14,475**
Net debt and group equity ratio [1]	**24:76**	**24:76**	**24:76**

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 225.

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 2021 is included in the following table.

Philips Group
Adjusted income from continuing operations attributable to shareholders [1] [2] in millions of EUR

	2019	2020	2021
Net income	1,173	1,195	3,323
Discontinued operations, net of income taxes	(183)	(196)	(2,711)
Income from continuing operations	**990**	**999**	**612**
Continuing operations non-controlling interests	(5)	(8)	(4)
Income from continuing operations attributable to shareholders [2]	**985**	**991**	**608**
Adjustments for:			
Amortization and impairment of acquired intangible assets	344	377	322
Impairment of goodwill	97	144	15
Restructuring costs and acquisition-related charges	310	195	95
Other items	153	299	1,069
Net finance income/expenses	13	(125)	(84)
Tax impact of adjusted items and tax only adjusting items	(280)	(285)	(527)
Adjusted Income from continuing operations attributable to shareholders [1] [2]	**1,622**	**1,594**	**1,497**

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 225.

[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 225.

Debt

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. Philips issued commercial paper of EUR 300 million in May 2021 and EUR 150 million in July 2021, that was repaid in September 2021. The facility does not have a material adverse change clause, has no financial covenants and no credit-rating-related acceleration possibilities. As of December 31, 2021, Philips did not have any loans outstanding under either facility. As per 9 March 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 2021 Philips did not issue any new notes under the program.

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 2017, 2018, 2019 and 2020 (due 2023, 2024, 2025, 2026, 2028 and 2030) 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 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.

In March 2020, Philips issued a EUR 500 million fixed-rate sustainability innovation bond due in 2025 with a coupon rate of 1.375%, and a EUR 500 million fixed-rate bond due in 2030 with a coupon rate of 2.000% under the EMTN program. In 2020, Philips entered into a total amount of EUR 745 million of forward contracts to complete the remainder of the EUR 1.5 billion share buyback program announced on January 29, 2019, with maturity dates in 2021. In addition, Philips entered into a total amount of EUR 174 million of forward contracts in 2020 related to the long-term incentive and employee stock purchase plans announced on

January 29, 2020, and a total amount of EUR 126 million of forward contracts matured relating to the company's long-term incentive and employee stock purchase plans announced on October 22, 2018.

Long-term debt

The following tables present information about the long-term debt outstanding, its maturity and average interest rates in 2021 and 2020.

Philips Group
Long-term debt in millions of EUR unless otherwise stated

	amount outstanding in 2021	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	1,313		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 liability	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%**

Philips Group
Long-term debt in millions of EUR unless otherwise stated

	amount outstanding in 2020	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	1,210		1,210	122	1,088	16.1	6.3%
EUR bonds	3,229		3,229	1,494	1,735	5.4	1.0%
Forward contracts	982	869	113	113		0.9	
Lease liability	1,216	267	948	596	352	3.9	2.1%
Bank borrowings	205	1	203	3	200	4.1	0.2%
Other long-term debt	16	15				1.0	0.0%
Long-term debt	**6,857**	**1,153**	**5,705**	**2,329**	**3,376**	**6.3**	**2.0%**

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	2020	2021
Unsecured EUR Bonds			
Due 9/06/2023; 1/2%	0.634%	500	500
Due 5/02/2024; 3/4%	0.861%	500	500
Due 22/05/2026; 1/2%	0.608%	750	750
Due 5/02/2028; 1 3/8%	1.523%	500	500
Due 30/03/2025; 1 3/8%	1.509%	500	500
Due 30/03/2030; 2%	2.128%	500	500
Unsecured USD Bonds			
Due 5/15/2025; 7 3/4%	7.429%	51	56
Due 6/01/2026; 7 1/5%	6.885%	111	120
Due 5/15/2025; 7 1/8%	6.794%	68	74
Due 11/03/2038; 6 7/8%	7.210%	591	641
Due 3/15/2042; 5%	5.273%	407	441
Adjustments [1]		(39)	(37)
Unsecured Bonds		**4,439**	**4,545**

[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

	2020			2021		
	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	290	23	267	280	22	257
Between one and five years	651	55	596	636	56	580
More than five years	384	31	352	417	34	383
Lease liability	**1,325**	**109**	**1,216**	**1,333**	**113**	**1,220**

Short-term debt

Philips Group
Short-term debt in millions of EUR

	2020	2021
Short-term bank borrowings	76	47
Current portion of long-term debt	1,153	459
Short-term debt	**1,229**	**506**

During 2021, the weighted average interest rate on the bank borrowings was 1.2% (2020: 5.9%). This decrease was mainly driven by the term loan and commercial paper that were issued in 2021 with attractive market interest rates.

Provisions

Philips Group
Provisions in millions of EUR

	2020			2021		
	long-term	short-term	total	long-term	short-term	total
Post-employment benefit [1]	751		751	659		659
Respironics field action provision				52	525	577
Product warranty	28	139	167	32	207	238
Environmental provisions	162	21	183	99	26	124
Restructuring-related provisions	17	100	117	8	58	66
Legal provisions	19	53	72	53	39	91
Contingent consideration provisions	203	114	318	156	52	208
Other provisions	279	93	372	257	92	349
Provisions	**1,458**	**522**	**1,980**	**1,315**	**998**	**2,313**

[1] For more details refer to Post-employment benefits, starting on page 182.

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.

On December 23, 2021, Philips reported that test results to date for the first-generation DreamStation devices indicated that the volatile organic compound (VOC) concentrations are within the limits of safe exposure specified in the applicable safety standard (ISO 18562). Comprehensive particulate testing and analyses are expected to be completed in the second quarter of 2022.

Following the substantial ramp-up of production, service and repair capacity, the repair and replacement program in the US and several other markets is under way. Because of 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 January 2022, Philips Respironics has shipped a total of approximately 750,000 repair kits and replacement devices to customers and aims to complete the repair and replacement program in the fourth quarter of 2022.

Philips has recognized a provision based on Philips' best estimate of the costs to repair or replace devices subject to the Respironics field action as follows:

Philips Group
Field action provision in millions of EUR

	2021
Additions	719
Utilizations	(175)
Translation differences	33
Balance as of December 31	**577**

The future developments are 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, 2021, 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

		Increase (decrease) in provision	
Assumption	Estimate	Increase individual assumption by 10%	Decrease individual assumption by 10%
Total quantity of devices	5.2 million	63	(63)
Replacement share	46%	44	(44)

Actual outcomes in future periods may differ from these estimates and affect the company's results of operations, financial position and cash flows.

Philips Respironics continues to engage with the US Food and Drug Administration (FDA) and other relevant competent authorities. In addition, other charges related to the remediation, such as testing, external advisory and regulatory response, are expensed as incurred. 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. For legal matters including claims refer to Contingent assets and liabilities, starting on page 188. As of December 31, 2021, no provisions have been recognized for such remediation costs or legal matters.

Product warranty

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. Additions in 2021 include quality actions of EUR 94 million in the Connected Care segment.

Philips Group
Provisions for assurance-type product warranty in millions of EUR

	2020	2021
Balance as of January 1	210	167
Additions	239	364
Utilizations	(270)	(265)
Transfer to liabilities associated with assets held for sale		(37)
Translation differences and other	(12)	10
Balance as of December 31	**167**	**238**

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 71 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 Contingent assets and liabilities, starting on page 188.

Philips Group
Environmental provisions in millions of EUR

	2020	2021
Balance as of January 1	170	183
Additions	9	18
Utilizations	(16)	(15)
Releases	0	(64)
Changes in discount rate	37	(10)
Accretion	3	3
Translation differences and other	(19)	9
Balance as of December 31	**183**	**124**

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

	Jan. 1, 2021	additions	utilizations	releases	other changes	Dec. 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**

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

The company expects the provisions to be utilized mainly within the next year.

2020

In 2020, the most significant restructuring projects impacted Diagnostic & Treatment and Other businesses and mainly took place in the Netherlands, US and Germany.

The movements in the provisions for restructuring in 2020 are presented by segment as follows:

Philips Group
Restructuring-related provision in millions of EUR

	Jan. 1, 2020	additions	utilizations	releases	other changes	Dec. 31, 2020
Diagnosis & Treatment	61	36	(47)	(16)	(1)	33
Connected Care	28	17	(21)	(5)	(3)	17
Personal Health	25	30	(22)	(3)	(1)	28
Other	*41*	*35*	*(31)*	*(7)*	*-*	*38*
Philips Group	**156**	**118**	**(122)**	**(32)**	**(4)**	**117**

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

	2020	2021
Balance as of January 1	55	72
Additions	72	43
Acquisitions		38
Utilizations	(45)	(17)
Releases	(6)	(48)
Accretion	1	1
Translation differences and other	(5)	3
Balance as of December 31	**72**	**91**

The majority of the movements in the above schedule are: additions in part related to investigations in the Sleep & Respiratory Care business (unrelated to the Philips Respironics voluntary recall notification), provisions recognized for certain pending investigations inherited with the acquisition of BioTelemetry, Inc. and a release following the positive outcome of the investigation of the Italian Competition Authority (ICA) for which a provision was recorded in the prior year.

For details of other legal matters, including regulatory and other governmental proceedings, refer to Contingent assets and liabilities, starting on page 188.

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

	2020	2021
Balance as of January 1	**354**	**318**
Acquisitions	70	16
Utilizations	(14)	(48)
Fair value changes	(93)	(78)
Balance as of December 31	**318**	**208**

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.

EPD
In 2020 and 2021, the fair value changes mainly related to EPD. 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. In 2020, revisions to EPD's forecast due to delays in commercialization caused by the need to do more work on the maturity of the technology, resulted in a EUR 101 million decrease in the respective fair value of the contingent consideration. For more details of the EPD contingent consideration refer to Fair value of financial assets and liabilities, starting on page 196.

The company expects the provisions to be utilized mainly within the next three years.

Other provisions

Philips Group
Other provisions in millions of EUR

	2020	2021
Balance as of January 1	392	372
Additions	161	89
Utilizations	(109)	(87)
Releases	(49)	(29)
Accretion	(1)	(5)
Translation differences and other	(21)	9
Balance as of December 31	**372**	**349**

The main elements of other provisions are:

- provisions for possible taxes/social security of EUR 37 million (2020: EUR 39 million);
- provisions for onerous contracts of EUR 12 million (2020: EUR 24 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. For more details refer to COVID-19, starting on page 148.
- provisions for employee jubilee funds EUR 94 million (2020: EUR 92 million);
- self-insurance provisions of EUR 43 million (2020: EUR 45 million);
- provisions for decommissioning costs of EUR 33 million (2020: EUR 30 million);
- provisions for rights of return of EUR 40 million (2020: EUR 36 million);
- the releases in 2020 and 2021 are due to the reassessment of the positions in other provisions throughout the year;
- the remaining provisions relate to a variety of positions, for example provision for disability of employees and provision for royalty obligations.

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.

41 Post-employment benefits

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.

Philips Group
Post-employment benefits in millions of EUR

	Germany		United States		Other Countries		Total	
	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**
Present value of funded DBO	(649)	(606)	(568)	(558)	(304)	(206)	(1,521)	(1,370)
Present value of unfunded DBO	(344)	(316)	(141)	(149)	(147)	(135)	(633)	(600)
Total present value of DBO	**(993)**	**(921)**	**(709)**	**(708)**	**(451)**	**(341)**	**(2,153)**	**(1,970)**
Fair value of plan assets	543	572	613	623	247	185	1,403	1,380
Net position	**(450)**	**(349)**	**(95)**	**(84)**	**(205)**	**(157)**	**(750)**	**(590)**

The classification of the net position is as follows:

Philips Group
Classification net position in millions of EUR

	Germany		United States		Other Countries		Total	
	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**
Total asset for plans in a surplus		3	46	65		1	46	69
Total liability for plans in a deficit	(450)	(352)	(141)	(149)	(205)	(157)	(797)	(659)
Provisions for post-employment benefit plans under AHFS								
Net position	**(450)**	**(349)**	**(95)**	**(84)**	**(205)**	**(157)**	**(750)**	**(590)**

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 our 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

	2019	2020	2021
Defined-benefit plans	56	74	36
- included in income from operations	32	59	28
- included in financial expense	22	13	8
- included in Discontinued operations	1	1	1
Defined-contribution plans	346	366	375
- included in income from operations	338	358	368
- included in Discontinued operations	8	8	7
Post-employment benefits costs	**401**	**440**	**411**

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

	2020	2021
Balance as of January 1	3,350	2,153
Service cost	39	36
Interest cost	71	33
Employee contributions	15	7
Actuarial (gains) / losses		
- demographic assumptions	16	3
- financial assumptions	163	(86)
- experience adjustment	39	(6)
(Negative) past service cost	2	(5)
Settlements	(1,185)	(90)
Benefits paid from plan	(221)	(95)
Benefits paid directly by employer	(35)	(33)
Translation differences and other	(100)	52
Balance as of December 31	**2,153**	**1,970**

Philips Group
Plan assets in millions of EUR

	2020	2021
Balance as of January 1	2,526	1,403
Interest income on plan assets	58	25
Admin expenses paid	(1)	(1)
Return on plan assets excluding interest income	268	44
Employee contributions	15	7
Employer contributions	34	33
Settlements	(1,205)	(86)
Benefits paid from plan	(221)	(96)
Translation differences and other	(71)	50
Balance as of December 31	**1,403**	**1,380**

The settlement amounts mainly relate to the execution of a lump-sum window and annuity purchase program during 2020 regarding the US funded pension plan (2020) and to the transfer of the provident fund plan into the government provident fund in India (2021).
The net impact of the transfer of the divestment of the Domestic Appliances business on the post-employment benefit liability amounts to EUR 12 million and is presented under 'Translation differences and other' in 2021.

Plan assets allocation

The asset allocation in the company's DB plans at December 31 was as follows:

Philips Group
Plan assets allocation in millions of EUR

	2020	2021
Assets quoted in active markets		
- Debt securities	782	790
- Equity securities		
- Other	175	195
Assets not quoted in active markets		
- Debt securities	7	1
- Equity securities	133	122
- Other	307	272
Total assets	**1,403**	**1,380**

The plan assets in 2021 contain 29% (2020: 32%) unquoted plan assets. Plan assets in 2021 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	
	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**
Discount rate	0.6%	1.1%	2.3%	2.6%	2.2%	2.1%	1.5%	1.8%
Inflation rate	1.6%	1.8%	2.0%	2.2%	1.7%	2.0%	1.7%	2.0%
Salary increase	2.5%	2.5%	0.0%	0.0%	2.7%	2.9%	2.5%	2.6%

The company changed the methodology for setting discount rates in 2021. As of December 31, 2021, Philips uses the Mercer yield curve methodology for setting the discount rate. The change of discount rate methodology is treated as a change in accounting estimate. The impact on the DBO amounts to a decrease of EUR 11 million and the impact on the current service cost amounts to a decrease lower than EUR 1 million. The impact of the change in accounting estimate has been estimated as of December 31, 2021.

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 11 years (Germany: 11, United States: 12, and Other countries: 11) as of December 31, 2021 (2020: 12 years).

Philips Group
Sensitivity of key assumptions in millions of EUR

	2020	**2021**
Increase		
Discount rate (1% movement)	(226)	(196)
Inflation rate (1% movement)	86	99
Salary increase (1% movement)	16	19
Longevity [1]	51	48
Decrease		
Discount rate (1% movement)	265	241
Inflation rate (1% movement)	(78)	(83)
Salary increase (1% movement)	(19)	(18)

[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 2022

The company expects considerable cash outflows in relation to post-employment benefits which are estimated to amount to EUR 457 million in 2022, consisting of:

- EUR 23 million employer contributions to funded DB plans (Germany: EUR 13 million, United States: EUR 0 million, Other Countries: EUR 10 million);
- EUR 40 million cash outflows in relation to unfunded DB plans (Germany: EUR 19 million, United States: EUR 10 million, Other Countries: EUR 11 million); and
- EUR 394 million employer contributions to DC plans (Netherlands: EUR 194 million, United States: EUR 139 million, Other Countries: EUR 61 million).

The service and administration cost for 2022 is expected to amount to EUR 34 million for DB plans. The net interest cost for 2022 for the DB plans is expected to amount to EUR 9 million. The cost for DC pension plans in 2022 is equal to the expected DC cash flow.

23 Accrued liabilities

Accrued liabilities are summarized as follows:

Philips Group
Accrued liabilities in millions of EUR

	2020	2021
Personnel-related costs:		
- Salaries and wages	614	566
- Accrued holiday entitlements	124	127
- Other personnel-related costs	78	108
Fixed-asset-related costs:		
- Gas, water, electricity, rent and other	21	33
Communication and IT costs	64	82
Distribution costs	93	122
Sales-related costs:		
- Commission payable	10	7
- Advertising and marketing-related costs	197	175
- Other sales-related costs	20	20
Material-related costs	103	130
Interest-related accruals	52	52
Other accrued liabilities	302	362
Accrued liabilities	**1,678**	**1,784**

24 Other liabilities

Other non-current liabilities

Non-current liabilities were EUR 56 million as of December 31, 2021 (December 31, 2020: EUR 74 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

	2020	2021
Accrued customer rebates that cannot be offset with accounts receivables for those customers	412	280
Other taxes including social security premiums	253	190
Other liabilities	119	116
Other current liabilities	**785**	**587**

Contract liabilities

Non-current contract liabilities were EUR 446 million as of December 31, 2021 (December 31, 2020: EUR 403 million) and current contract liabilities were EUR 1,491 million as of December 31, 2021 (December 31, 2020: EUR 1,239 million).

The current contract liabilities increased with EUR 251 million. The year-on-year change is mainly driven by increase in deferred balance for customer service contracts.

The current contract liabilities as of December 31, 2020 resulted in revenue recognized of EUR 1,239 million in 2021.

25 Cash flow statement supplementary information

Cash paid for leases

In 2021, gross lease payments of EUR 308 million (2020: EUR 325 million; 2019: EUR 281 million) included interest of EUR 25 million (2020: EUR 29 million; 2019: EUR 26 million).

Net cash used for derivatives and current financial assets

In 2021, a total of EUR 48 million cash was received with respect to foreign exchange derivative contracts related to activities for liquidity management and funding (2020: EUR 13 million outflow; 2019: EUR 166 million outflow).

Purchase and proceeds from non-current financial assets

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.

In 2019, the net cash inflow of EUR 99 million was mainly due to the sale of the company's investment in Corindus Vascular Robotics and other stakes, partly offset by an outflow due to capital contributions into investment funds.

Philips Group

Reconciliation of liabilities arising from financing activities in millions of EUR

	Balance as of Dec. 31, 2020	Cash flow	Currency effects and consolidation changes	Other [1]	**Balance as of Dec. 31, 2021**
Long term debt [2]	**6,857**	**(226)**	**200**	**101**	**6,933**
USD bonds	1,210		103		1,313
EUR bonds	3,229			4	3,233
Bank borrowings	205	(1)			203
Other long-term debt	16	14			30
Leases	1,216	(239)	98	145	1,220
Forward contracts [3]	982			(48)	934
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 leases, which is part of cash flows from operating activities

[2] Long-term debt includes the current portion of long-term debt, and short-term debt excludes the current portion of long-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 Dec. 31, 2019	Cash flow	Currency effects and consolidation changes	Other [1]	Balance as of Dec. 31, 2020
Long term debt [2]	**5,355**	**767**	**(180)**	**916**	**6,857**
USD bonds	1,328		(117)		1,210
EUR bonds	2,234	991		3	3,229
Bank borrowings	206		(2)		205
Other long-term debt	17	(1)		1	16
Leases	1,381	(223)	(61)	119	1,216
Forward contracts [3]	188			793	982
Short term debt [2]	**92**	**16**	**(32)**		**76**
Short-term bank borrowings	92	15	(32)		76
Other short-term loans		1			1
Forward contracts [3]					
Equity	**(390)**	**(300)**		**(491)**	**(1,181)**
Dividend payable		(2)		2	
Forward contracts [3]	(188)			(793)	(982)
Treasury shares	(201)	(298)		299	(199)
Total		**483**			

[1] Besides non-cash, other includes interest paid on finance leases, which is part of cash flows from operating activities

[2] In the 2019 opening balance sheet, EUR 803 million of lease liabilities were recognized due to the implementation of IFRS 16.

[3] The forward contracts are related to the share buyback program and LTI plans

Contingent assets and liabilities

Contingent assets
As per December 31, 2021, the company had no material contingent assets.

Contingent liabilities

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 total fair value of guarantees recognized on the balance sheet amounts to EUR nil million for both 2021 and 2020. Remaining off-balance-sheet business related guarantees on behalf of third parties and associates decreased by EUR 14 million during 2021 to EUR 2 million (December 31, 2020: EUR 16 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.

Cathode Ray Tubes (CRT)
Following the public investigations into alleged anticompetitive activities in the Cathode Ray Tubes industry that began in 2007, certain Philips Group companies were named as defendants in numerous (class action) lawsuits in the United States, Canada, Germany, the Netherlands, Denmark, the United Kingdom, Turkey, and Israel. Plaintiffs in these cases varied from classes of indirect and direct purchasers, state attorneys general, electronics retailers and television and monitor manufacturers.

By the end of 2021, resolutions have been reached in most of these cases. Litigation is still pending or threatened in relation to: (i) potential claims that may be filed by certain objectors to the original US indirect purchaser class settlement that was finally approved in 2021 (ii) a claim filed by the state attorney general for Puerto Rico, (iii) a claim filed by a monitor manufacturer in the UK, (iv) a consumer class action in Israel and (v) a consumer action in the Netherlands.

In all cases, the same substantive allegations about anticompetitive activities in the CRT industry are made and damages are sought. Despite prior settlements, the company has concluded that due to the specific circumstances in the cases that settled, and the particularities and considerable uncertainty associated with the remaining matters, based on current knowledge, potential losses cannot be reliably estimated with respect to the matters that are still pending.

