

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.

9.2 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.



9.3 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.

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.

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.

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.

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.

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.

9.4 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 a material adverse impact on Philips' business, financial condition and operating results.

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: 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.

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.

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.

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.

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.

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.

9.5 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.

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.

9.6 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.

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.

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.

10 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](#) 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.

For a current overview of the Supervisory Board members, see also <https://www.philips.com/a-w/about/supervisory-board.html>

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

11 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](#) 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.

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](#) 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

11.1 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](#), 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.

11.2 Report of the Remuneration Committee

11.2.1 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 Van Houten remained unchanged.

Company performance despite headwinds

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

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

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

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

The composition of the Remuneration Committee and its activities

The Remuneration Committee is chaired by Paul Stoffels. Its other members are David Pyott and Feike Sijbesma. The Committee is responsible for preparing decisions of the Supervisory Board on the remuneration of individual members of the Board of Management and the Executive Committee, as well as the policies governing this remuneration. In performing its duties and responsibilities, the Remuneration Committee is assisted by an external consultant and an in-house remuneration expert. For a full overview of the responsibilities of the Committee, please refer to the Charter of the Remuneration Committee, as outlined in Chapter 3 of the Rules of Procedure of the Supervisory Board (which are published on the company's website).

Our annual Remuneration Committee cycle enables us to have an effective decision-making process supporting the determination, review and implementation of the Remuneration Policy. The main (recurring) activities during the annual cycle are outlined in the following table:

July to September:	October to December:	January to March:	April to June:
<ul style="list-style-type: none"> Review the Remuneration Policy in line with the business strategy and priorities and assess the need for changes 	<ul style="list-style-type: none"> Engage in stakeholder dialogues regarding the Remuneration Policy and proposed changes for the next year (if any) 	<ul style="list-style-type: none"> Evaluate business performance and achievement of Annual and Long-Term Incentive targets 	<ul style="list-style-type: none"> Effectuate compensation level changes
<ul style="list-style-type: none"> Review the Remuneration Committee Charter 	<ul style="list-style-type: none"> Assess compensation levels against the median of the Quantum Peer Group for compensation benchmarking purposes 	<ul style="list-style-type: none"> Rigorous target setting of the performance metrics for the upcoming year and multi-year LTI cycle 	<ul style="list-style-type: none"> Prepare and hold the Annual General Meeting of Shareholders including a discussion on the implementation of the Remuneration Policy
	<ul style="list-style-type: none"> Conduct scenario analyses 	<ul style="list-style-type: none"> Set compensation levels for the upcoming year based on the assessment against the Quantum Peer Group 	
	<ul style="list-style-type: none"> Prepare Remuneration Report for the previous year 		

The Committee met five times in 2021. All Committee members were present during these meetings.

At Philips, our purpose is to improve people's health and well-being through meaningful innovation. The Remuneration Committee believes that the Remuneration Policy (and Long-Term Incentive Plan) for the Board of Management supports this purpose. Please refer to the Remuneration Report below, for the way the Remuneration Policy has been implemented in the year 2021.

Paul Stoffels

Chairman of the Remuneration Committee

11.2.2 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.
Long-Term Incentive	Our Long-Term Incentives form a substantial part of total remuneration, with payouts contingent on achievement of challenging EPS targets, relative TSR performance against a high performing peer group and sustainability objectives that are directly aligned with our purpose to make the world healthier and more sustainable through innovation.	The annual award size is set by reference to a multiple of base salary. The actual number of performance shares to be awarded is determined by reference to the average of the closing price of the Royal Philips share on the day of publication of the first quarterly results and the four subsequent trading days. Dependent upon the achievement of the performance conditions, cliff-vesting applies three years after the date of grant. During the vesting period, the value of dividends will be added to the performance shares in the form of shares. These dividend-equivalent shares will only be delivered to the extent that the award actually vests.	President & CEO Annual grant size: 200% of Annual Base Compensation. Other BoM members Annual grant size: 150% of Annual Base Compensation. Maximum vesting opportunity is 200% of the number of performance shares granted.
Mandatory share ownership and holding requirement	To further align the interests of executives to those of stakeholders and to motivate the achievement of sustained performance.	The guideline for members of the Board of Management is to hold at least a minimum shareholding in the company. Until this level has been reached the members of the Board of Management are required to retain all after-tax shares derived from any Long-Term Incentive Plan. All Board of Management members have reached the required share ownership level. The shares granted under the Long-Term Incentive Plan shall be retained for a period of at least 5 years or until at least the end of their contract period if this period is shorter. The guideline does not require members of the Board of Management to purchase shares in order to reach the required share ownership level.	The minimum shareholding requirement is 400% of annual base compensation for the CEO and 300% for other members of the Board of Management.
Pension	Pension plan and pension contribution intended to result into an appropriate level at retirement.	1. Defined Contribution plan with fixed contribution (applicable to all executives in the Netherlands - capped at EUR 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

11.2.3 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 Growth¹⁾, EBITA²⁾ and free cash flow³⁾. As the Company did only partially reach its strategic and operational objectives, this resulted in a partial payout on comparable sales growth¹⁾, no payout on EBITA²⁾ and a partial payout on free cash flow³⁾.

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 growth¹⁾ - in the calculation of the comparable sales growth¹⁾ and corresponding impacts on EBITA²⁾ and free cash flow³⁾ 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.

Financial performance criteria	Weighting as % of target	Assessment of performance					Weighted pay-out as % of target Annual Incentive
	Annual Incentive	threshold performance	target performance	maximum performance	realized performance	resulting payout as % of target	
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](#).

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.

