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Dear Management Board, dear Supervisory Board,

The VEB attaches great importance to a public dialogue between shareholders with the company. The upcoming season of shareholder meetings promised to give a qualitative boost to that dialogue due to new laws and regulations that impose requirements on shareholder involvement and transparency and accountability of companies.

The current situation as a result of the Covid-19 pandemic has radically rolled over conditions. A regular dialogue in person cannot take place under the current circumstances. However, the VEB is counting on a virtual interaction between shareholders and representatives of the company during the meeting.

Below you will find several questions, of which we would like to receive substantive answers during the next shareholders' meeting. We would also like to receive these answers in writing. Besides, we assume that the questions and answers provided will also be recorded in the minutes. The VEB is aware of the significant challenges that you currently face.

At your express request, we send you our questions in advance to the shareholders' meeting. The fact that dialogue is not possible or only possible to a limited extent during the meeting that you convene has an impact on the size of the list of questions on behalf of VEB. We count on your understanding. First of all, the VEB draws your attention to a few issues that should help the company and its stakeholders to deal with the current crisis as best as possible. You will find these points for attention in the separately enclosed document 'Algemene aandachtspunten in crisistijd' (in Dutch).

## QUESTIONS VEB

### Agenda item 2: Annual Report 2019

#### GOING CONCERN AND FUTURE

1. Is there anything that can be said about a lasting impact on the Connected Care division in terms of demand and competitive positioning (versus competitors like Draeger and Medtronic) as a result of the global health crisis?
2. There are some concerns that Covid-19 might wreak havoc on hospital budgets. Are you worried there might be negative consequences for your Diagnosis & Treatment segment if hospitals need to cut-back on spending?

3. Philips depends partly on the production and procurement of products and parts from Asian countries.
  - a. To what degree are the factories producing products and parts already back at full-production?
  - b. Are you experiencing shipping issues for products and parts due to supply-chain disruptions or stricter regulations for medical supplies in China?
4. Within Personal Health (Oral Health) Philips' power toothbrushes have historically enjoyed strong sales growth in China.
  - a. As China is first in re-opening its economy after the Covid 19-pandemic, are you seeing demand-levels and growth return towards previous levels for dental products? How far are you from pre-virus levels?
  - b. Consumers of Personal Health products in China have increasingly shifted from offline to online (today at 70 percent). If consumers increasingly buy their dental product online what does that do to the margin-profile in China and elsewhere going forward?
5. Philips' management during the Capital Markets Day in November 2018 believed that Personal Health could reach 17 to 19 percent Adjusted EBITA margin in 2020. Is Philips able to give an update on its earlier communicated target(s)?
6. Philips is in the process of divesting its Domestic Appliances sub-segment. Can you assure shareholders that your current bargaining position versus suppliers, distributors and in for example advertising won't deteriorate as a result of the divestment?
7. The divestment of Domestic Appliances assets to a third party with a brand license attached to it could (potentially) result in a devaluation of the valuable Philips-brand. How has Philips considered this risk?
8. The synergies between Philips Diagnosis & Treatment and Connected Care segment is understood, as both are business-to-business with hospitals as their main clients. However, we struggle to understand the strategic fit and synergies with the Personal Health segment.

While Personal Health is an attractive high-margin business, does Philips believe it continues to be the best owner for this business? Wouldn't it be better to sell the entire Personal Health business?

9. Diagnosis & Treatment is widely seen as the division with the greatest margin expansion potential (in particular Diagnostic Imaging).
  - a. Can you give an update on where Philips currently stands in the competitive landscape (market share etc.) in relation to its main competitors Siemens Healthineers and GE Healthcare?

- b. Siemens Healthineers Imaging has an adjusted operating margin of over 20 percent. How much headroom do you see for margin improvement for Diagnosis & Treatment going forward?

#### CAPITAL ALLOCATION

10. Philips' track record on healthcare acquisitions is positive (Spectranetics and Volcano). Given the solid balance sheet position (net debt/Adjusted EBITDA 1,4x), are you actively looking for acquisitions now that valuations might be more favorable?
11. Analysts' estimates of the valuation of Domestic Appliances range from 2 to 5 billion euros. This would bring net debt down substantially. Does Philips have a target earmarked for these proceeds, and looking forward, in what business segment would you consider an acquisition to be most preferable?
12. Philips in the past used to provide detailed information on its net operating capital (NOC) by segment. In order to improve investor insights in your capital allocation decisions, would Philips going forward be willing share this information with shareholders?

#### **Agenda item 3A: Remuneration of the Board of Management**

13. Is the Supervisory Board considering to use its discretionary power to reduce or slash all or any variable payment components for 2020, for instance, because the pay-for-performance relation is weaker than ever in the current turbulence?

**Statement:** *(To be read aloud during the annual general meeting)*

In our view Philips continues to have one of the most aggressive remuneration policies in the Netherlands. The maximum payout could reach as much as six times the base salary of mr. Van Houten. While in general VEB attaches more importance to the structure of the remuneration policy and the applicable performance criteria, we consider this maximum payout overly aggressive.

After careful consideration, the VEB votes **against** the remuneration proposal for the Board of Management. Nevertheless, we have the following questions.

14. The list of annual incentive criteria from which the Supervisory Board can select targets, among others consists of shareholder/capital return measures (such as ROA, ROE, ROIC). The VEB can understand the inclusion of ROIC, but for what reasons would Philips want to opt for - in our view - flawed measures such as ROA and ROE?
15. Among its STI criteria Philips also lists 'cash flow'. Are you able to specify the definition of this cash flow metric. Is this the currently used 'free cash flow' as reported in the annual report (page 70), or is there another definition for this 'cash flow'?
16. A number of individual criteria are also listed (customer results, quality & operational excellence, strategy execution, people & organization, and sustainability). Can the Supervisory Board give some more color on what these metrics will look like?



### **Agenda item 3B: Long-Term Incentive Plan for the Board of Management**

**Statement:** *(To be read aloud during the annual general meeting)*

While the TSR vesting schedule has been improved by reducing pay-out at and around median performance, Philips continues to pay-out at a below median level. The VEB does not support pay-out below the median level.

**Statement:** *(To be read aloud during the annual general meeting)*

While the VEB understands the combination of adjusted EPS and relative TSR as criteria to measure how effectively Philips is running its businesses, we believe the remuneration policy might be further improved by adding ROIC to its LTIP performance metrics instead of adjusted EPS.

The VEB votes **against** the Long-Term Incentive Plan for the Board of Management

17. Has the Supervisory Board considered using the ROIC-metric as one of its financial performance criteria in the Long-Term Incentive Plan instead of adjusted EPS?

### **Agenda item 3C: Remuneration of the Supervisory Board**

**Statement:** *(To be read aloud during the annual general meeting (AGM))*

The VEB principally does not support the proposal for additional fees to be paid to the members of ad hoc committees. Supervisory board members in the opinion of the VEB should in no way be able to benefit financially from a period in which the company is going through hardship. Supervisory Board remuneration should be fixed, without a variable component either through shares, options, or the proposed establishment of ad-hoc committees.

The VEB votes **against** the remuneration proposal for the Supervisory Board.

18. Could the Supervisory Board explain how this proposal - i.e. additional fees for ad-hoc committees - has come about?
19. What 'activities' by the Supervisory Board or 'other circumstances' would qualify for additional fees? Please provide the full list of options.

The VEB is well aware of the significant challenges you currently face. It is for this reason that we expressly send you the questions above prior to the AGM.

We wish you all the strength in this period and look forward to receiving your reply to the above questions.

Yours sincerely,

Dutch Shareholders' Association (VEB)