In 2019, the company was served with a claim filed by LG Electronics (LGE) in the Seoul Central District Court. LGE claimed restitution of approximately EUR 210 million, representing a portion of the fine that LGE paid to the European Commission relating to the joint venture LG. Philips Displays for which LGE and the Company were jointly and severally liable. LGE alleges that based on the manner in which the fine was calculated, the company should have paid proportionally more than it currently has. In November 2020, the Seoul Central District Court dismissed LGE's case which decision was confirmed by the Seoul High Court on December 23, 2021.

Public Investigations
The company is engaged in discussions with, and has provided information to, the United States Securities & Exchange Commission (SEC) and 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 potential compliance findings that the company is addressing in China and Bulgaria.

In 2020, the company entered into a leniency agreement with the Brazilian public prosecution service for historic transactions involving tender irregularities in Brazil. An investigation by CADE, the Brazilian competition authority, focused on these transactions remains ongoing. The Brazilian matters are part of the discussions with the SEC and DoJ.

Given the significant uncertainty regarding the nature of the relevant events and obligations, Philips is not currently able to reliably estimate the financial effect of a range of possible outcomes in connection with these matters. 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 Bi-Level PAP, CPAP, and mechanical ventilator devices.

FDA inspection
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. Should the FDA decide that Philips Respironics' written response and/or actions are not timely or sufficient to address the FDA's inspectional observations, the FDA may take additional enforcement action, which may include monetary penalties.

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, as of December 31, 2021, approximately 100 consumer class action lawsuits and 1 commercial class action lawsuit had been filed alleging economic loss and/or medical monitoring claims. In addition, as of December 31, 2021, approximately 120 personal injury lawsuits had been filed in the United States. 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.

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. Philips Respironics and certain of its affiliates (including the company) are also defendants in consumer class action lawsuits in Canada and Israel 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 individual lawsuits and the cost to resolve them cannot currently be determined due to a number of variables, including claimant-specific information that is not yet available. In addition, the company cannot reasonably predict the number of claims that may be asserted in the future in relation to this matter. 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 class action
On August 16, 2021, a securities class action complaint was filed against the company, its 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. The amended complaint focuses on share price declines that allegedly occurred as a result of disclosures included in the Q1 2021 earnings release on April 26, 2021, the voluntary recall notification on June 14, 2021, the Q2 2021 earnings release on July 26, 2021, and the publication of the form 483 observations by the FDA on November 12, 2021. The Company's motion to dismiss is currently due in the first quarter of 2022.

It is the company's assessment that it is possible but not probable that the case could lead to a certain outflow of economic resources. An adverse outcome of this case 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. The company believes that the claim is without merit and will vigorously defend itself.

It is possible that additional related claims, including from customers or business partners regarding alleged economic losses suffered as a consequence of the voluntary recall, may be filed against Philips Respironics or other Philips entities in the future. In particular, Philips Respironics is engaging with certain customers on the level of compensation they allege to be entitled to under Philips Respironics' repair and replacement program.

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 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 199.

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

	2019	2020	2021
Sales of goods and services	158	204	116
Purchases of goods and services	53	57	41
Receivables from related parties	32	37	40
Payables to related parties	2	1	2

In the previous table, sales transactions between Philips and PMC are included amounting to EUR 106 million in 2021 (2020: EUR 191 million; 2019: EUR 150 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 162 million in 2021 (2020: EUR 242 million; 2019: EUR 235 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 193.

For Post-employment benefit plans see Post-employment benefits, starting on page 182.

Share-based compensation

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 116 million (2020: EUR 121 million; 2019: EUR 105 million). This includes the employee stock purchase plan of EUR 7 million, which is not a share-based compensation that affects equity . In the Consolidated statements of changes in equity EUR 110 million is recognized in 2021 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 (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 43).

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 and 2021 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 2021 grants:

- Risk-free rate: (0.69)%
- Expected share price volatility: 28%

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, 2021 and changes during the year are presented in the following table:

Philips Group
Performance shares

	shares	weighted average grant-date fair value
EUR-denominated		
Outstanding at January 1, 2021	3,545,312	41.31
Granted	1,121,001	50.73
Notional dividends [1]	62,872	45.22
Vested/Issued	1,466,223	39.18
Forfeited	272,873	45.90
Adjusted quantity [2]	107,624	37.67
Outstanding at December 31, 2021	**3,097,713**	**45.28**
USD-denominated		
Outstanding at January 1, 2021	2,412,767	47.10
Granted	693,918	61.32
Notional dividends [1]	41,324	51.42
Vested/Issued	947,772	47.48
Forfeited	268,500	51.29
Adjusted quantity [2]	73,264	50.06
Outstanding at December 31, 2021	**2,005,000**	**51.48**

[1] Dividend declared in 2021 on outstanding shares.

[2] Adjusted quantity includes the adjustments made to Performance shares outstanding due to updates on the actual and expected EPS.

As of December 31, 2021, a total of EUR 110 million of unrecognized compensation costs relate to non-vested performance shares (as of December 31, 2020 EUR 116 million; as of December 31, 2019 EUR 106 million). These costs are expected to be recognized over a weighted-average period of 1.89 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, 2021 and changes during the year are presented in the following table:

Philips Group
Restricted shares

	shares	weighted average grant-date fair value
EUR-denominated		
Outstanding at January 1, 2021	1,813,385	36.20
Granted	631,347	44.41
Notional dividends [1]	33,430	39.69
Vested/Issued	671,703	33.96
Forfeited	187,648	40.19
Cancelled	323	35.72
Outstanding at December 31, 2021	**1,618,488**	**39.93**
USD-denominated		
Outstanding at January 1, 2021	1,649,847	41.14
Granted	721,469	53.42
Notional dividends [1]	30,551	44.99
Vested/Issued	584,833	40.64
Forfeited	206,013	46.09
Outstanding at December 31, 2021	**1,611,021**	**46.26**

[1] Dividend declared in 2021 on outstanding shares.

At December 31, 2021, a total of EUR 66 million of unrecognized compensation costs relate to non-vested restricted shares (at December 31, 2020 EUR 62 million; at December 31, 2019 EUR 59 million). These costs are expected to be recognized over a weighted-average period of 1.8 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, 2021.

The following tables summarize information about the Company's options as of December 31, 2021 and changes during the year:

Philips Group
Options on EUR-denominated listed share

	options	weighted average exercise price
Outstanding at January 1, 2021	491,914	17.10
Exercised	233,265	19.03
Expired	19,572	20.48
Outstanding at December 31, 2021	**239,077**	**14.93**
Exercisable at December 31, 2021	**239,077**	**14.93**

The exercise prices range from EUR 14.82 to EUR 23.23. The weighted average remaining contractual term for options outstanding and options exercisable at December 31, 2021, was 0.3 years. The aggregate intrinsic value of the options outstanding and options exercisable at December 31, 2021, was EUR 4 million.

The total intrinsic value of options exercised during 2021 was EUR 6 million (2020: EUR 9 million, 2019: EUR 13 million).

Philips Group
Options on USD-denominated listed share

	options	weighted average exercise price
Outstanding at January 1, 2021	387,177	23.72
Exercised	220,662	26.12
Expired	16,350	27.83
Outstanding at December 31, 2021	**150,165**	**19.75**
Exercisable at December 31, 2021	**150,165**	**19.75**

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, 2021, was 0.3 years. The aggregate intrinsic value of the options outstanding and options exercisable as of December 31, 2021, was 3 million.

The total intrinsic value of options exercised during 2021 was USD7 million (2020; USD 11 million, 2019: USD 11 million).

At December 31, 2021 there were no unrecognized compensation costs related to outstanding options. Cash received from exercises under the Company's option plans amounted to EUR 9 million in 2021 (2020: EUR 21 million, 2019: EUR 28 million), The actual tax deductions realized as a result of USD option exercises totaled approximately 1 million in 2021 (2020: EUR 3 million, 2019: EUR 2 million).

The outstanding options as of December 31, 2021 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	229,660	4.1	0.3
15-20	8,100	0.1	0.5
20-25	1,317		1.0
Outstanding options	**239,077**	**4.3**	**0.3**
USD-denominated			
15-20	143,415	2.5	0.3
20-25	3,600	0.1	0.4
25-30			
30-35	3,150		0.9
Outstanding options	**150,165**	**2.6**	**0.3**

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 2021 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, 2021.

The following table summarizes information about the Company's Accelerate! options as of December 31, 2021 and changes during the year:

Philips Group
Accelerate! options

	options	weighted average exercise price
EUR-denominated		
Outstanding at January 1, 2021	163,200	17.66
Exercised	26,225	15.24
Outstanding at December 31, 2021	**136,975**	**18.13**
Exercisable at December 31, 2021	**136,975**	**18.13**
USD-denominated		
Outstanding at January 1, 2021	37,800	20.02
Exercised	20,300	20.02
Expired		
Outstanding at December 31, 2021	**17,500**	**20.02**
Exercisable at December 31, 2021	**17,500**	**20.02**

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 at December 31, 2021 was 0.5 years. The weighted average remaining contractual term for USD-Accelerate! options outstanding and exercisable at December 31, 2021 was 0.1 years. The aggregate intrinsic value of the EUR-denominated Accelerate! options outstanding and exercisable at December 31, 2021, was EUR 2 million. The aggregate intrinsic value of the USD-denominated Accelerate! options outstanding and exercisable at December 31, 2021 was USD 0.30 million.

The total intrinsic value of Accelerate! options exercised during 2021 was EUR 0.7 million for EUR-denominated options (2020: EUR 1.6 million, 2019: EUR 2 million) and USD 0.7 million for USD-denominated options (2020: USD 0.9 million, 2019: USD 1 million).

Cash received from exercises for EUR-denominated and USD-denominated Accelerate! options amounted to EUR 0.7 million in 2021 (2020: EUR 1.4 million, 2019: EUR 2 million). The actual tax deductions realized as a result of Accelerate! USD options exercises totaled approximately EUR 0.1 million in 2021 (2020: EUR 0.1 million, 2019: EUR 0.2 million).

*) Executive Committee members can receive restricted share rights as a sign-on LTI awards upon hiring.

Information on remuneration

Remuneration of the Executive Committee

In 2021, the total remuneration costs relating to the members of the Executive Committee (consisting of 16 members throughout the year, including the members of the Board of Management) amounted to EUR 33.4 million (2020: EUR 33.2 million; 2019: EUR 30.0 million) consisting of the elements in the following table.

Philips Group
Remuneration costs of the Executive Committee [1] in EUR

	2019	2020	2021
Base salary/Base compensation	9,241,364	9,299,794	9,598,588
Annual incentive [2]	5,566,763	6,726,768	5,250,408
Performance shares [3] [4]	11,143,320	13,153,975	12,610,073
Restricted share rights [3]	168,404	288,372	1,380,644
Pension allowances [5]	2,076,834	2,054,570	2,107,953
Pension scheme costs	440,003	382,513	306,694
Other compensation [6]	1,331,990	1,264,908	2,104,044
Total	**29,968,678**	**33,170,901**	**33,358,405**

[1] The Executive Committee consisted of 13 members as per December 31, 2021 (2020: 15 members; 2019: 14 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] For 2021, a release of EUR 0 (2020: EUR 554,437; 2019: EUR 0) is included due to non-vesting of performance shares

[5] Pension allowances are gross taxable allowances paid to the Executive Committee members in the Netherlands. These allowances are part of the pension arrangement

[6] 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

At December 31, 2021, the members of the Executive Committee (including the members of the Board of Management) held 184,900 (2020: 193,300; 2019: 291,520) stock options at a weighted average exercise price of EUR 17.15 (2020: EUR 17.31; 2019: EUR 18.61).

Remuneration of the Board of Management

In 2021, the total remuneration costs relating to the members of the Board of Management amounted to EUR 10.3 million (2020: EUR 11.4 million; 2019: EUR 9.7 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 compensation	total costs
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**
2019								
F.A. van Houten	1,295,000	1,091,800	2,235,166	-	559,052	26,380	52,713	5,260,111
A. Bhattacharya	770,000	517,472	995,483	-	230,006	26,380	63,265	2,602,606
M.J. van Ginneken	571,250	335,685	713,815	-	171,018	26,380	38,278	1,856,426
	2,636,250	**1,944,957**	**3,944,464**	**-**	**960,076**	**79,140**	**154,256**	**9,719,143**

[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.

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, 2021	accumulated annual pension as of December 31, 2021	total pension related costs
F.A. van Houten	61	331,208	592,865
A. Bhattacharya	60	35,102	261,319
M.J. van Ginneken	48	48,015	178,217
Pension costs			**1,032,402**

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 2021, 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 1.3 million (2020: EUR 1.3 million; 2019: 1.2 million). Former members received no remuneration.

The members of the Supervisory Board do not receive any share-based remuneration. Therefore, at December 31, 2021 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
2021				
F. Sijbesma	141,301	27,808	8,237	177,346
P.A.M. Stoffels	109,863	27,808	4,769	142,440
J. van der Veer	53,507	12,082	3,916	69,505
C.A. Poon	39,699	16,915	783	57,397
N. Dhawan	100,000	18,000	2,269	120,269
O. Gadiesh	34,521	4,833	783	40,137
D.E.I. Pyott	100,000	36,370	2,269	138,639
A.M. Harrison	100,000	14,000	2,269	116,269
M.E. Doherty	100,000	27,000	4,769	131,769
P. Löscher	100,000	32,000	4,769	136,769
I. Nooyi	100,000	14,000	2,269	116,269
S.K. Chua	65,753	11,836	1,492	79,081
	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
N. Dhawan	100,000	18,000	7,269	125,269
O. Gadiesh	100,000	14,000	2,269	116,269
D.E.I. Pyott	100,000	42,000	12,269	154,269
P.A.M. Stoffels	100,000	9,333	9,769	119,102
A.M. Harrison	100,000	14,000	2,269	116,269
M.E. Doherty	100,000	24,000	9,769	133,769
P. Löscher	66,667	21,333	1,513	89,513
F. Sijbesma	76,667	9,333	1,513	87,513
	1,013,333	**236,000**	**65,254**	**1,314,587**
2019				
J. van der Veer	155,000	35,000	7,000	197,000
C.A. Poon	115,000	50,167	22,000	187,167
H.N.F.M. von Prondzynski	33,333	16,333	5,667	55,333
J.P. Tai	25,000	10,250	5,500	40,750
N. Dhawan	100,000	18,000	27,000	145,000
O. Gadiesh	100,000	19,833	12,000	131,833
D.E.I. Pyott	100,000	41,500	17,000	158,500
P.A.M. Stoffels	100,000	-	14,500	114,500
A.M. Harrison	100,000	9,333	12,000	121,333
M.E. Doherty	41,667	1,500	8,333	51,500
	870,000	**201,916**	**131,000**	**1,202,916**

[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, 2020	December 31, 2021
F.A. van Houten	424,029	525,761
A. Bhattacharya	123,077	148,365
M.J. van Ginneken	88,996	110,528

[1] Reference date for board membership is December 31, 2021.
[2] The total shares held by the members of the Board of Management is less than 1% of the company's issued share capital.

Fair value of financial assets and liabilities

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.

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. As reflected in the following table, equity instruments carried at FVTOCI were designated as such upon the adoption of IFRS 9 and upon initial measurement of new equity instruments. Remaining financial assets are mandatorily classified as FVTPL or FVTOCI.

Philips Group
Fair value of financial assets and liabilities in millions of EUR 2021

	carrying amount	estimated fair value [1]	Level 1	Level 2	Level 3
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 FVTPL	**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**				
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.

Philips Group
Fair value of financial assets and liabilities in millions of EUR 2020

	carrying amount	estimated fair value [1]	Level 1	Level 2	Level 3
Financial assets					
Carried at fair value:					
Debt instruments	207	207			207
Equity instruments	5	5	5		
Other financial assets	36	36		30	5
Financial assets carried at FVTPL	**248**	**248**	**5**	**30**	**212**
Debt instruments	27	27		27	-
Equity instruments	119	119	12		107
Current financial assets	-	-			
Receivables - current	91	91			91
Financial assets carried at FVTOCI	**237**	**237**	**12**	**27**	**198**
Derivative financial instruments	111	111		111	
Financial assets carried at fair value	**596**	**596**	**17**	**168**	**411**
Carried at (amortized) cost:					
Cash and cash equivalents	3,226				
Loans and receivables:					
Current loans receivables	-				
Other non-current loans and receivables	37				
Receivables - current	4,065				
Receivables - non-current	230				
Financial assets carried at (amortized) cost	**7,558**				
Total financial assets	**8,154**				

	carrying amount	estimated fair value [1]	Level 1	Level 2	Level 3
Financial liabilities					
Carried at fair value:					
Contingent consideration	(318)	(318)			(318)
Financial liabilities carried at FVTP&L	**(318)**	**(318)**			**(318)**
Derivative financial instruments	(163)	(163)		(163)	
Financial liabilities carried at fair value	**(481)**	**(481)**		**(163)**	**(318)**
Carried at (amortized) cost:					
Accounts payable	(2,119)				
Interest accrual	(52)				
Debt (Corporate bonds and leases)	(5,655)	(6,431)	(5,216)	(1,216)	
Debt (excluding corporate bonds and leases)	(1,279)				
Financial liabilities carried at (amortized) cost	**(9,104)**				
Total financial liabilities	**(9,585)**				

[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 fair value of Philips' debt is estimated on the basis of the quoted market prices for certain issuances, or on the basis of discounted cash flow analysis based upon 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.

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.

Philips recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

As part of the EPD acquisition Philips may be required 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 this contingent consideration provision was 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 are ranging from 8 to 9 percent and 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. For further information on this and other contingent consideration provisions, refer to Provisions, starting on page 179.

A sensitivity analysis of the EPD contingent consideration provision at December 31, 2021 shows that if the probabilities of success for regulatory milestones are increased by 10 percentage points, with all other variables (including foreign exchange rates) held constant, the fair value of the provision would increase by approximately 11%. Similarly, a decrease in the probabilities of success for regulatory milestones by 10 percentage points would reduce the fair value by approximately 11%. If the discount rates for commercial milestones were to increase instantaneously by 100 basis points from the assumption at December 31, 2021, with all other variables (including foreign exchange rates) held constant, the fair value of the provision would decrease by approximately 4%, while a decrease in the discount rates of 100 basis points would increase the fair value by approximately 4%.

In 2021 the impact of COVID-19 has gradually reduced, however there continues to be uncertainty and volatility related to the impact of the pandemic, including global supply chain challenges. Where relevant, the estimated impact of the COVID-19 pandemic, supply chain challenges and resulting uncertainties have been reflected in the forecasts used as a basis for the fair value of contingent consideration.

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, 2021	411	318
Acquisitions		16
Purchase	113	
Sales	(122)	
Utilizations		(48)
Recognized in profit and loss:		
other business income		(87)
financial income and expenses [1]	98	1
Recognized in other comprehensive income [2]	12	9
Receivables held to collect and sell	(25)	
Reclassification from associates	36	
Balance as of December 31, 2021	**523**	**208**

[1] Refer to Financial income and expenses, starting on page 160 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, 2020	212	354
Acquisitions		70
Purchase	127	
Sales	(60)	
Utilizations		(15)
Recognized in profit and loss:		
other business income		(93)
financial income and expenses	129	6
Recognized in other comprehensive income [1]	(8)	(6)
Receivables held to collect and sell	11	
Balance as of December 31, 2020	**411**	**318**

[1] Includes translation differences

The following section elaborates on transactions in derivatives. 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

	2020	2021
Derivatives		
Gross amounts of recognized financial assets	111	63
Gross amounts of recognized financial liabilities offset in the balance sheet		
Net amounts of financial assets presented in the balance sheet	**111**	**63**
Related amounts not offset in the balance sheet		
Financial instruments	(55)	(47)
Cash collateral received		
Net amount	**57**	**17**

Philips Group
Financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements in millions of EUR

	2020	2021
Derivatives		
Gross amounts of recognized financial liabilities	(163)	(202)
Gross amounts of recognized financial assets offset in the balance sheet		
Net amounts of financial liabilities presented in the balance sheet	**(163)**	**(202)**
Related amounts not offset in the balance sheet		
Financial instruments	55	47
Cash collateral received		
Net amount	**(109)**	**(155)**

Details of treasury and other financial risks

Philips is exposed to several types of financial risks. This note further analyzes financial risks. 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 196.

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. At December 31, 2021, Philips had EUR 2,303 million in cash and cash equivalents (2020: EUR 3,226 million), within which short-term deposits of EUR 1,357 million (2020: EUR 1,983 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.

Furthermore, Philips has a USD 2.5 billion Commercial Paper Program and a EUR 1.0 billion committed standby revolving credit facility that can be used for general group purposes, such as a backstop for its Commercial Paper Program. Philips issued commercial paper of EUR 300 million in May and EUR 150 million in July, that was repaid in September 2021. The facility does not have a material adverse change clause, has no financial covenants and no credit-rating-related acceleration possibilities. As of December 31, 2021, Philips did not have any loans outstanding under either facility. As per 9 March 2020, Philips has 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 2021, Philips did not issue any new notes under the program. For a description of Philips' credit facilities, refer to Debt, starting on page 177.

In addition to cash and cash equivalents, at December 31, 2021, Philips also held EUR 67 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, 2021. 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 vary from those presented in the following table:

Philips Group
Contractual cash obligations [1] [2] in millions of EUR

		payments due by period			
	total	less than 1 year	1-3 years	3-5 years	after 5 years
Long-term debt [3]	7,233	246	1,995	1,924	3,068
Lease obligations	1,333	280	397	238	417
Short-term debt	47	47			
Derivative liabilities	208	87	121		
Purchase obligations [4]	654	237	305	99	12
Trade and other payables	1,872	1,872			
Contractual cash obligations	**11,347**	**2,768**	**2,819**	**2,261**	**3,498**

[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] Long-term debt includes interest and the current portion of long-term debt and excludes lease obligations.