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

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

Annual Incentive realization 2021 in EUR unless otherwise stated

	Annual incentive opportunity		Realized annual incentive			
	Target as a % of base compensation	Target Annual Incentive	Financial performance (weighted pay-out %)	Individual performance (weighted pay-out %)	Payout as % of target Annual Incentive ¹⁾	Realized annual incentive
Frans van Houten	100%	1,325,000	34%	30%	64%	850,915
Abhijit Bhattacharya	80%	636,000	34%	23%	57%	360,103
Marnix van Ginneken	80%	492,000	34%	31%	64%	317,192

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

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

2022 Annual Incentive

The Annual Incentive criteria consist of:

Financial criteria (80% weighting):

For the year 2022, the following financial indicators of the company's results are selected to ensure alignment with the key (strategic) priorities in the year:

- Profit/margin
- Revenue/growth
- Cash flow

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

Individual criteria (20% weighting):

The contribution of the individual member is assessed based on areas of responsibility, for which annually two to a maximum of five performance categories are selected for each Board of Management member from the following list:

- Customer results
- Quality & operational excellence
- Strategy execution
- People & organization
- ESG/Sustainability

For the year 2022, the following performance categories are selected to ensure alignment with the key (strategic) priorities in the year:

Board of Management Member	Selected performance categories
Frans van Houten	<ul style="list-style-type: none"> • Customer Results • Quality & operational excellence • Strategy execution • People & organization
Abhijit Bhattacharya	<ul style="list-style-type: none"> • Quality & operational excellence • Strategy execution • People & organization
Marnix van Ginneken	<ul style="list-style-type: none"> • Quality & operational excellence • Strategy execution • People & organization • ESG/Sustainability

2019 Long-Term Incentive

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

TSR (50% weighting)

A ranking approach to TSR applies with Philips itself included in the TSR Performance Peer Group. TSR scores are calculated based on a local currency approach and by taking a 3-month averaging period prior to the start and end of the 3-year performance period. The performance incentive pay-out zone is outlined in the following table, which results in zero vesting for performance below the 40th percentile and 200% vesting for performance levels above the 75th percentile. The incentive zone range has been constructed such that the average pay-out over time is expected to be approximately 100%.

Philips Group

Performance-incentive zone for TSR in %

Position	20-14	13	12	11	10	9	8	7	6	5-1
Payout	0	60	80	100	120	140	160	180	190	200

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

TSR results LTI Plan 2019 grant: 14.08%

	total return	rank number
Getinge	351.68%	1
Danaher	207.27%	2
ResMed	149.39%	3
Hitachi	114.31%	4
Hologic	79.20%	5
Siemens Healthineers	77.30%	6
Stryker	62.22%	7
Terumo	58.28%	8
General Electric	40.84%	9
De Longhi	40.39%	10
Cerner	34.93%	11
Medtronic	32.19%	12
Johnson & Johnson	27.14%	13
Groupe SEB	19.26%	14
Boston Scientific	15.86%	15
Philips	14.08%	16
Becton Dickinson	7.35%	17
Elekta	(0.64)%	18
Smith & Nephew	(2.33)%	19
Fresenius Medical	(14.8)%	20

Adjusted EPS growth (50% weighting)

The LTI Plan EPS payouts and targets set at the beginning of the performance period were as follows:

Philips Group

LTI Plan EPS payouts

	Below threshold	Threshold	Target	Maximum	Actual
EPS (euro)	<1.31	1.31	1.51	1.71	1.43
Payout	0%	40%	100%	200%	76%

Philips Group

LTI Plan EPS realization

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

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

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

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

The 2021 EPS based on reported net income attributable to shareholders amounted to EUR 3.67. To eliminate the impact of any share buyback, stock dividend, etc., the number of common shares outstanding (after deduction of treasury shares) on the day prior to the beginning of the performance period is used, resulting in an EPS of EUR 3.63. This is adjusted with the extraordinary gain related to the divestiture of Domestic Appliances while adding back the operational result of the Domestic Appliances business for comparative purposes as per original targets. In accordance with our Remuneration Policy the LTI Plan EPS includes a number of adjustments that were deemed appropriate by the Supervisory Board. These relate mainly to the profit and loss impact of acquisitions and divestitures (positive adjustment), impact of foreign exchange variations versus plan (positive adjustment), profit and loss impact of legal cases (negative adjustment including a reversal of an adjustment made in 2020, as the legal matter it related to was resolved in favor of Philips) and a partial

adjustment of the profit and loss impact of external supply chain constraints and component shortages (positive adjustment). The Remuneration Committee opted for a 75% adjustment (versus a 50% adjustment for AI purposes) of the net income impact, to reflect the disproportionate impact as the LTI plan EPS is measured based on the last year of the three-year performance period. No adjustments have been made for the impact of the Philips 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.

For further details on the pension allowances and pension scheme costs, please refer to Pensions / section 4.1.2 of the Annual Report.

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⁾	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	36%-64%
	2020	1,325,000	1,325,000	1,298,500	2,874,467	565,922	27,001	62,176	32%-68%
A. Bhattacharya	2021	795,000	790,000	360,103	1,172,533	233,857	27,462	68,908	42%-58%
	2020	785,000	785,000	596,600	1,295,996	233,126	27,001	70,267	37%-63%
M.J. van Ginneken	2021	615,000	605,000	317,192	886,035	150,755	27,462	42,610	41%-59%
	2020	595,000	580,000	437,920	952,453	158,800	27,001	46,986	37%-63%
Total	2021		2,720,000	1,528,211	4,684,863	950,014	82,387	168,742	39%-61%
	2020		2,690,000	2,333,020	5,122,916	957,849	81,004	179,428	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**

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**.

⁶⁾ Adjusted EBITA is presented for comparison purposes

Historical LTI grants and holdings

Number of performance shares (holdings)

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

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

Philips Group
Number of performance shares (holdings) in number of shares unless otherwise stated

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

¹⁾ The shares vested in 2021 are subject to a 2-year holding

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

Number of stock options (holdings)

The tables below give an overview of the stock options held by the members of the Board of Management.