[4] 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 104 million (2020: EUR 132 million). As at December 31, 2021 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 . At December 31, 2021 approximately EUR 139 million (2020: EUR 227 million)of the Philips account payable were transferred under these arrangements.

With respect to the Respironics field action, please refer to Contingent assets and liabilities, starting on page 188. 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 381 million. In addition, the company is committed to leases not yet commenced to EUR 91 million. The company's lease contracts do not contain financial covenants.

The company enters into sale and lease back 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 2021 were EUR 85 million (2020: EUR 112 million). The remaining minimum payment under sales-and-leaseback arrangements included in lease obligations above are as follows:

Philips Group
Lease - minimum payments under sale-and-leaseback arrangements in millions of EUR

2022	72
2023	51
2024	33
2025	17
2026	8
Thereafter	21

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 on December 31, 2021 was EUR 0.2 million (2020: 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, 2021:

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, 2021				
Exposure currency				
USD	2,168	(1,614)	(1,030)	958
JPY	665	(306)	(11)	10
GBP	338	(179)	(11)	11
CNY	624	(433)	(83)	71
CAD	338	(173)		
PLN	70	(31)		
AUD	240	(122)		
CHF	124	(57)	(2)	2
CZK	63	(29)		
SEK	71	(30)	(1)	1
RUB	125	(113)	(2)	2
Others	306	(275)	(419)	267
Total 2021	**5,131**	**(3,363)**	**(1,559)**	**1,322**
Total 2020	4,707	(3,150)	(1,488)	1,267

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. 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, 2021, a loss of EUR 25 million was deferred in equity as a result of these hedges (2020: EUR 23 million gain). The result deferred in equity will be released to earnings mostly during 2022 at the time when the related hedged transactions affect the income statement. During 2021, EUR nil million (2020: 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 2021, a gain of EUR 30 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, 2021, was an unrealized liability of EUR 27 million. The estimated impact of a 10% increase of value of the EUR is estimated to be EUR 137 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

	2020	2021
USD	71	78
JPY	17	13
GBP	15	14
CHF	6	5
PLN	8	3
RUB	8	10

The EUR 137 million increase includes a gain of EUR 17 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 119 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 1,078 million mainly relates to the development of the USD versus the EUR. At December 31, 2021, 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 1,383 million. Refer to the country risk paragraph for countries with significant foreign currency denominated equity invested.

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 our 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.

As of December 31, 2020, cross-currency interest rate swaps for a nominal value of USD 500 million (liability at fair value: EUR 83 million) and external bond funding for a nominal value of USD 1,473 million (liability at book value: EUR 1,210 million) were designated as net investment hedges of our financing investments in foreign operations for an equal amount. During 2020 a total gain of EUR 0.2 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, 2020, was a liability of EUR 83 million. An instantaneous 10% increase in the value of the EUR against all currencies would lead to an increase of EUR 53 million in the value of the derivatives, including a EUR 86 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. Philips had, at year-end, outstanding debt of EUR 6,980 million (2020: EUR 6,934 million), which constitutes an inherent interest rate risk with potential negative impact on financial results. At year-end, Philips held EUR 2,303 million in cash and cash equivalents (2020: EUR 3,226 million), and had total long-term debt of EUR 6,473 million (2020: EUR 5,705 million) and total short-term debt of EUR 506 million (2020: EUR 1,229 million) At December 31, 2021, Philips had a ratio of fixed-rate long-term debt to total outstanding debt of approximately 90% compared to 79% one year earlier. Philips debt has a long maturity profile with an average tenor of long-term debt of 6.0 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 debt [1] and interest rate sensitivity in millions of EUR

	2020	2021
Impact 1% interest increase on the fair value of the fixed-rate long-term debt [2,3]	(345)	(297)
Impact 1% interest decrease on the fair value of the fixed-rate long-term debt [2,3]	346	298
Impact 1% interest increase on the annualized net interest expense [4]	28	20

[1] The definition of this non-IFRS measure and a reconciliation to the IFRS measure is included in Equity, starting on page 174

[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, 2021, 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) at December 31, 2021.

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 evaluated the implications of such a phase out. The Company has no interest rate hedging relationships which get affected by the reform and do 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 due to such change in interest rates based on outstanding positions as of December 31, 2021 is booked in income statement during the year 2022 amounting to EUR 1 million loss approximately.

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 67 million at December 31,

2021 (2020: EUR 17 million). Philips does not hold derivatives in the above-mentioned listed companies. Philips also has shareholdings in several privately-owned companies amounting to EUR 210 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, 2021 and 2020, 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, 2021.

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		
A+ rated bank counterparties	1	4	
A rated bank counterparties	1	1	
A- rated bank counterparties	1	2	
	4	**7**	

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 196.

Country risk

Country risk is the risk that political, legal, or economic developments in a single country could adversely impact our 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, 2021, the company had country risk exposure of EUR 13.8 billion in the United States, EUR 1.3 billion in China (including Hong Kong). Other countries higher than EUR 500 million are United Kingdom EUR 799 million, Japan EUR 664 million, The Netherlands EUR 595 million, and Germany EUR 569 million. Other country which have significant exposure is India EUR 305 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 covered 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 5 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 2021 retained EUR 5 million per claim and EUR 10 million in the annual aggregate for general, product and professional liability claims.

New contracts were signed effective December 31, 2021, for the coming year, whereby the re-insurance captive retentions remained unchanged.

Subsequent events

Vesper Medical

On January 11, 2022 Philips completed the acquisition of Vesper Medical Inc, a US-based medical technology company that develops minimally-invasive peripheral vascular devices. The acquisition is part of Philips' Image Guide Therapy segment and expand Philips' portfolio of diagnostic and therapeutic devices with an advanced venous stent portfolio for the treatment of deep venous disease. The upfront purchase price paid involved an amount of EUR 227 million. Due to the recent closing date, additional IFRS disclosures cannot be made until the initial accounting for the business combination, including contingent consideration, has been completed.

Cardiologs

On January 7, 2022 Philips completed the acquisition of Cardiologs Technologies SAS, a France-based medical technology company focused on transforming cardiac diagnostics using artificial intelligence (AI) and cloud technology. The acquisition is part of the Connected Care segment. The acquisition is regarded as not material for disclosure purposes.

11 Company financial statements

Introduction

Statutory financial statements

This section 'Company financial statements' and the section 'Group financial statements' together contain the audited statutory financial statements of Koninklijke Philips N.V. (Royal Philips or 'the Company'). These statements are subject to adoption by the Company's shareholders at the upcoming 2021 Annual General Meeting of Shareholders.

A description of the Company's activities and group structure is included in the Group financial statements, starting on page 126.

Royal Philips has its registered address at High Tech Campus 52, 5656 AG Eindhoven, the Netherlands, and is registered with the trade register of the Dutch Chamber of Commerce under number 17001910.

Please refer to Forward-looking statements and other information, starting on page 235 for more information about forward-looking statements, third-party market share data, fair value information, and revisions and reclassifications.

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. Section 2:362 (8) of the Dutch Civil Code, allows companies that apply IFRS as endorsed by the European Union in their consolidated financial statements to use the same measurement principles in their company financial statements. Royal Philips has prepared these Company financial statements using this provision.

The accounting policies are described in Significant accounting policies, starting on page 135 of the Group financial Statements and are deemed incorporated and repeated herein by reference.

The investments in group companies and associates are presented as financial fixed assets in the balance sheet using the equity method. Goodwill paid upon acquisition of investments in group companies or associates is included in the net equity value of the investment and is not shown separately on the face of the balance sheet. 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.

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 has been prepared before 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

		2020	2021
A	Sales	315	378
	Cost of sales	(24)	(16)
	Gross margin	**291**	**362**
	Selling expenses	(11)	(8)
	General and administrative expenses	(37)	(39)
B	Other business income	94	3,439
C	**Income from operations**	**338**	**3,754**
D	Financial income	367	315
D	Financial expenses	(212)	(256)
	Income before taxes	**493**	**3,813**
E	Income tax expense	(98)	(396)
	Income after tax	**394**	**3,417**
H	Results relating to investments in associates	(6)	(18)
	Net income from group companies	798	(80)
	Net income	**1,187**	**3,319**

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

		2020	2021
	Assets		
	Non-current assets:		
	Property, plant and equipment	1	1
6	Intangible assets	73	47
7	Financial fixed assets	17,571	21,670
	Non-current receivables	83	61
	Deferred tax assets	271	570
10	Other non-current financial assets	246	261
	Other non-current assets	6	5
	Total non-current assets	**18,250**	**22,615**
	Current assets:		
	Current financial assets	-	-
11	Receivables	5,428	5,799
12	Cash and cash equivalents	2,843	1,836
	Total current assets	**8,271**	**7,635**
	Total assets	**26,521**	**30,250**

		2020	2021
13	**Equity**		
	Common shares	182	177
	Capital in excess of par value	4,400	4,646
	Revaluation reserves	(282)	(369)
	Other legal reserves	568	1,770
	Other reserves	5,816	4,895
	Net income	1,187	3,319
	Total equity	**11,870**	**14,438**
	Liabilities		
	Non-current liabilities:		
14	Long-term debt	4,844	5,483
	Long-term provisions	12	3
	Deferred tax liabilities	11	11
	Non-current tax liabilities	51	234
	Other non-current liabilities	147	178
	Total non-current liabilities	**5,065**	**5,909**
	Current liabilities:		
15	Short-term debt	9,344	9,669
16	Other current liabilities	243	233
	Total current liabilities	**9,587**	**9,903**
	Total liabilities and shareholders' equity	**26,521**	**30,250**

Amounts may not add up due to rounding.

11.3 Statement of changes in equity

Koninklijke Philips N.V.
Statement 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	Affiliated companies	Currency translation differences	Retained earnings	Treasury shares	Net income	Shareholders' equity
			Revaluation reserves		Other legal reserves		Other reserves			
Balance as of Dec. 31, 2019	**179**	**3,671**	**(303)**	**(24)**	**713**	**978**	**6,416**	**(201)**	**1,167**	**12,597**
Appropriation of prior year result							1,167		(1,167)	
Net income									1,187	1,187
Net current period change			-	69	(87)	(1,038)	126			(930)
Income tax on net current period change			-	(17)		1				(15)
Reclassification into income				(6)						(6)
Dividend distributed	4	754					(782)			(25)
Minority buy-out										
Transfer of gain on disposal of equity investments at FVTOCI to retained earnings			(2)				2			-
Purchase of treasury shares							-	(130)		(130)
Re-issuance of treasury shares	-	(146)					7	161		23
Forward contracts							(793)	(126)		(920)
Share call options							24	(55)		(31)
Cancellation of treasury shares	(1)						(151)	152		
Share-based compensation plans		116								116
Income tax share-based compensation plans		4								4
Balance as of Dec. 31, 2020	**182**	**4,400**	**(305)**	**23**	**626**	**(58)**	**6,016**	**(199)**	**1,187**	**11,870**

11.3 Statement of changes in equity (continued)

Koninklijke Philips N.V.
Statement 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	Affiliated companies	Currency translation differences	Retained earnings	Treasury shares	Net income	Shareholders' equity
			Revaluation reserves		Other legal reserves		Other reserves			
Balance as of Dec. 31, 2020	**182**	**4,400**	**(305)**	**23**	**626**	**(58)**	**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)	27	1,075	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)
Minority buy-out										
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 on share-based compensation plans		(4)								(4)
Balance as of Dec. 31, 2021	**177**	**4,646**	**(344)**	**(25)**	**654**	**1,117**	**5,371**	**(476)**	**3,319**	**14,438**

Amounts may not add up due to rounding.

11.4 Notes

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

	2020	2021
Other business income (expense) from sale of Philips Domestic Appliances		3,373
Other business income (expense) from sold and deconsolidated businesses	(7)	(42)
Other	101	107
Other business income	**94**	**3,439**

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. The line Other business income (expense) includes the divestment of the Personal Emergency Response Services (PERS) and Senior Living business (renamed from the Aging and Caregiving (ACG) business) and the subsequent results from various sold and deconsolidated businesses. For further details on this transaction, refer to Discontinued operations and assets classified as held for sale, starting on page 152.

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

	2020	2021
Sales	315	378
Costs of materials used	1	1
Employee benefit expenses	(27)	(28)
Depreciation and amortization	(21)	(10)
Advertising and promotion	(4)	(4)
Other operational costs	(20)	(22)
Other business income	94	3,439
Income from operations	**338**	**3,754**

Increase in income from operation mainly comes from increase in Other business income, which is mainly driven by sales of Domestic Appliance business. For more information, refer to Other business income (expense), starting on page 210 and Discontinued operations and assets classified as held for sale, starting on page 152.

For a summary of the audit fees related to the Philips Group, refer to the Group financial statements, starting on page 126 which is deemed incorporated and repeated herein by reference.

D Financial income and expense

Financial income mainly relates to intercompany financing transactions of EUR 127 million (2020: EUR 163 million) and income related to Other financial assets of EUR 119 million (2020: EUR 153 million). Financial income related to intercompany financing transactions mainly decreased due to the reduction of intercompany loans in the US. Financial income related to Other financial assets decreased mainly due to the value adjustments through P&L of investment in limited life funds. For further information, refer to Other financial assets, starting on page 212.

Financial expenses mainly relates to interest paid on external debt of EUR 120 million (2020: EUR 121 million) and the value adjustments related to Other financial assets of EUR 46 million (2020: EUR 25 million).

E Income tax

Koninklijke Philips N.V. is head of the fiscal unity that exists for Dutch corporate income tax purposes.

The effective tax rate in 2021 deviates compared to the Dutch statutory tax rate of 25%, mainly due to results relating to participations, recurring favorable tax incentives and a one-off benefit from the recognition of deferred tax assets on temporary differences. The results relating to participations include results from the divestment of the Domestic Appliances business, for which reference is made to Other business income (expense), starting on page 210. The one-off benefit from the recognition of deferred tax assets on temporary differences results from an intra-group business transfer in which the Dutch fiscal unity was the acquirer.

Koninklijke Philips N.V.
Effective income tax rate in %

	2021
Weighted average statutory income tax rate in %	25.0%
Changes to recognition of temporary differences	(10.3)%
Non-taxable income and tax incentives	(5.3)%
Non-deductible expenses	0.7%
Withholding and other taxes	(0.2)%
Tax rate changes	(0.4)%
Prior year tax	0.1%
Tax expenses (benefit) due to other tax liabilities	0.2%
Others, net	0.7%
Effective income tax rate	**10.4%**

At December 31, 2021, tax credit carry forwards for which no deferred tax assets have been recognized in the balance sheet amount to EUR 20 million (2020: EUR 20 million) and have an unlimited period of carry forward.

10 Employees

The number of persons having a contract with the Company as of December 31, 2021 was 13 (2020: 13):

- 3 of them had a services contract;
- 10 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 193, which is deemed incorporated and repeated herein by reference.

11 Intangible assets

Intangible assets include mainly licenses and patents. The changes during 2021 were as follows;

Koninklijke Philips N.V.
Intangible assets in millions of EUR

Balance as of January 1, 2021	
Cost	139
Amortization/ impairments	(67)
Book value	**73**
Changes in book value:	
Additions	8
Disposal	(25)
Amortization	(8)
Impairment	(1)
Total changes	**(26)**
Balance as of December 31, 2021	
Cost	166
Amortization/ impairments	(119)
Book Value	**47**

12 Financial fixed assets

The changes during 2021 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, 2021	15,074	119	2,378	17,571
Changes:				
Acquisitions/additions	5,799	217	3	6,020
Sales/redemptions	(248)		(1,845)	(2,093)
Net income from affiliated companies	(80)	(18)		(98)
Dividends received	(802)			(802)
Translation differences	1,026	15	70	1,111
Other	(40)	1		(39)
Balance as of December 31, 2021	**20,729**	**335**	**606**	**21,670**

Investments in group companies

Investment in group companies increased by EUR 5,655 million during the year. The increase is mainly due to new acquisitions of BioTelemetry, Inc. and Capsule Technologies, Inc. and the capitalization of Philips Domestic Appliances. For further information about acquisitions, refer to Acquisitions and divestments, starting on page 153.

Translation differences of positive EUR 1,026 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 2021.

The majority of sales and redemptions relate to the sale of Domestic Appliances.

Investments in associates

Investments in associates represent minority investments in various companies. Out of total additions of EUR 217 million, an amount of EUR 125 million was invested in Candid Care Co. For further information about associates, refer to Interests in entities, starting on page 155.

Loans to group companies

The EUR 1,845 million reduction in loans is mainly due to the repayment of loans to group companies in the US.

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 non-current financial assets

The changes during 2021 were as follows:

Koninklijke Philips N.V.
Other non-current financial assets in millions of EUR

	Non-current financial assets at FVTOCI	Non-current financial assets at FVTP&L	Non-current financial assets at Amortized cost	Total
Balance as of January 1, 2021	48	193	5	246
Changes:				
Acquisitions/additions	12	25	3	40
Sales/redemptions/reductions		(104)	-	(105)
Value adjustments through OCI	6			6
Value adjustments through P&L		70	-	70
Translation differences and other	3	2	-	6
Reclassifications		(1)	-	(2)
Balance as of December 31, 2021	**69**	**185**	**7**	**261**

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.

Receivables

Koninklijke Philips N.V.
Receivables in millions of EUR

	2020	2021
Trade accounts receivable	91	152
Receivables from group companies	5,111	5,443
Other receivables	41	68
Advances and prepaid expenses	27	24
Derivative instruments - assets	159	113
Receivables	**5,428**	**5,799**

Receivables from group companies mainly relate to in-house bank contracts.

For further details on derivative instruments, refer to note Fair value of financial assets and liabilities, starting on page 196 and Details of treasury and other financial risks, starting on page 199.

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 196 and Details of treasury and other financial risks, starting on page 199

Shareholders' equity

Common shares

As of December 31, 2021, authorized common shares consist of 2 billion shares (December 31, 2020: 2 billion) and the issued and fully paid share capital consists of 883,898,696 common shares, each share having a par value of EUR 0.20 (December 31, 2020: 911,053,001).

The following table shows the movements in the outstanding number of shares:

Koninklijke Philips N.V.
Outstanding number of shares in number of shares

	2020	2021
Balance as of January 1	890,973,790	905,128,293
Dividend distributed	18,080,198	6,345,968
Purchase of treasury shares	(8,669,622)	(45,486,392)
Re-issuance of treasury shares	4,695,170	4,194,577
Issuance of new shares	48,757	
Balance as of December 31	**905,128,293**	**870,182,445**

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, 2021, 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, 2021 (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 and rights to receive common shares in the future (refer to Share-based compensation, starting on page 190).

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 upon exercise of options, restricted and performance share programs, 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 issued, shares are removed from treasury shares on a first-in, first-out (FIFO) basis.

When treasury shares are re-issued 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 issued and the cost is recorded in retained earnings, and the market price is recorded in capital in excess of par value.

The following transactions took place resulting from employee option and share plans:

Koninklijke Philips N.V.
Employee option and share plan transactions

	2020	2021
Shares acquired	5,351,411	3,996,576
Average market price	EUR 33.81	EUR 36.15
Amount paid	EUR 181 million	EUR 144 million
Shares delivered	4,695,170	4,194,577
Average price (FIFO)	EUR 34.35	EUR 34.14
Cost of delivered shares	EUR 161 million	EUR 143 million
Total shares in treasury at year-end	5,924,708	5,726,708
Total cost	EUR 199 million	EUR 201 million

The following transactions took place for capital reduction purposes:

Koninklijke Philips N.V.
Share capital transactions

	2020	2021
Shares acquired	3,318,211	41,489,816
Average market price	EUR 39.21	EUR 36.22
Amount paid	EUR 130 million	EUR 1,503 million
Cancellation of treasury shares (shares)	3,809,675	33,500,000
Cancellation of treasury shares (EUR)	EUR 152 million	EUR 1,216 million
Total shares in treasury at year-end		7,989,816
Total cost		EUR 287 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 1,636 million. A cash inflow of EUR 23 million from treasury shares mainly includes settlements of share-based remuneration plans.

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 2021, Philips used methods (i) and (ii) to repurchase shares for capital reduction purposes and methods (ii) and (iii) to repurchase shares for share-based compensation plans.

Forward share repurchase contracts

Forward contracts to repurchase shares for share-based compensation plans

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 varying between 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 for an amount of EUR 174 million to acquire 5 million shares with settlement dates varying between October 2021 and November 2022 and a weighted average forward price of EUR 34.85. As of December 31, 2021, a total of 1.5 million shares under this program were acquired (all were settled in the fourth quarter of 2021). This resulted in EUR61 million increase in retained earnings against treasury shares.

On October 22, 2018, Philips announced and started a share repurchase program for an amount of up to EUR 174 million to cover its long-term incentive and employee stock purchase plans, after which it repurchased shares via an intermediary to allow for buybacks in the open market during both open and closed periods. On November 12, 2018, Philips announced to extend this program and entered into three forward contracts for an amount of EUR 319 million to repurchase 10 million shares with settlement dates varying between October 2019 and November 2021 and a weighted average forward price of EUR 31.89. As of December 31, 2021, a total of 10 million shares under this program were acquired (4 million shares were in the fourth quarter of 2019, 4 million in the fourth quarter of 2020 and 2 million in the fourth quarter of 2021). This resulted in EUR 319 million increase in retained earnings against treasury shares (EUR 130 million, EUR 126 million and EUR 62 million pertaining to 2019, 2020 and 2021, respectively).

As of December 31, 2021, the remaining forward contracts to cover obligations under share-based remuneration plans related to 5.5 million shares, amounted to EUR203 million.

Forward contracts to repurchase shares for capital reduction purposes

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 31,2021, all of these forward contracts were outstanding.