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

	grant date	vesting date	exercise price (in EUR)	expiry date	opening balance at January 1, 2021	number of stock options awarded in 2021	number of stock options exercised in 2021	share price on exercise date	number of stock options expired in 2021	closing balance at December 31, 2021
F.A. van Houten	4/23/2012	4/23/2015	14.82	4/23/2022	75,000	-	-	-	-	75,000
	1/29/2013	1/29/2014	22.43	1/29/2023	55,000	-	-	-	-	55,000
A. Bhattacharya	1/30/2012	1/30/2014	15.24	1/30/2022	20,000	-	-	-	-	20,000
	4/23/2012	4/23/2015	14.82	4/23/2022	16,500	-	-	-	-	16,500
M.J. van Ginneken	4/18/2011	4/18/2014	20.90	4/18/2021	8,400	-	8,400	46.66	-	0
	1/30/2012	1/30/2014	15.24	1/30/2022	10,000	-	-	-	-	10,000
	4/23/2012	4/23/2015	14.82	4/23/2022	8,400	-	-	-	-	8,400

Share ownership guidelines

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

Philips Group
Share ownership Board of Management

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

¹⁾ As ratio of Annual Base Compensation

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

Remuneration of the Supervisory Board in 2021

Summary of the Remuneration Policy

Please find below a brief summary of the Remuneration Policy for the Supervisory Board, as adopted at the Annual General Meeting of Shareholders 2020. The fee levels in this Remuneration Policy are the same as the Supervisory Board fee levels as determined by our shareholders at the 2018 Extraordinary General Meeting of Shareholders.

The overarching objective of the 2020 Remuneration Policy for the Supervisory Board is to enable its members to fulfill their duties, acting independently: supervising the policies, management and the general affairs of Philips, and supporting the Board of Management and the Executive Committee with advice. Also, the members of the Supervisory Board are guided by the company's long-term interests, with due observance of the company's purpose and strategy, taking into account the interests of shareholders and all other stakeholders.

To support the objectives mentioned above, the 2020 Remuneration Policy is aimed at attracting and retaining international Supervisory Board members of the highest caliber and with experience and expertise relevant to our health technology businesses.

In compliance with the Dutch Corporate Governance Code, the 2020 Remuneration Policy provides that the remuneration for the members of the Supervisory Board is not dependent on the results of the company and does not include any shares (or rights to shares). Nevertheless, members of the Supervisory Board are encouraged to hold shares in the company for the purpose of long-term investment to reflect their confidence in the future course of the company. The company does not grant personal loans to members of the Supervisory Board.

The Supervisory Board reviews fee levels in principle every three years in order to monitor and take account of market developments and manage expectations of our key stakeholders. The levels are aimed at broadly median market levels (and around the 25th percentile market level for the Chairman) paid in the Quantum Peer Group (as used in the 2020 Remuneration Policy for the Board of Management).

The following table provides an overview of the current remuneration structure:

Philips Group
Remuneration Supervisory Board in EUR

	Chair	Vice Chair	Member
Supervisory Board	155,000	115,000	100,000
Audit Committee	27,000	n.a.	18,000
Remuneration Committee	21,000	n.a.	14,000
Corporate Governance and Nomination & Selection Committee	21,000	n.a.	14,000
Quality & Regulatory Committee	21,000	n.a.	14,000
Attendance fee per inter-European trip	2,500	2,500	2,500
Attendance fee per intercontinental trip	5,000	5,000	5,000
Entitlement to Philips product arrangement	2,000	2,000	2,000
Annual fixed net expense allowance	11,345	2,269	2,269
Other travel expenses	As reasonably incurred		

The members of the Supervisory Board benefit from coverage under the company's Directors and Officers (D&O) liability insurance.

Remuneration of the Supervisory Board in 2021

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

Philips Group
Remuneration of the Supervisory Board¹⁾ 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.

11.3 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**;
- 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.

11.4 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.

12 Corporate governance

12.1 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](#).

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](#). 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](#), 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](#) explains how the company's strategy was executed in 2021; in this regard, please refer also to [Financial performance](#).

12.2 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](#) 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.

12.3 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](#). Please also refer to [Supervisory Board](#) 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](#).

Effective 2022, Dutch law provides a mandatory gender quota, requiring that at 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.

12.4 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](#).

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](#). For more details on the Diversity Policy, the profile of the Supervisory Board and board diversity please refer to [Supervisory Board report](#) and to [Report of the Corporate Governance and Nomination & Selection](#)

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.

12.5 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.

12.6 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.

12.7 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](#).

12.8 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).

12.9 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.

12.10 Additional information

Articles of association

Set forth below is a summary of certain provisions of the Articles of Association of the company, applicable Dutch law and related company policies. This summary does not constitute legal advice regarding those matters and should not be regarded as such.

Object and purpose

The objects of the company are to establish, participate in, administer and finance legal entities, companies and other legal forms for the purpose of the manufacture and trading of electrical, electronic, mechanical or chemical products, the development and exploitation of technical and other expertise, including software, or for the purpose of other activities, and to do everything pertaining thereto or connected therewith, including the provision of security in particular for commitments of business undertakings which belong to its group, all this in the widest sense, as may also be conducive to the proper continuity of the collectivity of business undertakings, in the Netherlands and abroad, which are carried on by the company and the companies in which it directly or indirectly participates. These objects can be found in Article 2 of the Articles of Association.

Share Capital

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.

Voting rights

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. Major shareholders do not have different voting rights than other shareholders.

Dividends

A dividend will first be declared on preference shares out of net income. The Board of Management has the power to determine what portion of the net income shall be retained by way of reserve, subject to the approval of the Supervisory Board. The remainder of the net income, after reservations made, shall be available for distribution to holders of common shares subject to shareholder approval after year-end.

Liquidation rights

In the event of the dissolution and liquidation of the company, the assets remaining after payment of all debts and liquidation expenses are to be distributed in the following order of priority: to the holders of preference shares, the amount paid thereon; and the remainder to the holders of the common shares.

Preemptive rights

Shareholders have a pro rata preferential right of subscription to any common share issuance unless the right is restricted or excluded. If designated by the General Meeting of Shareholders, the Board of Management has the power to restrict or exclude the preferential subscription rights. A designation of the Board of Management will be effective for a specified period of up to five years and may be renewed. Currently, the Board of Management has been granted the power to restrict or exclude the preferential right of subscription up to and including November 5, 2022. If the Board of Management has not been designated, the General Meeting of Shareholders has the power to restrict or exclude such rights, upon the proposal of the Board of Management, which proposal must be approved by the Supervisory Board. Resolutions by the General Meeting of Shareholders referred to in this paragraph require approval of at least two-thirds of the votes cast if less than half of the issued share capital is represented at the meeting.

The foregoing provisions also apply to the issuance of rights to subscribe for shares.