On January 29, 2019, Philips announced a share buyback program for an amount of up to EUR 1.5 billion. Philips started the program in the first quarter of 2019. On March 23, 2020, Philips announced that 50.3% of the program had been completed through repurchases by an intermediary to allow for purchases in the open market during both open and closed periods, and that the remainder of the program would be executed through one or more individual forward transactions. Consequently, in the first half of 2020 Philips entered into four forward contracts for an amount of EUR 745 million to acquire 20 million shares with settlement dates varying between June 2021 and December 2021 and a weighted average forward price of EUR 36.40. As of December 31, 2021, all shares under this program were acquired (of which 2.5 million shares in the second quarter of 2021, 2.5 million shares in the third quarter of 2021 and 15.5 million shares in the fourth quarter of 2021). This resulted in EUR 745 million increase in retained earnings against treasury shares.

Share call options

In 2016 Royal Philips purchased EUR-denominated and USD-denominated call options on its own shares to hedge options granted to employees up to 2013.

In 2021, the company unwound 374,826 EUR-denominated and 121,750 USD-denominated call options against the transfer of the same number of its own shares (496,576 shares) and an additional EUR 9 million cash payment to the buyer of the call options.

As of December 31, 2021, the remaining EUR-denominated and USD-denominated call options related to 295,630 and 152,565 shares respectively.

Shares cancellation

In December 2021 Philips completed the cancellation of 33.5 million of its common shares (with a cost price of EUR 1,228 million). The cancelled shares were acquired as part of the Philips' EUR 1.5 billion share repurchase programs announced on January 29, 2019 and EUR 1.5 billion share repurchase programs announced on July 26, 2021 respectively.

Dividend distribution

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).

A proposal will be submitted to the 2022 Annual General Meeting of Shareholders to pay a dividend of EUR0.85 per common share, in cash or shares at the option of the shareholders, against the net income of the Company for 2021.

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. Per share calculations have been adjusted retrospectively for all periods presented to reflect the issuance of shares for the share dividend in respect of 2019.

Revaluation and Other Legal Reserves

As of December 31, 2021, revaluation reserves relate to unrealized gain on fair value through OCI financial assets of EUR 344 million (2020: EUR 305 million unrealized losses) and unrealized currency translation income of EUR 1,117 million (2020: EUR 58 million unrealized gains). Legal reserves relate to 'affiliated companies' of EUR 654 million (2020: EUR 626 million) and unrealized loss on cash flow hedges of EUR 25 million (2020: EUR 23 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.

Limitations in the distribution of shareholders' equity

As of December 31, 2021, pursuant to Dutch law, certain limitations exist relating to the distribution of shareholders' equity of EUR 1,947 million . Such limitations relate 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 loss related to cash flow hedges of EUR 25 million and unrealized loss related to fair value through OCI financial assets of EUR 344 million qualify as revaluation reserves and reduce the distributable amount due to the fact that these reserves are negative.

The legal reserve required by Dutch law of EUR 654 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, 2020, these limitations in distributable amounts were EUR 831 million and related to common shares of EUR 182 million, as well as to legal reserves required by Dutch law included under retained earnings of EUR 626 million and unrealized currency translation differences of EUR 58 million. The unrealized losses related to fair value through OCI financial assets of EUR 305 million and unrealized gain related to cash flow hedges of EUR 23 million qualify as a revaluation reserve and reduce the distributable amount due to the fact that this reserve is negative.

Debt

Long-term debt

The following tables present information about the long-term debt outstanding, its maturity and average interest rates in 2021 and 2020.

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, 2021	**1,210**	**3,229**	**625**	**982**	**200**	**15**	**6,262**
New financing			875	821		-	1,696
Repayment			(1,055)	(869)		(15)	(1,938)
Exchange differences	103		46				149
Other changes in value	-	4	-	-		-	3
Balance as of December 31, 2021	**1,313**	**3,233**	**491**	**934**	**200**	**1**	**6,171**

Koninklijke Philips N.V.
Long-term debt in millions of EUR, unless otherwise stated

	amount outstanding in 2021	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	1,313		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**		

Koninklijke Philips N.V.
Long-term debt in millions of EUR, unless otherwise stated

	amount outstanding in 2020	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	1,210		1,210	122	1,088	16.1	6.3%
EUR bonds	3,229		3,229	1,494	1,735	5.4	1.0%
Loans from group companies	625	533	92	92		0.9	3.0%
Forward contracts	982	869	113	113		0.9	
Bank borrowings	200		200		200	4.2	0.0%
Other long-term debt	15	15				1.0	0.0%
Long-term debt	**6,262**	**1,417**	**4,844**	**1,821**	**3,023**		

Long-term debt

The increase in the non-current portion of EUR 639 million in 2021 is mainly due to the new forward contracts.

Short-term debt

Short-term debt mainly relates to the current portion of outstanding external and intercompany long-term debt of EUR 688 million (2020: EUR 1,417 million), other debt to group companies totaling EUR 8,973 million (2020: EUR 7,925 million) and short-term bank borrowings of EUR 8 million (2020: EUR 1 million). Debt to group companies mainly relates to in-house bank contracts.

For further details on debt and treasury risk, refer to Debt, starting on page 177 and Details of treasury and other financial risks, starting on page 199.

10 Other current liabilities

Koninklijke Philips N.V.
Other current liabilities in millions of EUR

	2020	2021
Other short-term liabilities	34	32
Accrued expenses	58	91
Derivative instruments - liabilities	151	110
Other current liabilities	**243**	**233**

For further details on derivative instruments, refer to note Fair value of financial assets and liabilities, starting on page 196 and Details of treasury and other financial risks, starting on page 199

11 Contractual obligations and contingent liabilities not appearing in the balance sheet

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 104 million (2020: EUR 132 million). As of December 31, 2021, 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 1,316 million as of December 31, 2021 (2020: EUR 1,365 million). Guarantees totaling EUR 491 million (2020: EUR 505 million) have also been given on behalf of other group companies. As of December 31, 2021 there have been no guarantees given on behalf of unconsolidated companies and third parties (2020: EUR 14 million).

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 Contingent assets and liabilities, starting on page 188, which is deemed incorporated and repeated herein by reference.

12 Subsequent events

Vesper Medical

On January 11, 2022 Philips completed the acquisition of Vesper Medical Inc, a US-based medical technology company that develops minimally-invasive peripheral vascular devices. The acquisition is part of Philips' Image Guide Therapy segment and expand Philips' portfolio of diagnostic and therapeutic devices with an advanced venous stent portfolio for the treatment of deep venous disease. The upfront purchase price paid involved an amount of EUR 227 million. Due to the recent closing date, additional IFRS disclosures cannot be made until the initial accounting for the business combination, including contingent consideration, has been completed.

Cardiologs

On January 7, 2022 Philips completed the acquisition of Cardiologs Technologies SAS, a France-based medical technology company focused on transforming cardiac diagnostics using artificial intelligence (AI) and cloud technology. The acquisition is part of the Connected Care segment. The acquisition is regarded as not material for disclosure purposes.

12 Other 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, 2020, 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.

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 2021 included in the annual report

Our opinion

We have audited the financial statements 2021 of Koninklijke Philips N.V. (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 at December 31, 2021 and of its result and its cash flows for 2021 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 at December 31, 2021 and of its result for 2021 in accordance with Part 9 of Book 2 of the Dutch Civil Code

The group financial statements comprise:

- the consolidated balance sheet as at December 31, 2021;
- the following statements for 2021: the consolidated statements of income, comprehensive income, cash flows and changes in equity;
- the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company balance sheet as at December 31, 2021;
- the company statement of income for 2021;
- 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 operations of the group and our risk assessment.

We start by determining materiality and identifying and assessing 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. 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.

Materiality

Materiality	EUR 71 million (2020: EUR 75 million)
Benchmark applied	5% of income before taxes in the amount of EUR 1.421 million which includes discontinued operations and is adjusted for the negative effect of the Field Action provision related to Sleep & Respiratory Care products (EUR 719 million) and positive effect of the divestment gain of the Domestic Appliances business (EUR 3.242 million) as both were considered as non-recurring items which occur infrequently.
Explanation	Based on our professional judgment we consider an earnings-based measure as the most appropriate basis to determine materiality. The applied benchmark and materiality are in line with the 2020 audit with the exception of the two excluded items.

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 3.5 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.

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 37 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, either because of the size of these accounts or their risk profile (Specific- or Specified Scope components). We performed certain audit procedures centrally, such as capitalized development costs, restructuring costs, Health Systems revenue and Personal Health revenue running on the main ERP systems, FCO provisions, payroll, acquisitions and goodwill. In addition to the procedures performed by the component teams, we had involvement in certain aspects of the audit of tax, legal claims, litigation and contingencies and areas not performed centrally for Health Systems revenue and Personal Health revenue (for a limited number of countries). Of 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:

Field Action Provision in %

Full scope	100%

Goodwill in %

Full scope	100%

Sales in %

Full scope	29%
Specific scope	29%
Specified procedures	42%

Involvement with component teams

Component performance materiality was determined using judgment, based on the relative size of the component and our risk assessment. Component performance materiality did not exceed EUR 35.5 million and the majority of our component auditors applied a component performance materiality that is significantly less than this threshold.

Because of the continuing (international) travel restrictions and social distancing requirements due to the COVID-19 pandemic, we needed to restrict or have been unable to visit local management and/or certain component auditors to perform our oversight

procedures on site. In these circumstances we predominantly used video or teleconferencing facilities, as well as EY's electronic audit file platform and screen sharing to communicate with component audit teams.

We hosted (virtual) global 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 and the information required to be reported to us. Based on our risk assessment, we held (virtual) site visits at component locations in the U.S.A., China, Germany, India, Poland and Indonesia. These (virtual) 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. We performed alternative procedures such as inventory observations using remote viewing technology for certain locations where we were unable to attend inventory observations physically due to restrictions. 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

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences 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 payments and actuarial experts.

Our focus on climate-related risks

Climate objectives will be high on the public agenda in the next decades. Issues such as CO2 reduction impact financial reporting, as these issues entail risks for the business operation, the valuation of assets and provisions or the sustainability of the business model and access to financial markets of companies with a larger CO2 footprint.

The Board of Management has reported in Section 5 'Environmental, Social, Governance' and Section 13 'Sustainability Statements' on the Environmental, Social and Governance (ESG) factors directly and indirectly impacting Philips' business, and their consideration of the impact of climate change including the potential impact of climate-related risks.

As part of our audit of the financial statements, we evaluated the extent to which climate-related risks are materially impacting judgments, estimates and significant assumptions applied by Philips. Furthermore, we read the management report and considered whether there is any material inconsistency between the non-financial information in Section 5 'Environmental, Social, Governance' and Section 13 'Sustainability 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 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 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.

Our audit response related to fraud risks

We identify and assess the risks of material misstatements of the financial statements due to fraud. In order to design audit procedures that are appropriate in the circumstances we obtained an understanding of the entity and its environment. This included obtaining an understanding of the components of the system of internal control, the risk assessment process, the Board of Management's process for responding to the risks of fraud and monitoring of the system of internal control, how the Supervisory Board exercises oversight as well as the outcomes, relevant to our audit. We refer to section 6 of the management report for the Board of Management's (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 specialists. We evaluated whether these factors indicate that a risk of material misstatement due to fraud is present.

In our process of identifying fraud risks, we considered whether the continued COVID-19 pandemic gave rise to specific fraud risk factors resulting from a dilution in the effectiveness of controls as a result of the general disruption associated with remote working, illness, supply chain failures and pressure to make emergency procurements, management overrides and workarounds, manual invoicing and manual payments and abuse of government schemes intended to support companies during the pandemic. Conversely, we also considered whether there was an incentive or opportunity for the Board of

Management to over-provide in the current period with a view to release any excess provisions in future periods.

We incorporated elements of unpredictability in our audit. We considered the outcome of our other audit procedures and evaluated whether findings were indicative of fraud or non-compliance.

As in all of our audits, we addressed the risk related to management override of controls and when identifying and assessing fraud risks we presumed that there are risks of fraud in revenue recognition. For the risks related to management override of controls, we have performed procedures to evaluate key accounting estimates for management bias in particular relating to important judgment areas and significant accounting estimates as disclosed in Note 1 to the financial statements. We have also used data analysis to identify and address high-risk journal entries. We refer to our Key Audit Matter related to Revenue 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 (including internal audit, legal, compliance, and regional directors) and the Supervisory Board.

The fraud risks we identified, enquiries 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 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 6.5 Compliance Risk 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 adequate 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 and disclosure of provisions for legal claims, litigations and contingencies for further information as to our procedures in this regard.

Our audit response related to going concern

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 at least the next 12 months. 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 significant doubts on the Company's ability to continue as a going concern for the next 12 months. 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. Following the voluntary recall of the Sleep & Respiratory care products a new key audit matter 'Measurement and disclosure of the Field Change Order provision related to Sleep & Respiratory Care products' has been defined for our 2021 audit.

Measurement and disclosure of the Field Action provision related to Sleep & Respiratory Care products

Risk	As more fully described in Note 20 Provisions, starting on page 179, following the identification of potential health risks related to certain Sleep & Respiratory Care products, the Company recorded a Field Action provision amounting to EUR 719 million. Determining the Field Action provision is complex and requires significant judgment by management. Significant assumptions made relate to the estimated total quantity of devices and the replacement share.
Our audit approach	We obtained an understanding, evaluated the design and tested the operating effectiveness of the Company's controls relating to the Field Action provision calculation. 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 mathematical accuracy and completeness of the provision. Our audit procedures included, among others, the assessment of the significant assumptions and data used by management in its calculation model for the Field Action provision. For example, we assessed the estimated quantities through obtaining third party confirmations for quantities already registered for remediation as of December 31, 2021, as well as corroborating the remaining quantity estimate by reperforming the trend analysis of registrations over time. We considered audit evidence to corroborate the reasonability of the replacement share based on the contracted repair capacity as well as the upgraded inhouse production capacity. 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 Food and Drug Administration. We further assessed the adequacy of the disclosures in Note 20 Provisions, starting on page 179, as included in the group financial statements.
Key observations	We consider the Field Action provision to be within a reasonable range. We assessed that the disclosures in the group financial statements are adequate.

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 25 Contingent assets and liabilities, starting on page 188 this includes the discussions with and information provided to the SEC and DOJ regarding alleged tender irregularities in China, Bulgaria and Brazil, and legal claims and litigation related to the Field Action for Sleep & Respiratory Care products. The Company records 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. When an outflow of economic benefits cannot be reliably estimated or is possible but not probable, the Company discloses this in the contingent liabilities note. We evaluated the accounting of provisions for legal claims and litigation, and the disclosure for provisions and contingent liabilities, which 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. Further reference is made to Note 1 Significant accounting policies, starting on page 135, Note 20 Provisions, starting on page 179, and Note 25 Contingent assets and liabilities, starting on page 188, as included in the group financial statements.
Our audit approach	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 at different levels in the group, and the recording and continuous re-assessment of the related provisions, contingent liabilities and disclosures. To confirm our understanding of the allegations and test the Company's accounting 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, as well as with the Company's finance department, inspected relevant correspondence with authorities, inspected the minutes of the meetings of the Audit Committee, Supervisory Board and Executive Committee, requested a confirmation letter from the Company's in-house legal counsel and obtained external legal confirmation letters from external legal counsel involved in these matters. For claims settled during the year, we vouched the cash payments, as appropriate, and read the related settlement agreements. Specifically related to ongoing investigations into alleged non-compliance with laws and regulations, we were supported by EY forensic and other specialists. 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 matters reasonable, and the accounting of legal claims and litigation and the disclosure for provisions and contingent liabilities adequate.

Valuation of Goodwill for Cash Generating Unit Sleep & Respiratory Care

Risk	At December 31, 2021, the total carrying value of goodwill allocated to Cash Generating Unit (CGU) Sleep & Respiratory Care (S&RC) amounted to EUR 2,031 million. Goodwill is allocated to CGUs for which management is required to test the carrying value of goodwill for impairment annually or more frequently if there is a triggering event for testing. Further reference is made to Note 1 Significant accounting policies, starting on page 135, and Note 12 Goodwill, starting on page 167, as included in the group financial statements. Auditing the calculation of the recoverable amount for the CGU S&RC is complex, given the significant judgment and estimation related to assumptions and data in the model used to determine whether the carrying value of goodwill is appropriate. The most significant assumptions used within the model to support the recoverable amount of goodwill are sales growth rate, EBITA, and discount rates.
Our audit approach	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 determination and review of the sales growth, EBITA and the discount rate assumptions. As part of our audit we assessed and tested the assumptions and data used by management in its valuation model for the CGU S&RC. As part of these procedures we reconciled the expected restart of sales for the Sleep products with audit evidence obtained as part of the audit of the Field Action provision, and we compared the assumptions to external data such as industrial sales growth rates and discount rates. We were assisted in our evaluation of the discount rate by EY valuation specialists. Additionally, we compared the cash flow projections used in the valuation 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. We also performed an analysis of the significant assumptions to evaluate the sensitivity of the recoverable amount to changes in the assumptions. We also assessed the adequacy of management's disclosure around goodwill as included in the group financial statements.
Key observations	We consider management's assumptions and estimates made to calculate the recoverable amount to be reasonable. We agree with management's conclusion that no impairment of goodwill is required in 2021. We assessed that the disclosures in the group financial statements are adequate.

Revenue recognition – Sales related accruals and installable sales orders

Risk	Primarily in the Personal Health businesses, the Company has sales promotions-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 the distributors and retailers. The estimation of the sales related accruals involve subjective management assumptions about the extent to which promotional marketing targets will be met by the distributors and retailers. There is a risk related to management override of controls over the estimation of the sales related accruals through inappropriate estimations. Auditing the Company's measurement of sales related accruals is especially complex because the calculation involves subjective management assumptions around the extent to which promotional or marketing targets will be met by Philips' customers and the related rebates 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 of the goods and services are transferred to the customer and revenue can be recognized (installable sales orders). There is a risk of management accelerating revenues through inappropriate top side journal entries or override of customer acceptance controls for installable sales orders. Further reference is made to Note 1 Significant accounting policies, starting on page 135, and Note 7 Income from operations, starting on page 156 section Sales composition and disaggregation, as included in the group financial statements.
Our audit approach	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 revenues 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 controls over customer's acceptance of installed equipment and verification of revenues recorded through manual journal entries. With respect to the sales related accruals, we evaluated management's assumptions (as described above) 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 customer 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, revenue transactions before and after period-end for installable sales orders by obtaining formal customer acceptance documentation to evidence occurrence of revenues in the appropriate period. We have integrated unpredictability into the nature, timing and extent of these procedures by also testing random revenue transactions for installable sales orders that do not meet quantitative or qualitative criteria. We also assessed the adequacy of the revenue 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. We have not identified any material misstatements related to sales related accruals and the occurrence of revenues for installable sales orders. In addition, we assessed that the revenue disclosures are adequate.

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 2021 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 since that date. We were reappointed in the Annual General Meeting of Shareholders on May 9, 2019.

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.

Our procedures, taking into account Alert 43 of the NBA (the Netherlands Institute of Chartered Accountants), included amongst others:

- obtaining an understanding of the Company's financial reporting process, including the preparation of the reporting package
- 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 22, 2022

Ernst & Young Accountants LLP

Signed by S.D.J. Overbeek - Goeseije

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 our results of operations and financial condition.

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 152).

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 Significant accounting policies, starting on page 135, 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 clusters. 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 per segment in %

	nominal growth	consolidation changes	currency effects	comparable growth
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	7.4	0.0	1.6	9.0
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	19.1	0.7	2.3	22.1
Personal Health	(9.8)	0.0	2.8	(6.9)
Philips Group	**1.0**	**(0.5)**	**2.4**	**2.9**
2019 versus 2018				
Diagnosis & Treatment	9.8	(1.2)	(3.2)	5.5
Connected Care	7.7	(0.4)	(4.2)	3.0
Personal Health	7.2	0.0	(1.8)	5.4
Philips Group	**8.0**	**(0.4)**	**(3.1)**	**4.5**

Philips Group
Sales growth composition per geographic cluster in %

	nominal growth	consolidation changes	currency effects	comparable growth
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**
2019 versus 2018				
Western Europe	2.3	(1.2)	(0.2)	0.8
North America	10.0	(0.6)	(5.6)	3.8
Other mature geographies	0.6	(0.4)	(4.0)	(3.7)
Total mature geographies	**6.3**	**(0.8)**	**(3.8)**	**1.8**
Growth geographies	12.2	0.5	(1.2)	11.4
Philips Group	**8.0**	**(0.4)**	**(3.1)**	**4.5**

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. Other items may extend over several quarters and are not limited to the same financial year.

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 our 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 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 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**	**(732)**	**585**	**(242)**
Amortization and impairment of acquired intangible assets	322	153	148	15	6
Impairment of goodwill	15	2	13		
EBITA	890	1,097	(571)	600	(236)
Restructuring and acquisition-related charges	95	7	93	(1)	(5)
Other items	1,069	(32)	965	-	136
Adjusted EBITA	**2,054**	**1,071**	**488**	**599**	**(105)**
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**	**711**	**356**	**(300)**
Amortization and impairment of acquired intangible assets	377	209	134	16	18
Impairment of goodwill	144	-	144		
EBITA	1,784	706	989	371	(282)
Restructuring and acquisition-related charges	195	29	97	31	37
Other items	299	83	112	24	81
Adjusted EBITA	**2,277**	**818**	**1,198**	**426**	**(165)**

	Philips Group	Diagnosis & Treatment	Connected Care	Personal Health	Other
2019					
Net income	1,173				
Discontinued operations, net of income taxes	(183)				
Income tax expense	258				
Investments in associates, net of income taxes	(1)				
Financial expenses	233				
Financial income	(114)				
Income from operations	**1,366**	**660**	**269**	**589**	**(152)**
Amortization and impairment of acquired intangible assets	344	177	141	18	8
Impairment of goodwill	97	19	78		
EBITA	1,807	856	488	607	(144)
Restructuring and acquisition-related charges	310	149	64	42	54
Other items	153	73	67	23	(11)
Adjusted EBITA	**2,270**	**1,078**	**620**	**672**	**(100)**

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 Significant accounting policies, starting on page 135, 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 shareholders [1] In millions of EUR unless otherwise stated

	2019	2020	2021
Net income	1,173	1,195	3,323
Discontinued operations, net of income taxes	(183)	(196)	(2,711)
Income from continuing operations	**990**	**999**	**612**
Continuing operations non-controlling interests	(5)	(8)	(4)
Income from continuing operations attributable to shareholders [1]	**985**	**991**	**608**
Adjustments for:			
Amortization and impairment of acquired intangible assets	344	377	322
Impairment of goodwill	97	144	15
Restructuring costs and acquisition-related charges	310	195	95
Other items	153	299	1,069
Net finance income/expenses	13	(125)	(84)
Tax impact of adjusted items and tax only adjusting items	(280)	(285)	(527)
Adjusted Income from continuing operations attributable to shareholders [1]	**1,622**	**1,594**	**1,497**
Earnings per common share:			
Income from continuing operations attributable to shareholders [1] per common share (in EUR) - diluted	1.06	1.08	0.67
Adjusted income from continuing operations attributable to shareholders [1] per common share (in EUR) - diluted	1.74	1.74	1.65

[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. Our 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
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**	**(732)**	**585**	**(242)**
Depreciation, amortization and impairment of fixed assets	1,323	459	384	130	350
Impairment of goodwill	15	2	13		
Restructuring and acquisition-related charges	95	7	93	(1)	(5)
Other items	1,069	(32)	965	-	136
Adding back impairment of fixed assets included in Restructuring and acquisition-related changes and Other items	(70)	(21)	(51)		2
Adjusted EBITDA	**2,985**	**1,358**	**672**	**714**	**241**
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**	**711**	**356**	**(300)**
Depreciation, amortization and impairment of fixed assets	1,462	536	415	144	368
Impairment of goodwill	144	-	144		
Restructuring and acquisition-related charges	195	29	97	31	37
Other items	299	83	112	24	81
Adding back impairment of fixed assets included in Restructuring and acquisition-related changes and Other items	(102)	(35)	(64)	1	(4)
Adjusted EBITDA	**3,262**	**1,111**	**1,415**	**556**	**180**

	Philips Group	Diagnosis & Treatment	Connected Care	Personal Health	*Other*
2019					
Net income	1,173				
Discontinued operations, net of income taxes	(183)				
Income tax expense	258				
Investments in associates, net of income taxes	(1)				
Financial expenses	233				
Financial income	(114)				
Income from operations	**1,366**	**660**	**269**	**589**	**(152)**
Depreciation, amortization and impairment of fixed assets	1,343	564	326	140	313
Impairment of goodwill	97	19	78		
Restructuring and acquisition-related charges	310	149	64	42	54
Other items	153	73	67	23	(11)
Adding back impairment of fixed assets included in Restructuring and acquisition-related changes and Other items	(111)	(109)	(2)	-	(1)
Adjusted EBITDA	**3,159**	**1,357**	**804**	**794**	**204**

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

	2019	2020	2021
Net cash flows provided by operating activities	1,813	2,511	1,629
Net capital expenditures:	(891)	(876)	(729)
Purchase of intangible assets	(138)	(114)	(107)
Expenditures on development assets	(327)	(296)	(259)
Capital expenditures on property, plant and equipment	(486)	(485)	(397)
Proceeds from disposals of property, plant and equipment	60	19	33
Free cash flow	**923**	**1,635**	**900**

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

	2019	2020	2021
Long-term debt	4,939	5,705	6,473
Short-term debt	508	1,229	506
Total debt	**5,447**	**6,934**	**6,980**
Cash and cash equivalents	1,425	3,226	2,303
Net debt	**4,022**	**3,708**	**4,676**
Shareholders' equity	12,597	11,870	14,438
Non-controlling interests	28	31	36
Group equity	**12,625**	**11,901**	**14,475**
Net debt : group equity ratio	**24:76**	**24:76**	**24:76**

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 also adjusted to exclude assets and liabilities of businesses acquired in the five year period prior to the relevant measurement date. Organic ROIC is calculated after taxes.

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 2019-2021 these other items included legal provisions, pension settlements and results of divestments. Refer to Net income, Income from operations (EBIT) and Adjusted EBITA within Results of operations, starting on page 29 section of Financial performance, starting on page 27.

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, 2019, 2020 and 2021 is included in the following table.

Philips Group
Return on total assets in millions of EUR unless otherwise stated

	2019	2020	2021
Income from operations	1,366	1,264	553
Total assets	27,016	27,713	30,961
Return on total assets (%)	5.1%	4.6%	1.8%

The reconciliation of Average Net operating capital and the reconciliation of Net income to Organic ROIC for the years ended December 31, 2019, 2020 and 2021 are included in the following tables.

Philips Group
Reconciliation of Average Net operating capital [1] in millions of EUR unless otherwise stated

	2019	2020	2021
Tangible fixed assets	2,412	2,799	2,716
Intangible assets (including goodwill)	12,242	11,789	13,454
Inventories	2,918	3,056	3,248
Receivable balances [2]	4,955	5,010	4,648
Payable balances [3]	(6,461)	(6,520)	(6,627)
Provisions [4]	(2,183)	(2,066)	(2,178)
Group Average Net operating capital	**13,882**	**14,068**	**15,261**
Net operating capital of businesses acquired	(4,176)	(3,176)	(5,511)
Average Net operating capital	**9,706**	**10,892**	**9,750**

[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

	2019	2020	2021
Net income	1,173	1,195	3,323
Discontinued operations, net of income taxes	(183)	(196)	(2,711)
Income tax expense	258	212	(103)
Investments in associates, net of income taxes	(1)	9	4
Financial expenses	233	202	188
Financial income	(114)	(158)	(149)
Income from operations	**1,366**	**1,264**	**553**
(Income) Loss from operations of businesses acquired	301	265	124
Tax gains and losses		(22)	(197)
Other items	(18)	59	887
Income tax expense	(258)	(212)	103
Tax effects of other adjustments	(61)	30	(33)
Organic return	**1,330**	**1,384**	**1,437**
Average Net operating capital	**9,706**	**10,892**	**9,750**
Organic ROIC (%)	**13.7%**	**12.7%**	**14.7%**

12.4 Other Key Performance Indicators

In addition to monitoring the IFRS and non-IFRS financial measures discussed under Financial performance, starting on page 27, 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 152).

Philips Group
Other Key Performance Indicators

	2019	2020	2021
Lives improved, in billions	1.42	1.53	1.67
Operational carbon footprint, in kilotonnes CO_2-equivalent	668	518	519
Circular revenues	13%	15%	16%
Waste to landfill	6.3%	2.6%	0.1%
Closing the Loop [1]	N/A	N/A	34%
Comparable order intake	6%	9%	4%

[1] We have expanded the definition of our Closing the Loop practices to include all professional medical equipment in 2021. Complete figures are not available for 2019 and 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 55 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 CO_2-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 51 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 51 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 (%) * 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 2021, starting on page 104 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.

Effective 2020, Philips has simplified its order intake policy by aligning horizons for all modalities to 18 months to revenue, compared to previously used delivery horizons of 6 months for Ultrasound, 12 months for Connected Care and 15 months for Diagnosis & Treatment. At the time, Philips has aligned order intake for software contracts to the same 18 months to revenue horizon, meaning that only the next 18 months conversion to revenue under the contract is recognized, compared to the full contract values recognized previously. This change eliminates major variances in order intake growth and better reflects expected revenue in the short term from order intake booked in the reporting period. Prior-year comparable order intake amounts have been restated accordingly. This realignment has not resulted in any material additional order intake recognition.

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; ability to execute and deliver on programs on business transformation and IT system changes and continuity; the effectiveness 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; treasury and financing risks; tax risks; reliability of internal controls, financial reporting and management process.

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 78.

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 2021 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 this document. Reference is made in Reconciliation of non-IFRS information, of this report.

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 225.

12.6 Investor information

12.6.1 Share information

Philips Group
Share information at year-end 2021

Share listings	Euronext Amsterdam, New York Stock Exchange
Ticker code	PHIA, PHG
No. of shares issued	884 million
No. of shares issued and outstanding	870 million
Market capitalization	EUR 29 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 2021.

Philips Group
Shareholders by region at year-end [1]

	2021
North America	44%
Rest of Europe	22%
UK	13%
France	10%
Netherlands	2%
Other	9%

[1] Approximate split based on shareholders identified.

Philips Group
Shareholders by style at year-end [1]

	2021
Growth	27%
GARP	17%
Index	15%
Value	13%
Other	16%
Retail	11%
Hedge Fund	2%

[1] Approximate split based on shareholders identified.

12.6.2 Financial calendar

Financial calendar

Annual General Meeting of Shareholders	
Record date 2022 AGM	April 12, 2022
2022 AGM	May 10, 2022
Quarterly reports [1]	
First quarter results 2022	April 25, 2022
Second quarter results 2022	July 25, 2022
Third quarter results 2022	October 24, 2022
Fourth quarter results 2022	January 30, 2023

[1] Subject to updates of the financial calendar as published on the company's website

2022 Annual General Meeting of Shareholders

The Agenda and the explanatory notes to the Agenda for the Annual General Meeting of Shareholders on May 10, 2022, will be published on the company's website.

For the 2022 Annual General Meeting of Shareholders, a record date of April 12, 2022 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 2021 to:

Royal Philips
Annual Report Office
Philips Center
P.O. Box 77900
1070 MX Amsterdam, The Netherlands
E-mail: annual.report@philips.com

The Annual Report on Form 20-F is filed electronically with the US Securities and Exchange Commission.

Holders of shares listed on Euronext Amsterdam

Communications concerning share transfers, share certificates, dividends and change of address should be directed to:

ABN AMRO Bank N.V.
Department Equity Capital Markets/Corporate Broking HQ7212
Gustav Mahlerlaan 10, 1082 PP Amsterdam
The Netherlands
Telephone: +31-20-628-6070

E-mail: corporate.broking@nl.abnamro.com

Holders of New York Registry shares

Communications concerning share transfers, share certificates, dividends and change of address should be directed to:

Deutsche Bank Trust Company Americas
C/O AST
6201 15th Avenue Brooklyn, NY 11219
Telephone (toll-free US): +1-866-706-8374
Telephone (outside of US): +1-718-921-8137
Website: www.astfinancial.com
E-mail: db@astfinancial.com

International direct investment program

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:

Deutsche Bank Global Direct Investor Services
Telephone (toll-free US): +1-866-706-8374
Telephone (outside of US): +1-718-921-8137
Monday through Friday 8:00 AM EST through 8:00 PM EST
Website www.astfinancial.com
E-mail: db@astfinancial.com

or write to:

Deutsche Bank Trust Company Americas
IC/O AST
6201 15th Avenue Brooklyn, NY 11219

Analysts' coverage
Philips is covered by approximately 25 analysts. For a list of our current analysts, please refer to: www.philips.com/a-w/about/investor/stock-info/analyst-coverage.html

How to reach us
The registered office of Royal Philips is:
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Global Press Office contact
Royal Philips
Philips Center
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1096 BC Amsterdam, The Netherlands
E-mail: group.communications@philips.com
For media contacts please refer to:
https://www.philips.com/a-w/about/news/contacts.html

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.

CO_2-equivalent
CO_2-equivalent or carbon dioxide equivalent is a quantity that describes, for a given mixture and amount of greenhouse gas, the amount of CO_2 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 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.

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, business segments 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', 'BI9'.

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 CO_2-equivalent. Philips' operational carbon footprint is calculated on a half-year 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 sublimate 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 Sustainability statements

13.1 Approach to sustainability reporting

Philips has a long tradition of sustainability reporting, beginning with our first environmental Annual Report published in 1999. Next, in 2003, this was expanded with the launch of our first sustainability Annual Report, which 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 14th 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.

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 and Friends of the Earth, as well as a variety of investors and analysts.

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.

Stakeholder overview (non-exhaustive)

	Examples	Processes
Employees	• 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 55 Regular mail updates, team meetings, webinars
Customers	• 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
Suppliers	• 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 260 .
Governments, municipalities, etc.	• European Union • Authorities in Indonesia, Singapore	Topical meetings, research projects, policy and legislative developments, business development, multi-stakeholder projects
NGOs	• 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
Investors	• Mainstream investors • ESG investors	Webinars, roadshows, capital markets day, Investor relations and Sustainability accounts

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 in accordance with the GRI Standards: Comprehensive option. A detailed overview of the GRI Comprehensive 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 267 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 14 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

Environmental	Reference	KPI	Boundaries
- Climate change	Message from the CEO, starting on page 5 Strategy and Businesses, starting on page 9 Environmental performance, starting on page 48 Environmental statements, starting on page 249	Operational Carbon Footprint, Green Revenues	Supply chain, operations, use phase
- Circular Economy	Green/EcoDesigned Innovation, starting on page 49 Environmental performance, starting on page 48 Circular Economy, starting on page 249 Supplier indicators, starting on page 260	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 48 Green/EcoDesigned Innovation, starting on page 49 Sustainable Operations, starting on page 252	Operational Carbon Footprint, Green Revenues	Supply chain, operations, use phase

Societal	Reference	KPI	Boundaries
- Access to (quality & affordable) care	Message from the CEO, starting on page 5 Diagnosis & Treatment businesses, starting on page 15 Connected Care businesses, starting on page 17 Social performance, starting on page 55	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 60 COVID-19, starting on page 148	Lives improved, Lives improved in underserved health communities	Supply chain, operations, use phase
- Employee rights	Human rights, starting on page 61 Living wage, starting on page 60 Equal opportunities and equal pay, starting on page 60 General Business Principles, starting on page 64		Supply chain, operations, use phase
- Employee well-being, Health & Safety	Message from the CEO, starting on page 5 Health and Safety, starting on page 60 Supplier indicators, starting on page 260	Total Recordable Case rate, Suppliers participating in Supplier Development program	Supply chain, operations
- Human Rights	Supply chain and procurement, starting on page 25 Social performance, starting on page 55 Sustainability statements, starting on page 242	Suppliers participating in Supplier Development program	Supply chain, operations
- Fair & Inclusive workplace	Inclusion & Diversity, starting on page 58 Equal opportunities and equal pay, starting on page 60 Supplier indicators, starting on page 260	Females in leadership positions	Supply chain, operations
- Talent & development	Social performance, starting on page 55 People development, starting on page 256 Talent attraction, starting on page 257		Supply chain, operations
- Responsible & resilient supply chains	Supply chain and procurement, starting on page 25 Human rights, starting on page 61 Health and Safety performance, starting on page 258 Supplier indicators, starting on page 260	Suppliers participating in Supplier Development program	Supply chain, operations

Governance	Reference	KPI	Boundaries
- Business ethics & General Business Principles	Compliance risks, starting on page 88 General Business Principles, starting on page 64	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 21 Sustainability statements, starting on page 242 Compliance risks, starting on page 88 Sustainability statements, starting on page 242		Supply chain, operations, use phase
- Competition & market access	Our geographies, starting on page 23 Social performance, starting on page 55 Quality & Regulatory , starting on page 62		Supply chain, operations, use phase
- Governance	Governance, starting on page 62 Compliance risks, starting on page 88	Tax transparency	Supply chain, operations
- Big data & Privacy	Strategy and Businesses, starting on page 9 Quality & Regulatory , starting on page 62 Human rights, starting on page 61 Operational risks, starting on page 85		Supply chain, operations, use phase
- Innovation & research	Strategy and Businesses, starting on page 9 Strategic risks, starting on page 82 Human rights, starting on page 61 Green/EcoDesigned Innovation, starting on page 49	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 82		Supply chain, operations, use phase
- Investor relations & public affairs	Investor information, starting on page 236 Stakeholder engagement, starting on page 267		Supply chain, operations, use phase, disposal

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 46 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	2021 actual
Environmental			
Green / EcoDesigned revenues	73.2%	100%	70.5%
Circular revenues	14.6%	25%	16.0%
Circular Materials Management	90%	95%	87%
Zero waste to landfill as a percentage of total regular waste	2.6%	less than 0.5%	0.1%
Net operational carbon footprint	0 KTonnes	0 KTonnes	0 KTonnes
% of suppliers committed to Science Based Target		50%	28%
Social			
Lives Improved	1.53 billion	2 billion	1.67 billion
Lives improved in underserved communities	127 million	300 million	167 million
Females in leadership positions	27%	35%	28%
Total Recordable Case (TRC) rate	0.24		0.29
Human Rights impact assessments at our at-risk sites	60%	100%	60%
Supplier Development Program	302,000 employees impacted	1,000,000 employees impacted	430,000 employees impacted
Governance			
General Business Principles training completion	65,000 staff trained		71,000 staff trained

13.1.6 Boundaries of sustainability reporting

Our sustainability 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 Sustainability Statements.

The consolidated selected financial information in this Sustainability 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. 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 48 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 enabling healthy living and well-being for all. 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 CO_2e 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.
- The market-based method is designed to highlight supply choices, including low-or zero carbon supply from renewable sources like wind or solar. 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 2021 – 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 CO_2e 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 CO_2e 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. Emissions from non-Philips-managed warehouses and emissions from returns of vehicles and/or vessels are out of scope.

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.

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

Sustainability 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 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 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 14, Sustainability statements, starting on page 242 and Environmental, Social and Governance, starting on page 43, except for sections EU taxonomy framework in ESG reporting framework, starting on page 44, Remuneration policy, starting on page 63 and Risk management approach, starting on page 64 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 269

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

	2019	2020	2021
Suppliers: goods and services	9,249	9,493	9,988
Employees: salaries and wages	5,080	5,204	5,129
Shareholders: distribution from retained earnings	775	758	773
Government: corporate income taxes	258	212	(103)
Capital providers: net interest	171	160	141

Total purchased goods and services as included in cost of sales amounted to EUR 10.0 billion, representing 58.2% of total revenues of the Philips Group. Of this amount, approximately 52% was spent with global suppliers, the remainder with local suppliers.

In 2021, salaries and wages totaled EUR 5.1 billion, a decrease of 1% compared to 2020, mainly driven by changes in the geographic footprint. See Income from operations, starting on page 156 for more information.

Philips' shareholders were given EUR 773 million including costs in the form of a dividend.

Income taxes amounted to a benefit of EUR 103 million. The effective income tax rate in 2021 was (20.0)%, compared to 19% in 2020, mainly due to the impact from the recognition of tax assets and other tax benefits as a result of a business transfer during the year. For more information, see Income taxes, starting on page 161.

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 48.

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 ninth year in 2021. It consists of the following strategic pillars:

- Circular customer needs and business models
- Circular design
- Circular manufacturing and supply
- Lifetime asset management
- Collect and repurpose at end-of-use, including Closing the loop
- Partnering to drive global change
- Transforming our organization

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 supporting resource optimization, e.g. in the form of improved utilization rates and telehealth offerings.

Partnerships

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 (PACE). PACE was launched in 2017 with the World Economic Forum in Davos and matured into an independent organization hosted by the World Resource Institute in The Hague (2019). PACE's vision is to stimulate market transformation to a circular economy at scale and speed, regionally and globally. It is a leader-led platform with a mission to drive collaborative projects to implementation and scale learnings through global leadership.

As one of the key pillars under PACE, Philips has spearheaded the Capital 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. Since its formation in January 2018, its members have shared and discussed approaches to implementing these principles in order to support each

other's ambitions, facilitated by Circle Economy. Learnings that may be useful to other capital equipment companies are published on a yearly basis. In 2021, a cohort of manufacturers in North America has also been established, facilitated by the US Chamber of Commerce.

Philips is also partnering with other leading organizations to drive action at scale, such as the Ellen MacArthur Foundation, the World Business Council for Sustainable Development, Now Partners and the Dutch Circular Transition Teams.

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 repurpose 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 and/or remanufacturing or parts harvesting/recovery. If that is not possible materials are recycled in a certified way.

To accomplish this, Philips has established a customer-centric way of supporting replacement deals to actively pursue trade-in of equipment that customers are willing to make available at end-of-use, supporting long-term partnerships – offering an attractive trade-in value, hassle-free take-back, and less downtime when customers decide to continue their partnership.