General Meeting of Shareholders

The Annual General Meeting of Shareholders shall be held each year not later than the thirtieth day of June and, at the Board of Management's option, in Eindhoven, Amsterdam, The Hague, Rotterdam, Utrecht or Haarlemmermeer (including Schiphol airport); the notice convening the meeting shall inform the shareholders accordingly. Without prejudice to applicable laws and regulations, the Board of Management may resolve to give notice to holders of its listed and traded via a stock exchange shares via the company's website and/or by other electronic means representing a public announcement, which announcement remains directly and permanently accessible until the General Meeting of Shareholders. Holders of registered shares shall be notified by letter, unless the Board of Management resolves to give notice to holders of registered shares

by electronic means of communication by sending a legible and reproducible message to the address indicated by the shareholder to the company for such purpose provided the relevant shareholder has agreed hereto.

In principle, all shareholders are entitled to attend a General Meeting of Shareholders, to address the meeting and to vote, except for shares held in treasury by the company. They may exercise the aforementioned rights at a meeting only for the common shares which on the record date are registered in their name. The record date is published in the above announcement and is, pursuant to Dutch law, set as the 28th day prior to the day of the relevant meeting. Holders of registered shares must advise the company in writing of their intention to attend the General Meeting of Shareholders. Holders of shares listed and traded via a stock exchange who either in person or by proxy wish to attend the General Meeting of Shareholders, should notify ABN AMRO Bank N.V., which is acting as agent for the company. They must submit a confirmation by a participating institution, in which administration they are registered as holders of the shares, that such shares are registered and will remain registered in its administration up to and including the record date, whereupon the holder will receive an admission ticket for the General Meeting of Shareholders. Holders of shares who wish to attend by proxy have to submit the proxy at the same time. A participating institution is a bank or broker which, according to the Dutch Securities Depository Act (*Wet giraal effectenverkeer*), is an intermediary (*intermediair*) of the Dutch Central Securities Depository (Euroclear Nederland).

In connection with the General Meeting of Shareholders, the company does not solicit proxies within the United States.

The Articles of Association of the company provide that there are no quorum requirements to hold a General Meeting of Shareholders. 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.

Limitations on right to hold or vote Common Shares

There are no limitations imposed by Dutch law or by the Articles of Association on the right of non-resident owners to hold or vote the Common Shares.

Exchange controls

Cash dividends paid in euros on Dutch registered shares and bearer shares may be officially transferred from the Netherlands and converted into any other currency without Dutch legal restrictions, except that for statistical purposes such payments and transactions must be reported to the Dutch Central Bank. Furthermore, no payments, including dividend payments, may be made to jurisdictions subject to sanctions adopted by the government of the Netherlands and implementing resolutions of the Security Council of the United Nations.

The Articles of Association of the company provide that cash distributions on New York Registry Shares shall be paid in US dollars, converted at the rate of exchange on the stock market of Euronext Amsterdam at the close of business on the day fixed and announced for that purpose by the Board of Management.

Significant differences in corporate governance practices

The corporate governance rules established by the New York Stock Exchange (NYSE) allow Foreign Private Issuers, like Royal Philips, to follow home country practices on most corporate governance matters instead of those that apply to US domestic issuers, provided that they disclose any significant ways in which their corporate governance practices differ from those applying to listed US domestic issuers under the NYSE listing standards. The following paragraphs summarize what we believe to be the significant differences between certain Dutch practices on corporate governance matters and the corporate governance provisions applicable to US domestic issuers under the NYSE listing standards.

Dutch corporate governance code

The company is a company organized under Dutch law, with its Common Shares listed on Euronext Amsterdam, and is subject to the Dutch Corporate Governance Code of December 8, 2016 (the Dutch Corporate Governance Code). Philips' New York Registry Shares, representing Common Shares of the company, are listed on the NYSE.

Board structure

The NYSE listing standards prescribe regularly scheduled executive sessions of non-executive directors. The company has a two-tier corporate structure consisting of a Board of Management consisting of executive directors under the supervision of a Supervisory Board consisting exclusively of non-executive directors. Members of the Board of Management and other officers and employees cannot simultaneously act as member of the Supervisory Board. The Supervisory Board must approve specified decisions of the Board of Management.

Independence of members of our Supervisory Board

The Dutch Corporate Governance Code sets forth certain limitations on the number of non-independent members of the Supervisory Board, and its committees. The Supervisory Board considers all its members to be independent under the Dutch Corporate Governance Code. The definitions of independence under the Dutch Corporate Governance Code, however, differ in their details from the definitions of independence under the NYSE listing standards. In some cases the Dutch requirements are stricter than the NYSE listing standards, and in other cases the NYSE listing standards are the stricter of the two. The members of the Audit Committee of the Supervisory Board are independent under the NYSE listing standards.

Committees of our Supervisory Board

The company has established four committees, consisting of members of the Supervisory Board only: the Audit Committee, the Remuneration Committee, the Corporate Governance and Nomination & Selection Committee and the Quality & Regulatory Committee. The roles, responsibilities and composition of these committees reflect the requirements of the Dutch Corporate Governance Code, the company's Articles of Association and Dutch law, which differ from the NYSE listing standards in these respects. The role of each committee is to advise the Supervisory Board and to prepare the decision-making of the Supervisory Board. In principle, the entire Supervisory Board remains responsible for its decisions even if such decisions were prepared by one of the Supervisory Board's committees.

The NYSE requires that, when an audit committee member of a listed US domestic issuer serves on four or more audit committees of public companies, the listed company should disclose (either on its website or in its Annual Report on Form 10-K) that the board of directors has determined that this simultaneous service would not impair the director's service to the listed company. Dutch law does not require the company to make such a determination.

In accordance with the procedures laid down in the Philips Auditor Policy and as mandatorily required by Dutch law, the external auditor of the company is appointed by the General Meeting of Shareholders on the proposal of the Supervisory Board, after the latter has been advised by the Audit Committee and the Board of Management.

Equity compensation plans

The company complies with Dutch legal requirements regarding shareholder approval of equity compensation plans for the members of the Board of Management. Dutch law does not require shareholder approval of certain equity compensation plans for which the NYSE listing standards would require such approval. The company is subject to a Dutch requirement to seek shareholder approval for equity compensation plans for its members of the Board of Management.