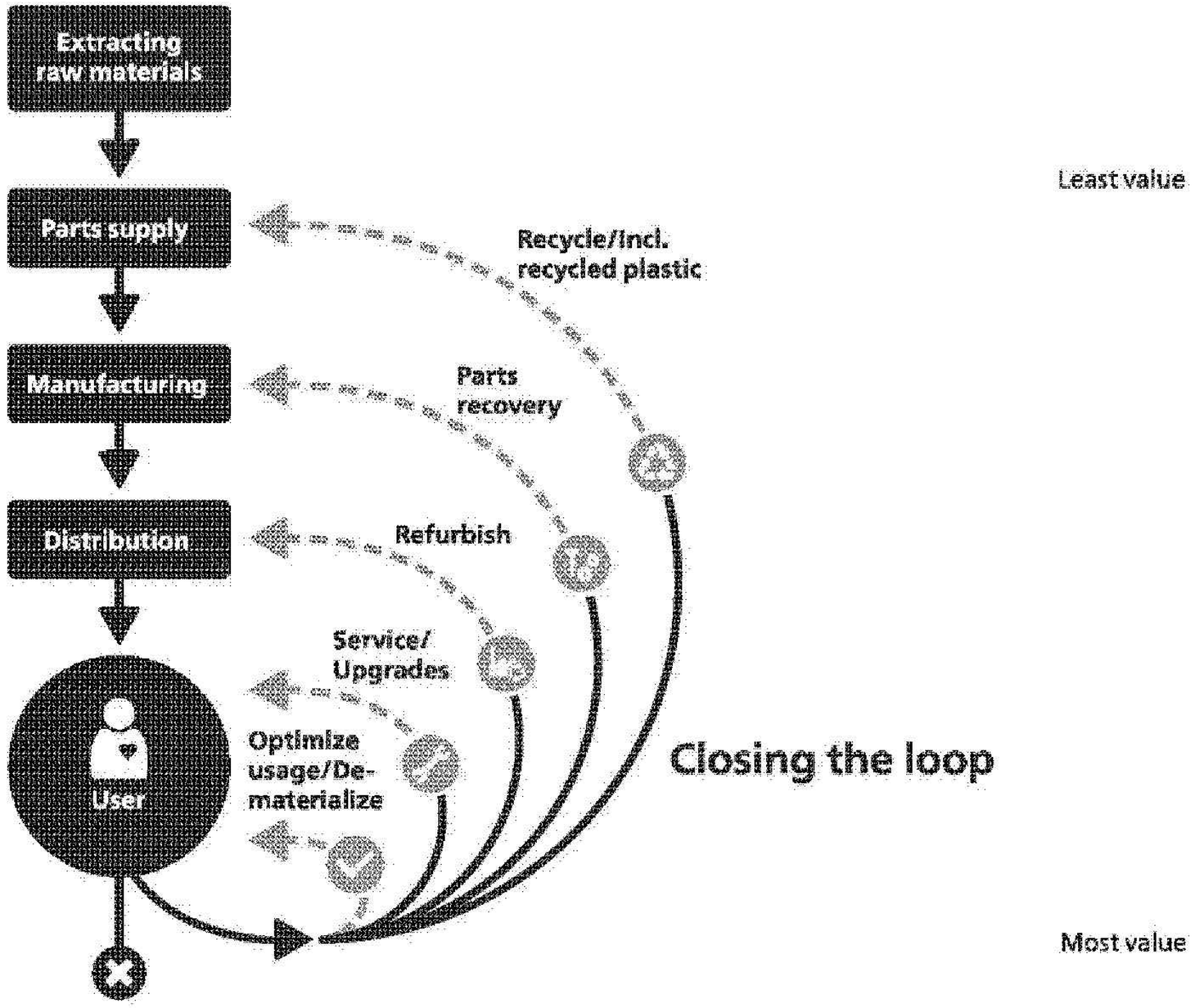
Pre-owned systems and parts that are refurbished and/or remanufactured or recovered are brought back to customers by Philips as either circular systems or spare parts. As this creates new value for Philips, it enables Philips to offer customers an attractive trade-in value.

In 2021, we took another step in increasing the impact of our Closed Loops practices. We have built on our capabilities to close the loop on our large medical equipment and expanded these practices to our Ultrasound and Mobile C-arms. In addition, we have expanded the definition of our Closing the Loop practices to include all products that are removed from our installed base, i.e. including systems that customers do not return to us directly.

By taking a broader scope, we have also been able to actively engage in conversations with our customers on the benefits of returning their systems to Philips and closing the loop. This has led to over 30% more returns of large medical equipment compared to 2020, a number that we expect to grow further in the coming years. In 2021, we have closed the loop on more than 3,000 systems.

Since making our commitment in 2018, we have been able to reclaim more systems each year by expanding our circular practices and increasing our scope.

The visual illustrates the scope of Philips' achievement in closing the loop for professional medical equipment in 2021.



Loop not yet closed
Customers not willing to trade-in/Lost deals/Small equipment/Non-Philips equipment

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.

Circular Revenues

The Circular Revenues percentage reflects our revenues from validated circular products and services as a percentage of total Philips revenues. The validation is based on the Philips circularity requirements listed below.

In 2020, we delivered on our ambition to generate a total of 15% of our revenues from circular propositions by 2020, which is double the rate of the 7% baseline achieved in 2015. We have increased the target for 2025 to 25% and in 2021, we reached 16%.

Service revenue

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 refurbishment or a software upgrade.

Hardware revenue

Refurbished/Remanufactured products/systems
Revenues from selling refurbished or remanufactured products/systems with re-used components >30% by total weight of product/system

Refurbished/Remanufactured parts/elements
Revenues from recovered 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 revenue

Software optimizing resource use
Revenues from software that enables one or more of the following: remote interaction, increased hardware utilization, cloud computing, data interoperability, virtualization.

Analog to digital
Revenues from products that have been redesigned to connect to generic hardware rather than dedicated hardware, e.g. a sensor that can connect directly to a hospital worker's mobile device, instead of requiring a dedicated monitor.

Personal Health businesses
Revenues from our B2C products include rental of products such as breast pumps and IPL (Intense Pulsed Light) devices as well as re-use of commercial returns.

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 is offered to our customers through a subscription model. In the Image Guided Therapy businesses, our Circular Editions offer refurbished imaging systems for sale. We also provide services for system upgrades such as Technology Maximiser that help keep systems in state-of-the-art condition and extend lifetime, and re-use of spare parts in maintenance services.

Connected Care businesses
A number of businesses offer performance and access-based models, such as ventilators and Monitoring-as-a-Service; software revenues include telehealth solutions such as eICU.

Circular practices at our sites
At our sites, we also aim to become circular, ranging from the use of 100% electricity from renewable sources and phasing-out fossil fuels, to implementing Circular Material Management and sending zero waste to landfill. For more information on our programs, please refer to Sustainable Operations, starting on page 51.

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 2021, Philips put an estimated total of some 73,500 tonnes of products on the market. This assessment is based on sales data combined with product-specific weights. 42% of the total product weight was delivered through our Personal Health businesses and 58% through our Diagnosis & Treatment businesses and Connected Care businesses.

We can account for some 6,000 tonnes or approximately 8% 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 2021 were:

- Trade-in and return for resale as refurbished products and for spare parts harvesting (Diagnosis & Treatment and Connected Care): some 1,711 tonnes, a decrease compared to 1,967 tonnes in 2020, mainly caused by 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
  - 800 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 (830 tonnes)
  - 5,000 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 a thriving biodiversity and healthy ecosystems for our company, our employees, and society as a whole. By systematically reducing our environmental impact including our operations, supply chain and the use phase of our products, we actively help to protect the environment and biodiversity.

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. The Philips Environmental policy was updated in 2020 and progress has been made on BES management, on sites (e.g., impact measurement) and on natural capital valuation. Our Best and Drachten sites in the Netherlands serve as role models on the topic of BES. 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 substance, and are not water-intensive.

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 enhance BES, the environmental impact of our sites will be further optimized. The environmental impact of our supply chain, however, is significantly higher than our own impact. For this reason, we use the identified hotspots in our supply chain as input for our CDP Supply Chain program. More information on this program can be found in Supplier indicators, starting on page 260.

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	2021 actual
Total CO_2 from manufacturing	0 Ktonnes	0 Ktonnes	0 Ktonnes [1]
Water withdrawal	623,161 m3	5% reduction	703,104 m3
Zero waste to landfill	2.6%	less than 0.5%	0.1%
Circular Material Management	90%	95%	87%
Hazardous substances emissions	2,465 kilos	25% reduction	2,662 kilos
VOC emissions	79 tonnes	10% reduction	78 tonnes

[1] Net carbon footprint, includes offsets

Energy use in manufacturing

Total energy usage in manufacturing amounted to 1,263 terajoules in 2021, of which Diagnosis & Treatment accounted for about 50% and Personal Health 37%. Energy consumption at Philips Group level increased by 3% compared to 2020. Diagnosis & Treatment energy consumption increased by 9%, mainly due to increased production at several locations. Connected Care reported a 30% reduction due to organizational changes. Personal Health energy consumption increased by 14%, mainly driven by increased production volumes at two sites.

Philips Group
Total energy consumption in manufacturing [1] in terajoules

	2017	2018	2019	2020	2021
Diagnosis & Treatment	614	593	547	580	631
Connected Care	278	287	281	229	161
Personal Health	471	487	485	412	471
Philips Group	**1,363**	**1,367**	**1,313**	**1,221**	**1,263**

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

Operational carbon footprint and energy efficiency – 2021 details

Philips has been carbon neutral in its operations from 2020 onwards, after having reduced our operational carbon footprint significantly during the past years (40% decrease in CO_2 emissions in 2021 compared to 2017). In 2021, our carbon footprint increased slightly by 0.2% compared to 2020, resulting in a total of 519 kilotonnes CO_2.

Philips Group
Operational carbon footprint in kilotonnes CO_2-equivalent

	2017	2018	2019	2020	**2021**
Logistics	614	540	470	415	417
Business travel	143	147	152	70	72
Non-industrial operations	44	39	25	15	14
Manufacturing	54	23	21	18	16

The 2021 results can be attributed to several factors:

- Accounting for 3% of our total footprint, total CO_2 emissions from our sites decreased by 2% due to lower overall energy consumption as a result of people working from home during the COVID-19 pandemic, as well as efforts to reduce overall energy consumption and efforts to 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 2021, covering all energy carriers, up from 75% in 2020
- CO_2 emissions from non-industrial operations (offices, warehouses, etc.), representing 3% of total emissions, decreased by 18% in 2021 due to lower energy consumption due to working from home policies and implemented energy efficiency projects. All sites continue to run on 100% renewable electricity from 2020 onwards. Overall, our non-industrial sites sourced 65% renewable energy in 2021, comparable to 2020. 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 CO_2 emissions related to business travel, accounting for 14% of our carbon footprint, showed an increase of 3% compared to 2020, mainly resulting from the increased mileage in our lease fleet compared to 2020. We recorded a drop of 2% in air travel-related emissions compared to 2020. Due to continued travel limitations, the emissions from rental cars (mainly in the US) increased with 22% compared to 2020.
- Overall CO_2 emissions from logistics, representing 80% of the total, increased with 1% compared to 2020. Where a decrease in air freight (-4%) was mitigated by an increase in sea freight and parcel emissions. 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.

Philips Group
Operational carbon footprint for logistics in kilotonnes CO_2-equivalent

	2017	2018	2019	2020	**2021**
Air transport	447	353	279	262	252
Road transport	63	66	71	64	55
Ocean transport	64	84	75	43	39
Parcel shipments	40	37	45	46	71
Philips Group	**614**	**540**	**470**	**415**	**417**

Carbon emissions in manufacturing

Greenhouse gas emissions from our manufacturing operations totaled 16 kilotonnes CO_2-equivalent in 2021, 11% lower than in 2020. Direct CO_2 emissions decreased by 6% due to the operational changes in different locations. Indirect CO_2 emissions remained at a low level due to the use of 100% electricity from renewable sources. Emissions from other greenhouse gases decreased further.

Philips Group
Total carbon emissions in manufacturing in kilotonnes CO_2-equivalent

	2017	2018	2019	2020	**2021**
Direct CO_2	18	18	17	15	14
Indirect CO_2	34	2	1	1	1
Other greenhouse gases	2	3	3	2	1
Philips Group	**54**	**23**	**21**	**18**	**16**

Philips Group
Total carbon emissions in manufacturing per segment in kilotonnes CO_2-equivalent

	2017	2018	2019	2020	**2021**
Diagnosis & Treatment	16	11	9	9	9
Connected Care	7	6	5	4	2
Personal Health	31	6	7	5	5
Philips Group	**54**	**23**	**21**	**18**	**16**

CO_2 emissions in 2021 were 16 kilotonnes CO_2-equivalent. This was driven by changes in our operations and product mix in various regions. Diagnosis & Treatment CO_2 emissions did not change, but Connected Care reported a 50% decrease. At Personal Health, CO_2 emissions remained at the same level.

In 2021, all manufacturing sites received 100% of their electricity from renewable sources. Our operations in the US have been powered by wind energy since 2017. 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.

Taskforce 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 2021 integrated financial, social and environmental report aims to follow the recommendations of the TCFD. In 2021, a multi-disciplinary team used different scenarios in the Munich RE NATHAN tool to assess expected results from climate change. Together with KPMG, we have conducted a first site-specific screening on possible damages and disruptions caused by the following hazards: drought stress, fire weather stress, heat stress, precipitation stress, river floods, and tropical cyclones. Assessing the exposure of financially material locations to chronic and acute physical events in a 2°C and 4°C-aligned scenario by 2030 and 2050 has improved understanding of the potential implications along the value chain.

We continue to assess the impact of Philips' Science Based Targets (SBT). Through our ambition to reduce CO_2 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 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. Hence, our SBTs have become a key factor in mitigating the risk associated with the implementation of a carbon price. In 2022, we plan to further assess the impact of our SBTs on our value chain and continue to expand our climate risk assessment. More information on Philips' climate action program can be found in Sustainable Operations, starting on page 51.

More detailed information can be found on the Sustainability website.

Hazardous substances emissions

Chemical reduction targets have been defined for the most relevant categories of substances for Philips, i.e. hazardous substance emissions and VOC (Volatile Organic Compound) emissions. As part of the Sustainable Sites Program, reduction targets have been agreed with our industrial sites.

Philips Group
Hazardous substances emissions

	2017	2018	2019	2020	2021
Diagnosis & Treatment	743	636	104	92	181
Connected Care	49	63	46	20	1,239
Personal Health	573	360	336	455	1,242
Philips Group	**1,365**	**1,059**	**486**	**567**	**2,662**

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 2021, we launched three projects to phase out and replace hazardous substances at various industrial sites.

VOC emissions

Philips Group
VOC emissions in tonnes

	2017	2018	2019	2020	2021
Diagnosis & Treatment	48	44	46	44	42
Connected Care	6	6	6	3	3
Personal Health	56	69	54	32	33
Philips Group	**110**	**119**	**106**	**79**	**78**

Volatile Organic Compounds (VOC) can react with nitrogen oxides (NOx) 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 decreased by 1% in 2021 to 78 tonnes. The Diagnosis & Treatment businesses, which represent 54% of total VOC emissions, decreased by 5% due to process optimizations and changes in production. VOC emissions in the Connected Care businesses was comparable to 2020, and VOC emissions in the Personal Health businesses (representing 42% of total VOC emissions) increased by 2% compared to 2020.

ISO 14001 certification

The majority of Philips manufacturing sites are certified under the umbrella certificates of the businesses. In 2021, 92% of reporting manufacturing sites were certified, compared to 81% in 2020. The increase is caused by newly certified sites and organizational changes. 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

	2017	2018	2019	2020	2021
Philips Group	84%	83%	79%	81%	92%

Environmental incidents

In 2021, one environmental incident was reported at a Diagnosis & Treatment site. This incident related to soil contamination. Corrective actions were taken to remediate the effect. One environmental incident related to a water leak and a non-compliance were reported at a Connected Care site. The non-compliance resulted in a minor fine. In Personal Health, three environmental incidents were reported, which related to emissions to air and soil contamination. Immediate action was taken, and no fine was issued. Furthermore, three non-compliances were reported; these 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

				Total waste			Emission	
Market	Manufacturing sites	Total Recordable Case rate [1]	CO_2 emitted (tonnes CO_2)	Waste (tonnes)	Circular Material Management	Water (m^3)	Hazardous substances (kg)	VOC substances (tonnes)
Africa	-	0.00	-	-	-	-	-	-
ASEAN & Pacific	1	0.00	1,952	2,606	97%	125,609	470	19
Benelux	2	0.12	5,343	6,263	77%	82,591	500	15
Central & Eastern Europe	-	0.05	-	-	-	-	-	-
Germany, Austria & Switzerland	3	0.49	3,978	3,661	94%	43,587	68	6
France	-	0.58	-	-	-	-	-	-
Greater China	5	0.11	931	2,828	93%	191,951	1,535	7
Iberia	-	0.60	-	-	-	-	-	-
Indian Subcontinent	1	0.05	201	188	100%	11,559	9	0
Italy, Israel & Greece	1	0.24	226	553	74%	5,597	0	1
Japan	-	0.22	-	-	-	-	-	-
Latin America	2	0.18	375	1,002	93%	64,500	2	18
Middle East & Turkey	-	0.00	-	-	-	-	-	-
Nordics	-	0.60	-	-	-	-	-	-
North America	10	0.62	3,473	5,103	86%	177,710	78	12
Russia & Central Asia	-	0.18	-	-	-	-	-	-
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 55

13.4.1 Measuring health impacts

Over 8 years ago, Philips started to measure its social impact and developed its '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*.

While discussing Lives Improved with different stakeholders, we decided to take a next step in our journey to measure our social impact and started a collaboration with the Harvard T.H. Chan School of Public Health to assess the positive contributions to health effects offered by publicly traded companies related to medical devices. The idea is to develop an open-source methodology, focusing on the top 20 worldwide causes of mortality and top 20 causes of disability, as published by the World Health Organization. An example of using this methodology for ultrasound medical devices applied by Harvard to coronary artery disease (CAD) in the United States is given below.

Case study[*]: Coronary artery disease
Coronary artery disease (CAD) is an ischemic heart disease that killed approximately 365,914 individuals out of 18.2 million people with the disease in the USA in 2019 (CDC, 2019; WHO, 2020). A way to reduce CAD mortality is by detecting this disease in its early stages. This diagnosis might lead to changes in the patient's diet, cardiovascular management therapies, or a surgical procedure to bypass obstructed coronary arteries.

CAD diagnosis by itself is likely to reduce mortality by 29% compared to undiagnosed people (95% Confidence Interval (CI) between 23.5% and 35.3%). This measure of effectiveness comes from polling cardiologists and medical experts in hospitals in Boston in the United States (Sanchez-Pina, 2021). This mortality reduction effectiveness is being used temporarily while scientists estimate a more solid value based on a comprehensive assessment of effectiveness from medical studies or a wider consultation of the international medical community.

Usage rate for ultrasound medical devices used for cardiovascular diseases comes from field clinics and information from the manufacturer of the ultrasound medical devices. As an example, if we assume that there are five ultrasound procedures for CAD per day and we consider that we need two procedures to make a proper diagnosis and that the clinic or hospital works for 260 days/year, then we have a total of 650 cardiovascular diagnosis/device/year. Considering effectiveness of 97% for diagnosing CAD, then the potential mortality prevention benefits are:

Deaths prevented by elective diagnostic ultrasounds per device in the USA=0.29*650 procedures/year*0.975*(365,914 CAD deaths/year in the USA/330 million people in the USA) = 0.202 deaths prevented/year/medical device (90% CI [0.127, 0.308]).

*) Sanchez-Pina (2021), 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 leadership accountability. Moreover, we are training 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, including performance management, team and talent management.

We have also started to measure impact and continuously improve the onboarding experience for new hires and other key stakeholders. In Q3 2021, 91% of new hire respondents rated their onboarding experience as very positive.

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 2021. Whilst continuing to focus on our goals in our People Performance Management, in 2021 we also 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 2,700 interns, offering nearly 600 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 group of senior leaders focus 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 leaders. 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 consisted 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 was 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 2021, in the face of the pandemic, 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 2021, more than 863,000 courses had been taken through Philips University (2020: 773,000), representing a total of nearly 830,000 training hours (2020: 836,000), with 835,000 training completions (2020: 763,000).

In 2021, we organized a three-week virtual global learning summit, which had nearly 20,000 registrations. The summit included an increased offering for employees in manufacturing.

13.4.3 Talent attraction

Through 2021 we filled over 15,000 positions across the organization, of which over 30% were internal appointments, up from 24% in 2020. For senior roles, internal promotion was at 72%, illustrating a strong focus on internal career progression for our talent.

Our two strategic external hiring channels are Direct-Sourcing and Referrals, which together delivered nearly 50% of our external hires in 2021.

Through collaboration with the TENT partnership for refugees, we continue to offer opportunities to refugees, in Germany, the Netherlands, Turkey, adding Panama in 2021. During the year we recruited 28 refugees and are on track on our commitment to provide workplaces to 100 refugees by 2024.

We continued to invest in strategic Employer Brand and Recruitment Marketing initiatives as an enabler of our organizational People strategy and commitment to win the best talent in unprecedented, increasingly competitive, labor market conditions.

Through a combination of hyper-targeted attraction campaigns focused on the most critical talent segments and strategic capabilities and an always-on content program promoting our Employer Value Proposition across key career-related channels, we reached around 140 million talent prospects, generating thousands of new leads in our talent poll and more than 7,000 applicants.

We have also further strengthened our candidate-first approach by launching a fully immersive virtual-reality platform that can be explored via desktop, mobile and VR headset so candidates can experience life at Philips from the comfort and safety of their home.

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.

In 2021, as the pandemic continued to affect health systems and communities around the world, our employees stood ready to lend a helping hand and use their specific skills for the greater good. A few examples:

- A diverse team from the US, UK and Netherlands developed a value proposition and marketing strategy for Inuka, a start-up aiming to make top-quality coaching with concrete, measurable results accessible to everyone. Using open data sources, employees explored how a science-based and easily accessible solution could improve employee well-being at a time when the pandemic is taking its toll on many people's mental health.
- Employees volunteered for the Kenyan social enterprise Penda Health, a partner of Philips Foundation, to co-create new digital services for patients at their health centers in Nairobi. The new service intends to improve communication between healthcare provider and healthcare recipient, allowing patients to be more proactive in managing

their health.
- At a local level, many employees worked tirelessly to deploy their expertise to help contain the COVID-19 pandemic.

The structure of the volunteering program has changed since the start of the pandemic. Safety remains a key issue, which meant more skilled volunteering and less hands-on team activities in 2021.

In 2022, Philips employees will continue to dedicate their time and expertise to environmental goals and Philips Foundation's mission of providing underserved communities with access to quality healthcare.

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 13,300 people have participated, and around 70% found a regular job after taking part. In 2021, we had an inflow of 83 candidates bringing the number of participants in 2021 to 163. The WGP program is also accessible to refugees, and in 2021 we had 18 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 2021, the Health and Safety (H&S) programs continued to be significantly affected by the COVID-19 global pandemic. However, Philips continued to improve the controls necessary to manage the effects of COVID-19 and was able to continue to develop and mature its Health and Safety programs.