Code of business conduct

The listing standards of the NYSE prescribe certain parameters for listed company codes of business conduct and ethics. The company has implemented the Philips General Business Principles, which are applicable to all employees, and a Financial Code of Ethics, which is applicable to all employees performing an accounting or financial function. Waivers granted to Senior (Financial) Officers (as defined in our Financial Code of Ethics) must be disclosed. In 2021 the company did not grant any waivers of the Financial Code of Ethics.

Related party transactions

The NYSE listing standards require certain transactions with related parties to be reviewed by a company's audit committee or another independent body of the board of directors for potential conflicts of interest, and for the audit committee or other independent body to prohibit such a transaction if it determines it to be inconsistent with the interests of the company and its shareholders. However, foreign private issuers can rely on home country practice with respect to review and approval of related party transactions. Philips has internal procedures in place to confirm that related party transactions are entered into at arm's length and, if and to the extent required under Dutch law, to enable the Supervisory Board to assess the terms of significant related party transactions.

New York Registry Shares

Certain common shares of the company are registered in the register maintained by Deutsche Bank Trust Company Americas, as the New York transfer agent, registrar and dividend disbursing agent (the "New York Transfer Agent"), pursuant to a Transfer Agent Agreement, dated July 16, 2018, between the New York Transfer Agent and the company (such common shares, "New York Registry Shares"). As soon as practicable after receipt from the company, the New York Transfer Agent will provide holders of New York Registry Shares with a notice of any meeting or solicitation of consents or proxies with a notice prepared by the company stating (a) such information as is contained in such notice of meeting and any solicitation materials (or a summary thereof in English provided by the company), (b) that each registered holder at the close of business on the record date set by the company therefor will be entitled, subject to any applicable provisions of Dutch law and the Articles of Association, to exercise the voting rights pertaining to the New York Registry Shares, and (c) the manner in which such voting rights may be exercised. The New York Transfer Agent may, to the extent not prohibited by applicable law or by the requirements of the New York Stock Exchange, in lieu of distribution of the materials provided to it in connection with any meeting of, or solicitation of consents or proxies from, holders of common shares, distribute to the registered holders of New York Registry Shares a notice that provides such holders with, or otherwise publicizes to such holders, instructions on how to retrieve such materials or receive such materials upon request (i.e. by reference to a website containing the materials for retrieval or a contact for requesting copies of the materials).

Major shareholders as filed with SEC

On February 6, 2019, BlackRock Inc. filed a Schedule 13G with the SEC indicating that, as of December 31, 2018, it beneficially owned 9.9% (92,130,367 shares) of the Company's common shares. On February 11, 2019, BlackRock Inc. filed a Schedule 13G with the SEC indicating that, as of January 31, 2019, it beneficially owned 10.1% (93,159,954 shares) of the Company's common shares. On February 12, 2019, Wellington Management Group LLP, Wellington Group Holdings LLP, Wellington Investment Advisors Holdings LLP and Wellington Management Company LLP jointly filed a Schedule 13G with the SEC indicating that Wellington Management Group LLP, Wellington Group Holdings LLP and Wellington Investment Advisors Holdings LLP each beneficially owned 7.05% (65,286,127 shares) of the Company's common shares and Wellington Management Company LLP beneficially owned 6.55% (60,708,945 shares) of the Company's common shares.

On February 5, 2020, BlackRock Inc. filed a Schedule 13G with the SEC indicating that, as of December 31, 2019, it beneficially owned 9.2% (82,571,656 shares) of the Company's common shares. On January 27, 2020, Wellington Management Group LLP, Wellington Group Holdings LLP, Wellington Investment Advisors Holdings LLP and Wellington Management Company LLP jointly filed a Schedule 13G with the SEC indicating that, as of December 31, 2019, Wellington Management Group LLP, Wellington Group Holdings LLP and Wellington Investment Advisors Holdings LLP each beneficially owned 7.17% (64,327,165 shares) of the Company's common shares and Wellington Management Company LLP beneficially owned 6.80% (60,988,928 shares) of the Company's common shares.

On January 29, 2021, BlackRock Inc. filed a Schedule 13G with the SEC indicating that, as of December 31, 2020, it beneficially owned 8.5% (77,552,149 shares) of the Company's common shares. On February 3, 2021, Wellington Management Group LLP, Wellington Group Holdings LLP, and Wellington Investment Advisors Holdings LLP jointly filed a Schedule 13G with the SEC indicating that, as of December 31, 2020, Wellington Management Group LLP, Wellington Group Holdings LLP and Wellington Investment Advisors Holdings LLP each beneficially owned 1.85% (16,883,298 shares) of the Company's common shares.

On January 28, 2022, Blackrock Inc. filed a Schedule 13G with the SEC indicating that, as of December 31, 2021, it beneficially owned 7.2% (63,499,693 shares) of the Company's common shares.

Please also refer to [Major shareholders](#).

13 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](#)).

The Group financial statements (together with the Company financial statements, which are not included in the Annual Report on Form 20-F, containing its statutory statements) are subject to adoption by the company's shareholders at the upcoming 2022 Annual General Meeting of Shareholders.

13.1 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.

13.1.1 Disclosure controls and procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a15(e) and 15d15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by the Annual Report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective as of December 31, 2021.

13.1.2 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.

13.2 Report of the independent auditor

Management's report on internal control over financial reporting is set out on [Management's report on internal control](#). The report set out on [Independent auditor's report on internal control over financial reporting](#), 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 at December 31, 2021, based on COSO criteria.

Ernst & Young Accountants LLP (PCAOB ID: 1396) has also issued a report on the consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board in the US, which is set out on [Independent auditor's report on the consolidated financial statements](#).

13.3 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.