Policy, Procedures and Management Systems: Philips continued to build a comprehensive global Health & Safety Management System with the deployment of three new and 23 updated Philips Corporate Safety Standards (PCSS) in 2021. A total of 71 PCSS were deployed by the end of 2021. The PCSS are supported with training materials in Philips University and Management Guidance notes. Management System Certifications ISO 45001 are in place for 23 manufacturing locations. Seven country organizations are certified to ISO 45001, with further certifications planned for 2022.

Compliance: In 2021, 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 2021, one H&S audit was performed in the Nordics Market. Part of the remainder of the 2021 audit schedule was replanned for implementation in 2022, due to COVID travel restrictions. An enhanced audit program is planned for 2022.

Structure and Responsibility: In 2021, the H&S organization supporting market activities continued to be improved and consolidated. All markets in Philips have H&S 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 2021, 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 that 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 the Executive level in Philips with review and sign off at each stage.

Risk assessments: In 2021, Health and Safety continued to develop 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 2021, systemic risks were addressed through companywide 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 2021 we offered an expanded library of Underwriters Ltd. (UL) safety e-learning courses (489 H&S courses in 15 languages) in the Philips University. Courses were mapped to priority topics for maintenance/field staff, managers/supervisors and Health and Safety professionals. Four H&S campaigns were held in 2021: Machine Guarding, Physical Wellbeing/Ergonomics, Zero Energy (Lock/Tag/Try), and Safe and Healthy Travel.

Occupational Health: In 2021, continued focus was placed on enhancing two critical programs, Ergonomics and Mental Health and Wellbeing, which also continued to be critical issues during the COVID-19 pandemic. The Occupational Health Team had primary involvement in managing the COVID-19 health and safety aspects (case reporting, trouble shooting, policy development, supporting informational webinars and managing employee inquiries). As the pandemic continued to affect our employees worldwide, the team maintained their efforts to support mental health by expanding the Mental Health Champions program together with Health and Wellbeing (Inclusion & Diversity) and supporting other opportunities to discuss mental health and reduce stigma. With the extended period of working from home developing into a new hybrid way of working, the team updated the working from home policy and implemented ergonomic training and guidance for a safe and healthy approach to working from home.

Metrics: Health and Safety metrics were further developed in 2021 to support existing metrics:

- **Recordable Accident Rate**: In 2021, we recorded 213 TRCs (178 in 2020), i.e. cases where the injured employee is unable to work for one or more days, received medical treatment or sustained an industrial illness.

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: 14,028 (target: 12,773)
- Safety problem-solving events (Kaizens) implemented: 6,490 (target: 6,228)
- Behavioral Safety Observations: 2,945 (target 2,240 (program was reduced due to COVID-19 constraints))
- Training: 25,572 of trainings completed (target 21,734)
- Corrective action closure: Average days to Close: No audits were conducted due to COVID-19

Philips Group
Total recordable cases per 100 FTE

	2017	2018	2019	2020	2021
Diagnosis & Treatment	0.58	0.55	0.61	0.45	0.53
Connected Care	0.61	0.35	0.34	0.31	0.31
Personal Health	0.26	0.22	0.18	0.30	0.24
Other	0.29	0.22	0.24	0.16	0.21
Philips Group	**0.37**	**0.30**	**0.32**	**0.24**	**0.29**

Additionally, we recorded 114 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 25% increase compared with 91 in 2020. The LWIC rate increased to 0.16 per 100 FTEs, compared with 0.12 in 2020. The number of Lost Workdays caused by injury increased by 1,672 days to 4,236 days in 2021.

Philips Group
Lost workday injuries per 100 FTEs

	2017	2018	2019	2020	2021
Diagnosis & Treatment	0.27	0.20	0.33	0.27	0.28
Connected Care	0.14	0.13	0.09	0.11	0.09
Personal Health	0.24	0.16	0.14	0.22	0.16
Other	0.14	0.11	0.09	0.06	0.12
Philips Group	**0.18**	**0.14**	**0.14**	**0.12**	**0.16**

Diagnosis & Treatment businesses

In the Diagnosis & Treatment businesses segment, the number of Health and Safety incidents increased in 2021, with 3 LWICs compared to 40 in 2020. The LWIC rate increased to 0.28 compared to 0.27 in 2020. The total number of recordable cases for the Diagnosis & Treatment businesses segment increased to 81 (66 in 2020), mainly due to more recorded incidents in our factories North America.

Connected Care businesses

Health and Safety performance in the Connected Care businesses segment in 2021 improved compared to the prior year: 6 LWICs (8 in 2020). Correspondingly, the LWIC rate decreased from 0.11 to 0.09 in 2021. The total number of recordable cases for the Connected Care businesses segment decreased to 21 in 2021 (23 in 2020), mainly driven by our factories in North America.

Personal Health businesses

In the Personal Health businesses segment, Health and Safety incidents decreased in 2021, with 12 registered LWICs, compared to 15 in 2020. The LWIC rate decreased from 0.22 in 2020 to 0.16 in 2021. There were 18 recordable cases in the Personal Health businesses segment in 2021 (21 in 2020). This decrease was mainly due to less recorded incidents in Indonesia and EMEA.

Business Continuity & Resilience

Philips has organized its Business Continuity & Resilience management to increase organization resilience, and maintain customer satisfaction, by continuing the delivery of products, services or solutions to our customers, at acceptable predefined levels, in time of disruption. Philips has deployed and maintains a global Business Continuity Management System (BCMS), which is aligned to, and certified against, the international standard for Business Continuity ISO 22301. Philips was able to manage the effects of COVID-19 and continue to develop and mature its global Business Continuity & Resilience program.

The COVID-19 global pandemic significantly affected Philips' global operations in many ways, including government-mandated factory and office lockdowns, supply chain shortages, travel restrictions, and ensuring employee health and safety. Philips continued to extend its comprehensive global Business Continuity Management System (BCMS) with the deployment to new entities in 2021. More BCMS implementations were originally planned but delayed due to COVID-19. On a Global level 77 BCMS have been implemented and or maintained on a local level by the end of 2021. The BCMS are supported with training materials in Philips University.

As a result, Philips was able to maintain manufacturing operations (and in some cases increase output) and all services to ensure support for our customers, with limited interruption to key service and support activities to hospitals.

13.4.7 Philips Foundation

The Philips Foundation is a registered non-profit organization established in 2014 – founded on the belief that technological innovation and collaboration can drive sustainable and systemic change for primary healthcare systems across the globe and help solve some of the world's toughest access to healthcare challenges. Reflecting its commitment to United Nations Sustainable Development Goals 3 (*Ensure healthy lives and promote well-being for all at all ages*) and 17 (*Revitalize the global partnership for sustainable development*), the mission of Philips Foundation is to reduce healthcare inequality by providing access to quality healthcare for underserved communities through meaningful innovation. In 2021, 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.

Philips Foundation fulfills its mission by deploying Philips' expertise in innovative healthcare technology and solutions, by exploring viable and sustainable healthcare delivery models, and by collaborating with key partners around the world. In 2021, it continued its work with global NGOs such as UNICEF, Amref, Save the Children and the International Federation of Red Cross and Red Crescent Societies (IFRC). The Foundation is increasingly working with proof-of-concept social enterprises working on the ground to make healthcare provision sustainable.

Since the launch of Philips Foundation, more than 300 projects 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. The work always starts with a thorough understanding of the local context and the actual needs of the end beneficiary. In 2021, Philips Foundation's initiatives improved the lives of more than 2.2 million people and provided access to care to over 17.3 million people in some of the most underserved regions across the globe.

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 stage-appropriate investments and support. In 2021, the Foundation therefore extended its strategy by incorporating a fully owned subsidiary – called Philips Foundation Impact Investments B.V. – to invest in social entrepreneurs that can help scale promising initiatives, expressing the ambition to provide access to quality healthcare for around 100 million underserved people annually by 2030.

Philips Foundation continued its program of new and ongoing projects, mainly oriented towards the deployment of technology-based solutions, exploring and supporting scalable healthcare models, and strengthening community and primary care. With projects covering many phases of the health continuum, Philips Foundation focused on addressing the increase in non-communicable diseases, improving maternal and child health outcomes, and strengthening acute and emergency care, which according to the WHO are health topics affecting many people in low- and middle-income countries, and are also in line with Philips' fields of expertise.

In 2021, 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 Aga Khan University, Imaging the World and Amref, the Foundation made breakthroughs in improving mother and child care in sub-Saharan Africa by deploying mobile ultrasound solutions. In India, Kenya and Uganda, it has worked with Save the Children, Healthy Entrepreneurs and the Netherlands Red Cross to strengthen the role of community health workers with innovative technologies and skills to perform more advanced tasks. To accelerate the potential of digital health interventions, Philips Foundation assembled and scaled up promising entrepreneurial digital health models that aim to combine social impact and self-sustaining business models to drive change.

In total, 37 new projects were approved worldwide in 2021, with the Foundation working with Philips employees to improve access to, and availability of, healthcare solutions for vulnerable communities.

As the global COVID-19 pandemic continued to spread, Philips Foundation has been striving to ensure access to critical care for those most in need by leveraging Philips' expertise, innovative products and solutions. Done in partnership with Philips offices, local NGOs and leading healthcare providers, Philips Foundation has responded by providing healthcare solutions that can deliver critical care to patients and relieve the burden on healthcare institutions and its staff. In 2021, for example, more than 800 ventilators were made available to public hospitals in India as part of a collaboration with Prosus, the Johnson & Johnson Family of Companies and Shell International – in addition to the more than 35 countries that received aid from the start of the pandemic.

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 5,800 product and component suppliers and 18,000 service providers. Our supply chain sustainability strategy is updated annually through a structured process, combined with dedicated multi-stakeholder dialogues. Our most recent supplier sustainability stakeholder dialogue took place in June 2019. 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.

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.

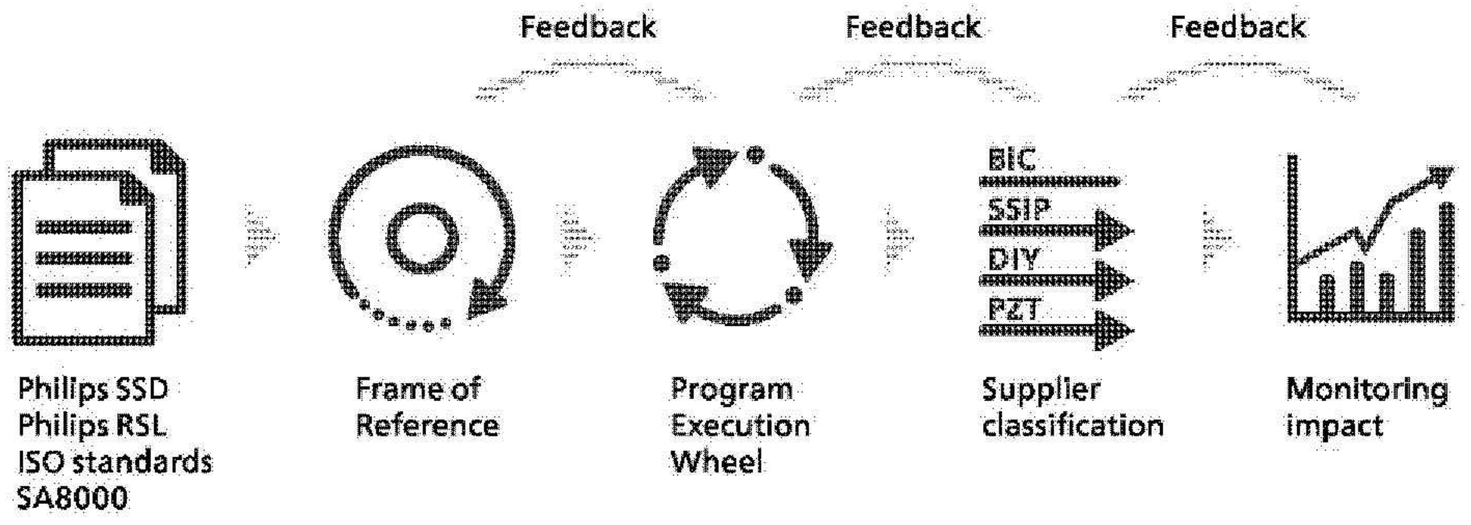
All suppliers are required to commit to the SSD and RSL. Through integration of a Sustainability Agreement in our General Purchase Agreement, suppliers declare compliance to both the SSD and RSL. Upon request, they provide additional information and evidence.

Supplier Sustainability Performance (SSP) - 'Beyond Auditing'

In 2016, Philips moved away from its traditional approach to audit suppliers, which it had been taking since 2004. Insights from data analysis showed this old approach was insufficient to drive sustainable improvements. Our SSP approach, first piloted in 2016, focuses 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 2021, 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 2021 results

In 2021, four zero tolerances were found across the following categories: health and safety, labor, and environmental impact. Most cases related to fire safety risks at our suppliers. three of the four cases were successfully closed in 2021. The remaining zero tolerance is still pending closure, while having an active mitigation plan in place.

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)

	2019	2020	2021
Lives improved in the Supply Chain	286	302	430

In 2021, the overall year-on-year improvement in performance is 24% for suppliers that entered the program in 2020. The number of employees impacted at suppliers participating in the SSP program was approximately 430,000. 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 in the past year, refer to the following table.

Categories which showed the biggest improvement are:

- Corrective action approach to Business Ethics: improving the approach to follow-up investigations into raised concerns and continuous improvement of the supplier's business ethics management system
- Management responsibility for Human Capital: improving management attention and structural periodic review of relevant key performance indicators
- Target setting and tracking of Business Ethics topics: improving periodic evaluations of grievance mechanisms, setting targets on complaints resolving, and progress reporting mechanisms

In 2021, 99 suppliers were added to the SSP program. Of the population of suppliers that entered the program in the years before 2021, 252 suppliers were still active in 2021. The combined group represents 43% of our critical suppliers who are in the program.

As part of the adoption of our new 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 in 2021, adding a higher number of new suppliers due to changing risk profiles. We expect to roll out the program to additional manufacturing countries in the years to come.

Philips Group
SSP 2021 performance: pro-rata improvements in %

Topics	Policy	Procedures	Implementation	Management Responsibility	Communication	Risk control	Target Setting &Tracking	Corrective action approach	Supplier management
Environment	8%	6%	8%	8%	10%	11%	11%	19%	16%
Health and Safety	11%	15%	6%	11%	14%	16%	21%	25%	15%
Business Ethics	10%	19%	21%	(4)%	25%	3%	26%	55%	8%
Human Capital	9%	8%	(5)%	24%	9%	9%	10%	6%	8%

Additional progress made in 2021

Apart from the inclusion of additional suppliers annually into the award-winning SSP program, 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 2021, a new study was launched that enables prediction of suppliers' actual performance, based on a limited number of survey questions. Once these insights are translated into a workable tool, it can help to greatly reduce the time spent on assessments. This leaves more room for experts to support suppliers in their capability building, by sharing best practices and creating business cases that enable improvements.

In addition, we updated the assessment framework through which suppliers are graded. Also, we have started to perform topical deep-dives at suppliers, subject to their maturity.

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 2021, 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 U.S. 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 one percentage point compared to the 2020 due diligence results. The number of non-listed smelters remained zero (2020: 0).

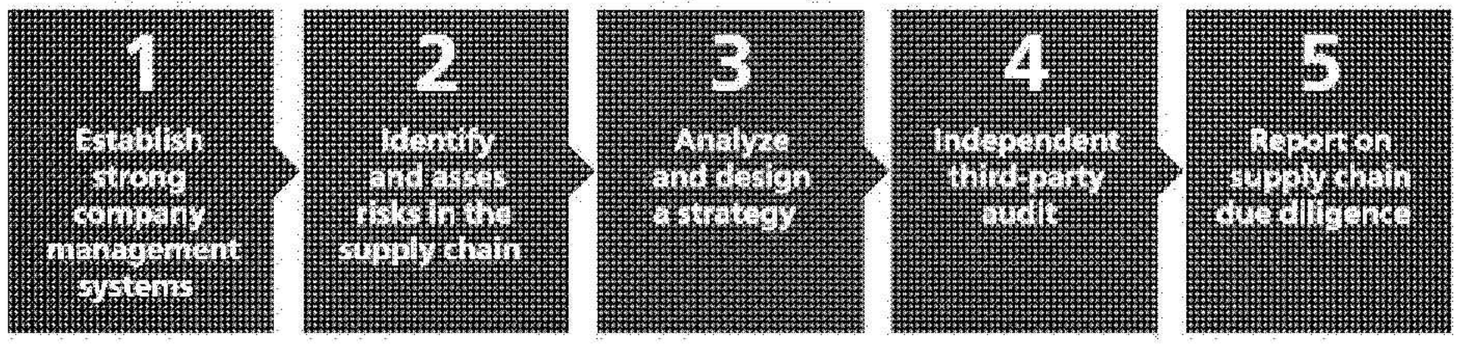
Philips Group
Conflict Minerals Due Diligence results

Key performance indicator	2019	2020	2021
Response rate of suppliers	100%	99%	99%
CMRTs that satisfied minimum acceptance criteria	85%	85%	84%
Non-listed smelters in our supply chain	3	0	0

Responsible Sourcing approach of Philips

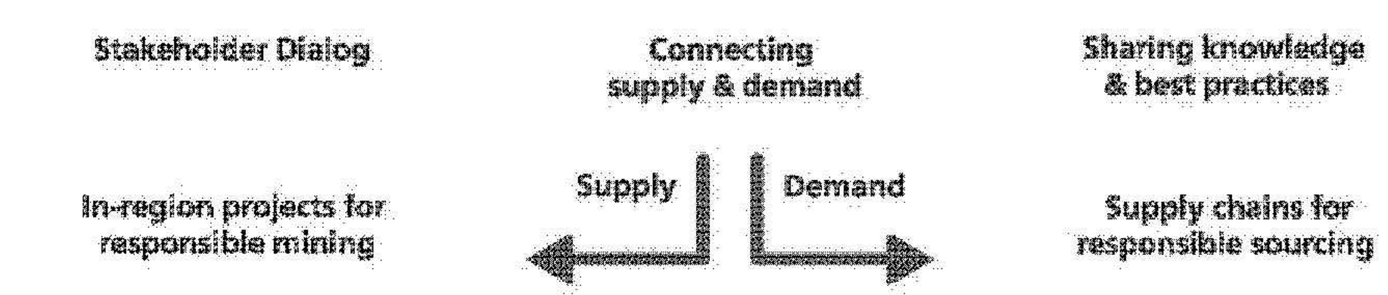
Multi-stakeholder initiatives

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

In 2021, Philips extended the scope of its due diligence program on cobalt. We use cobalt predominantly in lithium-ion batteries. As part of this initiative, we engaged suppliers that provide materials containing cobalt. In 2021, we again reached a 100% response rate (2020: 100%).

Case study: Establishing the Mthandazo Women Miners' Association
Conflict-related problems affect Mthandazo women gold miners in Zimbabwe. These impacts are caused by political instability in the country, institutional weaknesses in mining sector administration, and violence, abuse, and criminality in the local gold sector. Furthermore, the women miners often do not have adequate access to legal assistance on contracts and agreements signed with gold traders or on the application of responsible sourcing standards (e.g. OECD). The project to establish the Women Miners' Association will be anchored by several activities, including legal training, expert training on responsible sourcing, registration of women miner groups, dispute resolution, and development of a due diligence and traceability system.

The Women Miners' Association promotes women-led responsible, traceable, safe, and profitable gold mining in the artisanal small-scale mining sector in Zimbabwe through the application of OECD Due Diligence Guidance principles in high-risk or conflict affected areas. Through the association, women miners are empowered to establish a system to assess the impact of their gold mining, processing and marketing operations, as part of due diligence to eliminate any vulnerabilities and risks associated with human rights, working conditions, violent conflicts and environmental harm.

Case study: Fairmined gold in Honduras
Artisanal and small-scale mining (ASM) is an invisible sector in Honduras, as there is a lack of wider recognition of its current contributions and needs. The creation of the Unit for ASM in INHGEOMIN (the country's mining authority) has had a positive effect on the ASM sector. However, staffing and technical knowledge are not yet sufficient to serve the entire ASM population and its demands. Also, the ASM sector is poorly recognized in the market, leading to a lack of formal market access.

Minas y Cuevas (the projects' pioneering mining cooperative) has been compliant with CRAFT, a management system framework developed for small mines, since December 2019, guaranteeing that it can access formal markets, subject to evidence of continued improvement. The project seeks to build on this foundation and to encourage the adoption of best mining practices in the ASM sector in Honduras, so that it becomes a legitimate, responsible, and profitable sector that promotes inclusive and sustainable development in rural areas, improving the quality of life of miners and their communities. Market access will be facilitated through the sale of CRAFT and Fairmined (a label given by the Alliance for Responsible Mining) gold from Honduras and European downstream actors. Through this project, working conditions and the livelihoods of the miners are improved through responsible gold production.

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 include 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 represents gold and precious metal, recycling, and electronic companies in the steering committee of the Responsible Gold Agreement. From this partnership, Philips co-developed a project with several other parties including civil society actors, to facilitate sourcing of responsible gold from Uganda. The project is aimed specifically at artisanal and small-scale mines (ASM) and works to establish a sustainable, traceable gold supply chain with improved working conditions for miners and free of child labor. The approach is designed to be scaled up and serves as a potential blueprint for mines in other regions. Since 2019, Philips is also an active member of the steering committee of the Responsible Gold Agreement.

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
% of suppliers committed to science-based target	28%

We consider suppliers to have committed to science-based targets when this is communicated via their CDP disclosures, public websites and announcements, or the Science Based Targets Initiative website. Multiple activities have been deployed to support our achievement of this climate target.

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 2021, there was a response rate of 87% (2020: 91%). Part of the reason for the lower response rate is an increase in the number of invited suppliers by 25% compared to 2020. We expect to further grow the number of suppliers that respond in the coming years, thereby enhancing our insights into the climate maturity of suppliers.