/s/ Ernst & Young Accountants LLP

Amsterdam, the Netherlands
February 22, 2022

13.4 Independent auditor's report on the consolidated financial statements

Report of Independent Registered Public Accounting Firm

To: The Supervisory Board and Shareholders of Koninklijke Philips N.V.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Koninklijke Philips N.V. (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 (collectively referred to as the group financial statements). In our opinion, the group financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company'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), and our report dated February 22, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

These group financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's group financial statements based on our audits. 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 US federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the group financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the group financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the group financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the group financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical audit matters

The critical audit matters communicated below are matters arising from the current period audit of the group financial statements that were communicated or required to be communicated to the Audit Committee of the Supervisory Board and that: (1) relate to accounts or disclosures that are material to the group financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the group financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Measurement and disclosure of the Field Action provision related to Sleep & Respiratory Care products	
Description of the Matter	As more fully described in Note 20 Provisions , 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.
How We Addressed the Matter in Our Audit	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 , as included in the group financial statements.
Measurement of provisions and disclosures for legal claims, litigations and contingent liabilities	
Description of the Matter	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 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 , Note 20 Provisions , and Note 25 Contingent assets and liabilities , as included in the group financial statements.
How We Addressed the Matter in Our Audit	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.
Valuation of Goodwill for Cash Generating Unit Sleep & Respiratory Care	
Description of the Matter	At December 31, 2021, the total carrying value of goodwill amounted to EUR 10,637 million (of which EUR 1.915 million is 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 , and Note 12 Goodwill , 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.
How We Addressed the Matter in Our Audit	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.
Revenue recognition – Sales related accruals	
Description of the Matter	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.
How We Addressed the Matter in Our Audit	Further reference is made to Note 1 Significant accounting policies , and Note 7 Income from operations section Sales composition and disaggregation, as included in the group financial statements.
	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. 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 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.
	We also assessed the adequacy of the revenue disclosures as included in the group financial statements.

/s/ Ernst & Young Accountants LLP

We have served as the Company's auditor since 2016.

Amsterdam, the Netherlands
February 22, 2022

13.5 Consolidated statements of income

Philips Group
Consolidated statements of income in millions of EUR
For the year ended December 31

	2019	2020	2021
7 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)
7 Other business income	154	122	186
7 Other business expenses	(186)	(173)	(138)
Income from operations	1,366	1,264	553
8 Financial income	114	158	149
8 Financial expenses	(233)	(202)	(188)
Investments in associates, net of income taxes	1	(9)	(4)
Income before taxes	1,248	1,211	509
9 Income tax expense	(258)	(212)	103
Income from continuing operations	990	999	612
4 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.

13.6 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
21 Pensions and other-post employment plans:			
Remeasurement	30	51	134
9 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
9 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)
9 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.

13.7 Consolidated balance sheets

Amounts may not add up due to rounding.

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
6 Investments in associates	240	426
14 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
14 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
Equity		
Equity	11,870	14,438
Common shares	182	177
Reserves	(340)	748
Other	12,028	13,514
18 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
23 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
26 Accounts payable	2,119	1,872
22 Accrued liabilities	1,678	1,784
23 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

13.8 Consolidated statements of cash flows

Amounts may not add up due to rounding.

Philips Group
Consolidated statements of cash flows¹⁾ 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
Cash flows from investing activities			
Net capital expenditures	(891)	(876)	(729)
Purchase of intangible assets	(130)	(114)	(107)
Expenditures on development assets	(327)	(296)	(259)
Capital expenditures on property, plant and equipment	(486)	(485)	(397)
4 Proceeds from sales of property, plant and equipment	60	19	33
24 Net proceeds from (cash used for) derivatives and current financial assets	385	(13)	48
24 Purchase of other non-current financial assets	(63)	(131)	(124)
24 Proceeds from other non-current financial assets	162	65	124
5 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			
19 Proceeds from issuance (payments on) short-term debt	23	16	(25)
19 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.

13.9 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
	reserves				other				Group equity
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
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.

13.10 Notes

Notes to the Consolidated financial statements of the Philips Group

1 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](#) 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 and Acquisitions and divestments](#).

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](#) and in [Intangible assets excluding goodwill](#), 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](#).

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](#).

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](#).

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](#).

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](#).

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](#).

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](#).

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 and Intangible assets excluding goodwill](#) 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](#).

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](#).

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](#).

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](#).

[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](#).

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](#).

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](#)

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](#).

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](#).

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](#).

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](#);
- Short-term and low-value leases, are disclosed in [Income from operations](#);
- Disclosures regarding interest expenses on lease liabilities, are disclosed in [Financial income and expenses](#);
- For disclosure on leasing related cash outflow and the split between interest and principal payments, refer to the [Consolidated statements of cash flows](#) and [Cash flow statement supplementary information](#);
- For disclosure on sale and leaseback transactions, refer to [Details of treasury and other financial risks](#);
- For disclosure on lease liabilities and maturity analysis, refer to [Debt](#);
- 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](#);

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](#);
- Other qualitative disclosures regarding the nature of lessor's leasing activities and risk management, refer to [Details of treasury and other financial risks](#).

[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](#).

[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](#).

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](#) 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](#).

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](#)).

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](#).

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](#).

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](#).

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.

2 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](#) and [Provisions](#).

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](#), 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](#) and [Intangible assets excluding goodwill](#).

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](#).

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](#), 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 186 and [Provisions](#), 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](#).

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](#), 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 219. In 2021, COVID-19 did not have a significant impact on other financial risks, including how we manage those.

3 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
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](#) and [Intangible assets excluding goodwill](#)

²⁾ Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information](#).

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 EBITA¹⁾, which Management believes is the most relevant measure to evaluate the results of the segments.

The term Adjusted EBITA¹⁾ is used to evaluate the performance of Philips and its segments. EBITA¹⁾ represents Income from operations excluding amortization and impairment of acquired intangible assets and impairment of goodwill. Adjusted EBITA¹⁾ represents EBITA¹⁾ excluding gains or losses from restructuring costs, acquisition-related charges and other items.

Adjusted EBITA^{*)} is not a recognized measure of financial performance under IFRS. Presented in the following table is a reconciliation of Adjusted EBITA^{*)} to the most directly comparable IFRS measure, Net income, for the years indicated. Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis, resulting in them being shown on a Philips Group level only.

Philips Group
Reconciliation from net income to Adjusted EBITA^{*)} In millions of EUR

	Philips Group	Diagnosis & Treatment	Connected Care	Personal Health	Other
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 ^{*)}	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 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)
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 ^{*)}	1,807	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)

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

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

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

4 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](#).