Of the group that responded, 61% engaged in emission-reduction initiatives (2020: 65%). In addition, 56% committed to carbon emission targets (2020: 64%). Our suppliers undertook projects in 2021 that resulted in savings on carbon emissions amounting to 452 million metric tonnes CO_2.

Philips Group
Supplier response rate to CDP questionnaire

2019	2020	2021
82%	91%	87%

Data-driven insights: Through accurate data insights, Philips' buyers are enabled to consider climate action in their supplier selection. In 2021, 28% of our purchases (in spend) were made at suppliers that have committed to science-based CO_2 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 2021, we provided tailored feedback and guidance for 61% 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 2021, 13 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 62

13.5.1 General Business Principles

In 2021, a total of 610 concerns were reported via Philips Speak Up (*Ethics Line*) and through our network of GBP Compliance Officers, an increase of 7% year-on-year (2020: 571 concerns).

While this is a continuation of the upward trend reported since 2014, the year in which Philips updated its General Business Principles and deployed a strengthened global communication campaign, the increase is flattening. We still 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 both 2020 and 2021 make it imprudent to draw any specific conclusions from these numbers.

Specifically in 2021, we once more focused on increasing awareness on Integrity and on the importance of speaking up, through and following the deployment of our biennial Business Integrity Survey. Through this survey, 27,000 employees trusted us with their views and opinions on integrity within Philips. 94% of employees expressed the belief that we act with integrity at Philips. To gain deeper insights into the results of the Business Integrity Survey, we are executing deep-dive initiatives amongst our employees throughout the company, the results of which will become available during the first half of 2022. As in previous years, teams around the world have participated in structured dialogues with their manager where quality, integrity and speaking up are discussed as part of a company-wide initiative. We have fully revised our GBP and Legal Compliance e-learning, further driving the impact of this training initiative, and improving learner experience. Over 71,000 of our employees completed this e-learning. Where COVID-19 restrictions allowed, we have also initiated dedicated face-to-face GBP training for our direct employees who do not have access to hardware to complete online training.

In percentage terms, the increase in reports is specifically visible in North America, which is now responsible for 51% of all reported concerns (2020: 45%). Latin America showed a small increase to 14% (2020: 12%), EMEA showed a decline to 14% (2020: 22%). The APAC region remained stable at 21%.

Philips Group
Breakdown of reported GBP concerns in number of reports [1]

	2017	2018	2019	2020	**2021**
Health & Safety	11	11	9	26	19
Treatment of employees	211	254	320	342	365
- Equal and fair treatment	59	63	55	52	31
- Employee development	12	8	9	5	20
- Employee privacy	1	6	10	8	11
- Employee relations	32	24	18	13	6
- Respectful treatment	77	102	163	160	226
- Remuneration	8	11	9	28	7
- Forced labor	-	-	-	1	-
- Conflict of interest	-	-	1	6	7
- Working hours	9	12	14	27	10
- HR other	13	28	41	42	47
Legal	36	59	44	39	48
Business Integrity	104	96	138	127	112
Procurement	6	6	7	12	4
IT	6	4	3	5	8
Other	8	8	24	20	54
Total	**382**	**438**	**545**	**571**	**610**

[1] Includes Domestic Appliances

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 2021 there were 365 reports in this category, compared to 342 in 2020. This represents 60% of the total number of concerns, similar to 2020 (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, 51% of cases originated from North America, similar to 2020 (51%).

Business integrity

The second most-reported type of concern relates to 'Business Integrity', which accounted for 18% of total cases reported in 2021, down from 22% in 2020. These concerns originated primarily from the APAC region (34%), followed by the North America region (29%), Latin America (21%) and EMEA (16%).

Substantiated/unsubstantiated concerns

Of the 610 cases reported in 2021, 180 are still pending closure, the majority being those that were filed in the last quarter of the year. The table above gives an overview of the number of reported concerns that were substantiated (i.e. were found to constitute a breach of our General Business Principles) by the subsequent investigation.

Of the 430 reports from 2021 that were closed during the same year, (409 in 2020), 94 were substantiated, which represents 22% of the total number reported and closed (27% in 2020). In 2021, 21% of the 'Treatment of employees' cases were substantiated, compared to 27% in 2020 (2019: 28%, 2018: 28%). In addition, 25% of the 'Business Integrity' reports were closed as substantiated in 2021, compared with 36% in 2020 (2019: 44%, 2018: 45%).

Philips Group
Classification of the new concerns investigated in number of reports [1]

	2019		2020		**2021**	
Category	substantiated	unsubstantiated	substantiated	unsubstantiated	**substantiated**	**unsubstantiated**
Health & Safety	2	3	3	17	2	14
Treatment of employees	64	164	73	201	56	215
Legal	10	18	7	19	10	20
Business Integrity	31	40	25	45	17	50
Procurement	2	4	1	8	1	3
IT	-	-	1	3	5	3
Other	4	10	-	6	3	31
Total	**113**	**239**	**110**	**299**	**94**	**336**

[1] Includes Domestic Appliances

In addition to the above, 207 concerns that were still open at the end of 2020 were closed during the course of 2021. A total of 82 (39%) of these concerns were substantiated after investigation.

A total of 176 closed concerns were substantiated. These substantiated concerns were followed up with remedial actions and/or disciplinary measures, where appropriate. Remedial action can be corrective, varying from strengthening the business processes, training and coaching, to increasing awareness of the expected standard of business conduct. Disciplinary measures may include termination of employment and written warnings. Disciplinary measures were taken in relation to 81 substantiated concerns.

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. With regard to 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 and reduce our shared environmental footprint, in line with the UN's Sustainable Development Goal 17 (*Strengthen the means of implementation and revitalize the global partnership for sustainable development*).

Expanding Universal Health Coverage

We can only achieve universal health coverage (UHC) by 2030 if the public, private and non-profit sectors work together.

In the Republic of Congo, the United Nations Population Fund (UNFPA) and the Government of the Republic of Congo are implementing, in partnership with Philips, the Eboteli program to strengthen maternal and child health. As part of the first phase of the program, 19 facilities at primary and hospital level are currently being upgraded and provided with modern infrastructure, energy, water, medical equipment, software and services. The program is impacting the lives of 500,000 women and children, and the intention is to scale it nationwide. Projects like this are especially vital since COVID-19 has dealt a disproportional blow to women and girls, particularly those living in low- and middle-income countries. In December 2021, Philips officially kicked off phase 2 of the program.

As a member of the UHC2030 Private Sector constituency, Philips is committed to making healthcare accessible, with a focus on innovation.

Together with Philips Foundation and local partners, Philips is supporting the deployment of virtual and digital healthcare solutions, working with the top-ranking Albert Einstein Hospital in Brazil to provide life-saving telehealth consultations in rural villages, enabling high-quality healthcare from a distance and countering the rise of non-communicable diseases, like heart disease and cancer. In Kenya and Uganda, Philips also partnered up with Philips Foundation and social enterprise Healthy Entrepreneurs to expand access to diagnostic tools, more complex consultations and follow-ups. Community health workers receive expert consultation via an app-based collaboration and data-sharing platform using a virtual care model.

Philips recognizes that investments in strengthening health systems in underserved communities are lagging due to a financing gap. The current financing instruments to invest in healthcare are simply inadequate to help scale innovations. To address this challenge, Philips has set out a strategy to strengthen the financing ecosystem for health systems with a focus on Africa. In March 2021, the company launched a partnership with Dutch entrepreneurial development bank FMO to de-risk early-stage investments in UHC based on the shared belief that private sector innovations and partnerships result in better and affordable care underpinned by investable business models for underserved communities. In December 2021, Philips made a EUR 2.5 million investment in the Medical Credit Fund II, a blended debt fund fully dedicated to small and medium-sized health enterprises (SMEs) in Africa. This investment demonstrates that there is a role for private capital to unlock investments in healthcare in Africa. Finally, Philips joined the Health Finance Coalition and committed to make an investment in the Transform Health Fund. This blended capital fund will leverage private capital to achieve public health goals in Africa.

Finally, integral to the digital transformation of healthcare is the need for collaboration among different sectors. Opportunities are emerging to partner in new ways that leverage both public and private expertise. For example, Philips and the Bill & Melinda Gates Foundation recently announced a project to develop an artificial intelligence (AI)-based application suite to improve the quality and accessibility of obstetric care in low- and middle-income countries. The project aims to significantly reduce the number of women who die from preventable causes related to pregnancy and childbirth – currently over 800 women every day worldwide – while also reducing fetal mortality and morbidity.

Towards resilient health systems in Europe

The COVID-19 pandemic continued to dominate the European Union (EU) political scene in 2021. The European Commission issued several legislative proposals aimed at ensuring an adequate preparedness and response to the current and any future health crisis. The unprecedented EU recovery plan for Europe triggered debate among politicians and civil society on future resilient health systems. Philips engaged in several discussions with EU policy makers and stakeholders on crisis preparedness and response. We have been sharing our vision on resilient, sustainable and agile health systems supported by digital

transformation and enabled by well-functioning global supply chains. We focused on the potential of the future European Health Data Space, and benefits of AI-enabled solutions in healthcare delivery. We also highlighted the case for the GAIA-X initiative, which is the leading example that creates the foundation for a federated, open data infrastructure based on European values. Philips contributed to several panel discussions and publications by our EU trade associations: COCIR, MedTech Europe, Digital Europe and European Round Table for Industry (ERT). Examples include: a COCIR event on The Promise of Data in Healthcare, MedTech Europe's publication 'Recovery/Resilience Agenda: Integration of digital health in the EU healthcare systems', Digital Europe's webinar: 'The role of a European Health Data Space in a pandemic', and the ERT report 'Renewing the dynamic of European integration: Single Market Stories by Business Leaders'.

Due to the lockdown measures, all meetings and events in Brussels have been digitized. Continuing to build its thought leadership and strengthen its reputation as a health technology leader with our key EU stakeholders, Philips leveraged its media partnership with EurActiv and Euronews and hosted virtual high-level panel discussions with EU policy makers, medical professionals, patient associations and academics around building resilience and sustainability in health systems. Philips again partnered with POLITICO and hosted a panel discussion on the need for a comprehensive and patient-centric approach to cancer care in Europe in the context of the Europe's Beating Cancer Plan.

Through its continued membership of the All Policies for a Healthy Europe Coalition, Philips aims to position citizens' health and well-being at the heart of EU policy making. In particular, Philips sought to help shape the discussion around digital technology and the Green Deal. Philips officially joined the EU Green Consumption Pledge initiative aimed at encouraging voluntary commitments, beyond legal obligations, made by businesses to increase the sustainability of production and consumption, and therefore accelerate the contribution of business to a sustainable economic recovery, and to build consumer trust on the environmental performance of companies and products. Marnix van Ginneken, Philips' Chief Legal Officer, joined the roundtable organized by the European Commission to discuss the next steps of the EU Green Consumption Pledge Initiative with European Commissioner Didier Reynders and four European representatives of citizens, consumers and businesses.

Philips was also a partner of the European Health Summit, where Sophie Bechu, Philips' Chief Operations Officer joined a high-level panel with European Commissioner for Health Stella Kyriakides on pandemic preparedness and the EU Health Emergency Response Authority (HERA). Philips offered its point of view and expertise related to supply chain resilience and the need for closer public-private collaboration to ensure good processes, coordination, and governance.

Strengthening international collaborations during COVID-19 pandemic

Philips continued to engage with a large number of stakeholders, including the WHO, World Bank, the Global Fund, UNOPS, in better understanding the evolution of the COVID-19 crisis and contributing our expertise to help understand how medical devices could address the most pressing needs of COVID-19 patients in developing countries.

Driving circular economy

At Philips, we engage with multiple stakeholders to drive circular practices worldwide. Through co-chairmanship of PACE (Platform for Accelerating the Circular Economy), Philips CEO Frans van Houten is supporting industry, governments and NGOs in formulating strategies for change, spearheading implementation, and assembling a coalition of like-minded companies prepared to make circular economy pledges. In 2021, PACE announced the Circular Economy Action Agenda – a set of five expert reports on Electronics, Food, Plastics, Textile and Capital Equipment that represent a rallying call to accelerate the transition to a circular economy. The Action Agenda builds on expertise from over 100 organizations. Currently, PACE activities run across China, South-East Asia, Europe, Latin America and North America and is further scaling and accelerating its activities to drive the Action Agenda. Philips is an active driver of the Capital Equipment coalition, with hubs in Europe and North America.

Together with other parties, Philips contributed to the Circularity Gap report, providing a clear roadmap for driving circular action. In 2021, Philips renewed its strategic partnership with the Ellen MacArthur Foundation (EMF) and joined the call to action to embed circular practices with urgency during the EMF 2021 summit. 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), whose Circular Transition Indicators (CTI) framework enables companies to take ownership of their circular transition. Finally, in 2021 Philips became an official campaign sponsor of 'Going Circular' – the global independent film documentary that explores concrete solutions that individuals and communities are using to move toward a more circular society based on nature's universal principles that everything is reused, and nothing goes to waste.

Driving climate action

We already source 100% of our electricity from renewable sources, and finance projects in developing regions to compensate unavoidable emissions. And 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 circular-ready, and we continue to optimize 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. Philips received the prestigious 'A List' award for the ninth year in a row, from global environmental impact non-profit CDP, for our efforts to cut emissions, mitigate climate risks and develop the low-carbon economy.

In 2021, we teamed up with key strategic stakeholders, partners and customers during high-level events and stakeholder meetings – including the World Economic Forum (WEF) virtual Annual Meeting and the meetings of the Alliance of CEO Climate Leaders – to scale and drive the adoption of green practices and a smooth transition to a low-carbon and climate-resilient economy, to deliver the Paris Agreement. Philips endorsed its call for action in an open letter from global CEOs to act, move fast and boost investment towards a net-zero

world. In November, during COP26, Philips announced it is stepping up its collaboration with suppliers, with the aim of having at least 50% of its suppliers (based on spend) commit to science-based targets for CO_2 emission reduction by 2025.

Global partnerships and industry research

Philips maintains a close stakeholder relations network, through strategic global and European partnerships and by commissioning global industry research. Some examples are mentioned below.

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 onset of the COVID-19 pandemic, the year kicked off with a virtual Davos, during which Frans van Houten joined a panel with Dr Anthony Fauci, Director of the US National Institute of Allergy and Infectious Diseases (NIAID), to discuss how business and governments can improve collaboration to make the world more resilient in the face of future pandemics.

To champion this topic further, Philips joined forces with WEF, AstraZeneca and the London School of Economics 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. 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 to deliver better health and better care for all.

In 2021, Philips continued to collaborate closely with the WEF International Business Council (IBC) on further elaborating the Environmental, Social and Governance (ESG) metrics framework published in September 2020. 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. Philips has advocated for the adaptation across various platforms like the WEF ESG practitioners group and the ERT Sustainable Finance group and has included the framework in this 2021 Annual Report.

Philips is a member of the European Round Table for Industry (ERT), which includes CEOs and Chairs of around 55 of Europe's leading multinational companies. ERT strives for a strong, open and competitive Europe, with the EU and its Single Market as a driver for inclusive growth and sustainable prosperity. In the run-up to COP26, the ERT – together with the Business Roundtable, the Business Council of Australia, the Business Council of Canada and the Business Council of Mexico – published a joint statement to express the business community's strong support for climate action that tackles the threat of climate change while enabling growth, fostering competitiveness and supporting communities.

Engaging with Healthcare Professionals and Key Opinion Leaders: The 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 2021 report considers how healthcare leaders are meeting the demands of today and what the new reality of healthcare post-crisis might look like. Specifically, the report explores the challenges they have faced, their investment in digital health technology, and a new emphasis on partnerships, sustainability and new models of care delivery, both inside and outside the hospital.

13.6 Assurance report of the independent auditor

To: The Supervisory Board and Shareholders of Koninklijke Philips N.V.

Our opinion

We have audited the sustainability information in the accompanying annual report for the year 2021 of Koninklijke Philips N.V. (the Company) based in Eindhoven, the Netherlands. An audit is aimed at obtaining a reasonable level of assurance.

In our opinion, the sustainability information presents, in all material respects, a reliable and adequate view of:

- The policy and business operations with regard to sustainability
- The thereto related events and achievements for the year 2021

in accordance with the Sustainability Reporting Standards (option Comprehensive) of the Global Reporting Initiative (GRI Standards) and applied supplemental reporting criteria as included in section 'Approach to sustainability reporting' of the annual report.

The sustainability information consists of section 'Materiality analysis', chapter 'Environmental, Social and Governance' except for sections 'EU taxonomy framework', 'Remuneration policy' and 'Risk management approach' and chapter 'Sustainability statements' of the annual report.

Basis for our opinion

We have conducted our audit on the sustainability information in accordance with Dutch law, including Dutch Standard 3810N, "Assurance-opdrachten inzake maatschappelijke verslagen" (Assurance engagements relating to sustainability reports), which is a specific 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 sustainability information of our report.

We are independent of Koninklijke Philips N.V. in accordance with EU Regulation on specific requirements regarding the 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 requirements in the Netherlands. 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 audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Reporting criteria

The sustainability information needs to be read and understood together with the reporting criteria. Koninklijke Philips N.V. is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.

The reporting criteria used for the preparation of the sustainability information are the Sustainability Reporting Standards (option Comprehensive) of the Global Reporting Initiative (GRI Standards) and applied supplemental reporting criteria as included in section 'Approach to sustainability reporting' of the annual report.

The absence of an established practice on which to draw, to evaluate and measure sustainability information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Materiality

Based on our professional judgement we determined materiality levels for each relevant part of the sustainability information and for the sustainability 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 which in our view must be reported on quantitative or qualitative grounds, would be reported to them.

Limitations to the scope of our audit

The sustainability information includes prospective information such as ambitions, strategy, plans, expectations and estimates. Inherent to prospective information, the actual future results are uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the sustainability information.

The references to external sources or websites in the sustainability information, excluding 'Methodology for calculating Lives Improved', 'Methodology for calculating the Environmental Profit & Loss Account' and the 'GRI content index', are not part the sustainability information as audited by us. We therefore do not provide assurance on this information.

Our opinion is not modified in respect to these matters.

Responsibilities of the Board of Management and the Supervisory Board for the sustainability information

The Board of Management is responsible for the preparation of reliable and adequate sustainability 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 choices made by the Board of Management regarding the scope of the sustainability information and the reporting policy are summarized in section 'Approach to sustainability 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 sustainability information that are free from material misstatement, whether due to fraud or errors.

The Supervisory Board is responsible for overseeing the reporting process of Koninklijke Philips N.V.

Our responsibilities for the audit of the sustainability information

Our responsibility is to plan and perform the audit 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 have detected all material errors and fraud.

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.

We have exercised professional judgment and have maintained professional skepticism throughout the audit performed by a multi-disciplinary team, in accordance with the Dutch assurance standards, ethical requirements and independence requirements.

Our audit included amongst others:

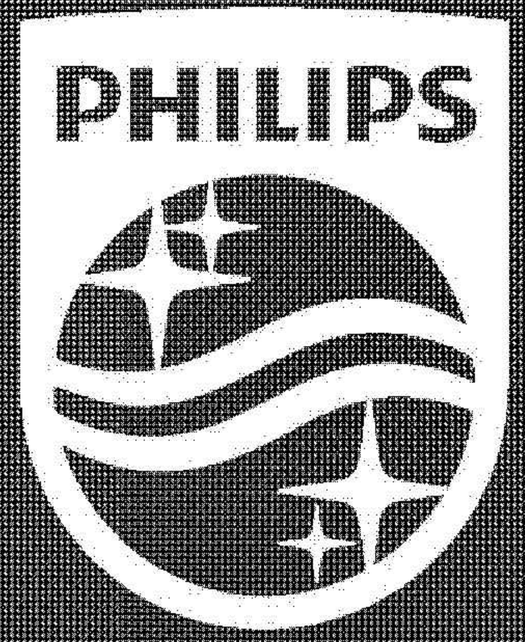
- Performing an analysis of the external environment and obtaining an understanding of relevant social themes and issues, and the characteristics of the Company
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the sustainability information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by the Board of Management
- Obtaining an understanding of the systems and processes for collecting, reporting and consolidating the sustainability 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 sustainability information is misleading or unbalanced, or contains material misstatements, whether due to fraud or errors. 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 sustainability 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 further audit procedures consisted amongst others of:
  - Interviewing management and relevant staff at corporate level responsible for the sustainability 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 sustainability information
  - Determining the nature and extent of the audit procedures for the Company's sites. For this, the nature, extent and/or risk profile of these components are decisive. Based thereon we selected the locations to visit virtually. The virtual visits to Coyol in Costa Rica and Zhuhai in China are aimed at, on a local level, validating source data and evaluating the design and implementation of controls and validation procedures
  - Obtaining assurance information that the sustainability information reconciles with underlying records of the Company
  - Evaluating relevant internal and external documentation, on a test basis, to determine the reliability of the sustainability information
  - Evaluating the suitability and plausibility of the external sources used in the calculations on which the reported Lives improved and Environmental Profit & Loss Account are based
  - Evaluating whether the assumptions used in the calculations, on which the reported Lives improved and Environmental Profit & Loss Account are based, are reasonable
  - Performing an analytical review of the data and trends in the information submitted for consolidation at corporate level
  - Reconciling the relevant financial information with the financial statements
  - Evaluating the consistency of the sustainability information with the information in the annual report which is not included in the scope of our audit
  - Evaluating the overall presentation, structure and content of the sustainability information
  - Considering whether the sustainability information as a whole, including the disclosures, reflects the purpose of the reporting criteria used

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant findings, including any significant findings on internal control that we identify during our audit.

Amsterdam, the Netherlands
February 22, 2022

Ernst & Young Accountants LLP

Signed by J. Niewold



www.philips.com/annualreport2021

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