5 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 72.00 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**.

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](#)

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.

6 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.

Legal entity name	Principal country of business
Philips (China) Investment Company, Ltd.	China
Philips GmbH	Germany
Philips Medizin Systeme Böttingen 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](#) and [Fair value of financial assets and liabilities](#).

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.

7 Income from operations

For information related to Sales on a segment and geographical basis, refer to [Information by segment and main country](#).

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](#) and [Intangible assets excluding goodwill](#)

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](#).

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**.

For details on the remuneration of the members of the Board of Management and the Supervisory Board, refer to [Information on remuneration](#).

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 amortization¹⁾ 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](#) and [Intangible assets excluding goodwill](#)

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](#). Further information on when costs are to be reported to cost of sales or selling expenses can be found in [Significant accounting policies](#).

Advertising and promotion

Advertising and promotion costs are included in selling expenses in [Consolidated statements of income](#).

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](#).

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](#).

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](#).

For information on impairment of goodwill, refer to [Goodwill](#).

8 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.

9 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:

	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.

10 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

11 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

	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

12 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](#).

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](#)).

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](#).

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](#)

²⁾ Previously named Monitoring & Analytics. Includes provisional goodwill related to the acquisition of Capsule Technologies, see [Acquisitions and divestments](#)

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⁾		used to calculate terminal value ³⁾	pre-tax discount rates
	initial forecast period	extrapolation period ²⁾		
Ambulatory Monitoring & Diagnostics	24.5%	11.9%	2.5%	7.3%
Hospital Patient Monitoring 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⁾		used to calculate terminal value ³⁾	pre-tax discount rates
	initial forecast period	extrapolation period ²⁾		
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](#) and [Contingent assets and liabilities](#). 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](#).

13 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	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](#).

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 Respiroics 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](#).

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.

14 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 FVTP&L 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.

15 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.

16 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.

17 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).

18 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](#)).

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 debt¹⁾. The definition of this non-IFRS measure and a reconciliation to the IFRS measure is included below.

Net debt¹⁾ 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 debt¹⁾ position is managed with the intention of retaining our current strong investment grade credit rating. Furthermore, Philips' aim when managing the net debt¹⁾ position is dividend stability and a pay-out ratio of 40% to 50% of Adjusted income from continuing operations attributable to shareholders¹⁾ (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 equity¹⁾ 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 debt¹⁾	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 ratio¹⁾	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](#).

Adjusted income from continuing operations attributable to shareholders¹⁾ is not a recognized measure of financial performance under IFRS. The reconciliation of Adjusted income from continuing operations attributable to shareholders¹⁾ to the most directly comparable IFRS measure, Net income for 2021 is included in the following table.

	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 shareholders²⁾	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](#).

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](#).

19 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		Non-current portion	Between 1 and 5 years	amount due after 5 years	average remaining term (in years)	average rate of interest
	Current portion						
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		Non-current portion	Between 1 and 5 years	amount due after 5 years	average remaining term (in years)	average rate of interest
	Current portion						
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.

20 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](#).

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, that are expensed as incurred amounted to EUR 94 million for the year ended December 31, 2021. 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**. 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**.

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.

	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](#).

The company expects the provisions to be utilized mainly within the next three years.

Contingent consideration provisions

	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](#).

The company expects the provisions to be utilized mainly within the next three years.

Other provisions

	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](#);
- 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.

21 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:

	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 DB0. The above sensitivity table illustrates the impact on the DB0 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.

22 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

23 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.

24 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	(100)	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

25 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](#).

26 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.

	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](#).

For Post-employment benefit plans see [Post-employment benefits](#).

27 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 shares¹). 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](#)).

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:

	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-denominated 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.

28 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 Committee¹⁾ 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 compen- sation/salary	annual incentive ¹⁾	performance shares ²⁾	restricted share rights ²⁾	pension allowances ³⁾	pension scheme costs	other compen- sation	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:

	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.

29 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.

	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.

	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				
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](#).

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](#) 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)

39 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**.

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**.

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

	total	payments due by period			
		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 Respiroics field action, please refer to **Contingent assets and liabilities**. 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 debt¹⁾ 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](#)

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](#).

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.

31 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.

14 Other information

14.1 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](#)).

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](#), 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

	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	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	(390)
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)
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	(190)

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](#), earnings per share section.

Philips considers the use of Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted appropriate as it is a measure that is useful when comparing its performance to other companies in the HealthTech industry. However, it may be subject to limitations as an analytical tool for investors, as it uses Adjusted income from continuing operations attributable to shareholders which has certain items excluded.

Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted is not a recognized measure of financial performance under IFRS. The most directly comparable IFRS measure, income from continuing operations attributable to shareholders per common share (in EUR) - diluted for the years indicated, is included in the

following table.

Philips Group

Adjusted income from continuing operations attributable to shareholders¹⁾ in millions of EUR unless otherwise stated

	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 shareholders¹⁾	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 shareholders¹⁾	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
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](#) section of [Financial performance](#).

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 capital¹⁾ 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%

14.2 Other Key Performance Indicators

In addition to monitoring the IFRS and non-IFRS financial measures discussed under [Financial performance](#), 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](#)).

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](#) for more information on Lives Improved.

Operational Carbon Footprint

We aim to minimize our environmental impact and we use the Operational Carbon Footprint as one of the measurements of our impact. We define Operational Carbon Footprint as the total greenhouse gas emissions caused by an organization, event, product or person; expressed in kilotonnes CO₂-equivalent. We calculate our Operational Carbon Footprint on a monthly basis and include industrial sites (manufacturing and assembly sites), non-industrial sites (offices, warehouses, IT centers and R&D facilities), business travel (lease and rental cars and airplane travel) and logistics (air, sea and road transport) See [Sustainable Operations](#) 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](#) 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](#) 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.

14.3 Investor information

14.3.1 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.

14.3.2 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.

14.3.3 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:
High Tech Campus 5, 5656 AE Eindhoven, The Netherlands

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Royal Philips
Philips Center
Amstelplein 2
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>

14.3.4 New York Registry Shares

Fees and Charges Payable by a Holder of New York Registry Shares

Deutsche Bank Trust Company Americas ("Deutsche Bank"), as the US registrar, transfer, dividend disbursement and shareholder servicing agent ("Agent") under Philips' New York Registry Share program (the "Program"), collects fees for the issuance, cancellation and/or transfer of New York Registry Shares directly from investors depositing ordinary shares or surrendering New York Registry Shares for the purpose of withdrawal or from intermediaries acting for them. The Agent collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of the distributable property to pay the fees.

The Agent may charge shareholders a fee of up to USD 5.00 per 100 shares for the exchange of New York Registry shares for shares and vice versa, for certain free distributions of shares and for shares issued upon exercise of rights, as well as for certain taxes, fees and expenses incurred in connection with issuances and cancellations. The Agent is also permitted to charge a distribution fee of USD 0.05 per share to holders of New York Registry Shares in connection with a corporate action or event unless certain fees are otherwise charged to Philips.

Fees and Payments made by the Agent to Philips

The Agent has agreed to reimburse certain expenses of Philips related to the Program and incurred by Philips in connection with the Program. The Agent has also agreed to waive certain fees for standard costs associated with the administration of the program.

The Agent has reimbursed EUR 391,885 directly to Philips in the year ended December 31, 2021. The Agent paid a total amount of EUR 89,114 directly to third parties in the year ended December 31, 2021.

Category of Expense paid directly to third parties in EUR

	amount in the year ended December 31, 2021
Reimbursement of Proxy Process Expenses	58,723
Reimbursement of Scrip Dividend Expenses	
NYSE Listing Fee	30,391
Expense paid directly to third parties	89,114

Under certain circumstances, including removal of the Agent or termination of the Program by Philips, Philips is required to repay the Agent certain amounts reimbursed and/or expenses paid to or on behalf of Philips.

14.4 Definitions and abbreviations

Brominated flame retardants (BFR)

Brominated flame retardants are a group of chemicals that have an inhibitory effect on the ignition of combustible organic materials. Of the commercialized chemical flame retardants, the brominated variety are most widely used.

CO₂-equivalent

CO₂-equivalent or carbon dioxide equivalent is a quantity that describes, for a given mixture and amount of greenhouse gas, the amount of CO₂ that would have the same global warming potential (GWP), when measured over a specified timescale (generally 100 years).

Circular economy

A circular economy aims to decouple economic growth from the use of natural resources and ecosystems by using those resources more effectively. By definition it is a driver for innovation in the areas of material, component and product reuse, as well as new business models such as solutions and services. In a Circular Economy, the more effective use of materials makes it possible to create more value, both by cost savings and by developing new markets or growing existing ones.

Circular 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 CO₂-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 sublime from the liquid or solid form of the compound and enter the surrounding air, a trait known as volatility.

Voluntary turnover

Voluntary turnover covers all employees who resigned of their own volition.

Waste Electrical and Electronic Equipment (WEEE)

The Waste Electrical and Electronic Equipment Directive (WEEE Directive) is the European Community directive on waste electrical and electronic equipment setting collection, recycling and recovery targets for all types of electrical goods. The directive imposes the responsibility for the disposal of waste electrical and electronic equipment on the manufacturers of such equipment.

Weighted Average Statutory Tax Rate (WASTR)

The reconciliation of the effective tax rate is based on the applicable statutory tax rate, which is a weighted average of all applicable jurisdictions. This weighted average statutory tax rate (WASTR) is the aggregation of the result before tax multiplied by the applicable statutory tax rate without adjustment for losses, divided by the group result before tax.

15 Exhibits

Index of exhibits

Exhibit 1	English translation of the Articles of Association of the Company (incorporated by reference to Exhibit 1 to the Annual Report on Form 20-F (File No. 001-05146-01) filed with the Securities and Exchange Commission on February 27, 2019
Exhibit 2	Description of securities registered under Section 12 of the Exchange Act (Incorporated by reference to Exhibit 2 to the Annual Report on Form 20-F (File No. 001-05146-01) filed with the Securities and Exchange Commission on February 25, 2020)
	The total amount of long-term debt securities of the Company and its subsidiaries authorized under any instrument does not exceed 10% of the total assets of Philips and its subsidiaries on a consolidated basis. Philips agrees to furnish copies of any or all such instruments to the Securities and Exchange Commission upon request.
Exhibit 4	Material Contracts.
Exhibit 4 (a)	Services contract between the Company and F.A. van Houten (Incorporated by reference to Exhibit 4 (a) to the Annual Report on Form 20-F (File No. 001-05146-01) filed with the Securities and Exchange Commission on February 25, 2020)
Exhibit 4 (b)	Services contract between the Company and A. Bhattacharya (Incorporated by reference to Exhibit 4 (b) to the Annual Report on Form 20-F (File No. 001-05146-01) filed with the Securities and Exchange Commission on February 25, 2020)
Exhibit 4 (c)	Services contract between the Company and M.J. van Ginneken
Exhibit 4 (d)	Global Philips Performance Share Plan applicable to the Board of Management of Koninklijke Philips N.V. (Incorporated by reference to Exhibit 4(d) to the Annual Report on Form 20-F (File No. 001-05146-01) filed with the Securities and Exchange Commission on February 23, 2021)
Exhibit 8	List of Subsidiaries.
Exhibit 12 (a)	Certification of F.A. van Houten filed pursuant to 17 CFR 240. 13a-14(a).
Exhibit 12 (b)	Certification of A. Bhattacharya filed pursuant to 17 CFR 240. 13a-14(a).
Exhibit 13 (a)	Certification of F.A. van Houten furnished pursuant to 17 CFR 240. 13a-14(b).
Exhibit 13 (b)	Certification of A. Bhattacharya furnished pursuant to 17 CFR 240. 13a-14(b).
Exhibit 15 (a)	EY Consent of independent registered public accounting firm.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

Signatures

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

KONINKLIJKE PHILIPS N.V.
(Registrant)

/s/ F.A. van Houten
F.A. van Houten
(Chief Executive Officer, Chairman of the Board of Management and the Executive Committee)

/s/ A. Bhattacharya
A. Bhattacharya
(Chief Financial Officer, Member of the Board of Management and the Executive Committee)

Date: February 22, 2022