PHILIPS Lighting

SUMMARY OF THE DISCUSSION AT THE GENERAL MEETING OF SHAREHOLDERS PHILIPS LIGHTING N.V. HELD ON 9 MAY 2017 IN EINDHOVEN, THE NETHERLANDS

Start of the meeting: 14:00 CET

Chairman: Arthur van der Poel

Opening

The *chairman* welcomes all present to the first annual shareholders meeting of Philips Lighting N.V. and opens the meeting. Furthermore, he introduces the members of the Board of Management and Supervisory Board, as well as the secretary of the meeting the notary public and external auditor from Ernst & Young.

1. Presentation by CEO Eric Rondolat

The *chairman* invites CEO Mr Rondolat to give his presentation. The full text of the speech of Mr Rondolat has been published on the company's website.

2. Implementation of the remuneration policy in 2016

After the presentation of the CEO, the *chairman* addresses a couple of practicalities and explains that the meeting can be followed via the company's audio webcast. Moreover, the chairman explains that the first agenda items are all closely connected and for that reason he suggests discussing such items together, after all accompanying presentation have been given.

Subsequently, the *chairman* moves on to agenda item 2, the implementation of the remuneration policy in 2016, and gives the floor to the chairman of the Remuneration Committee, Mr Van Lede.

Mr *Van Lede* explains how the company's remuneration policy has been implemented in 2016. First, he discusses the main elements which make up the base package of the remuneration of the members of the board of management and how these work. The base salaries are primarily determined on the basis of the responsibilities of the respective board members and how these compare to the responsibilities of board members of peer companies. The base salary is set around the median level of such reference group. Regarding the annual cash incentive for 2016 Mr *Van Lede* explains how the board members have performed against their targets and how the actual pay-out percentages have been calculated taking into account the different positions held by the board members within the company before and after the IPO. Finally, Mr *Van Lede* mentions that the long-term component in the form of shares will be further explained under agenda item 9.

3. Explanation of the policy on additions to reserves and dividends

The *chairman* thanks Mr Van Lede and gives the floor to CFO Mr Rougeot to explain the company's policy on additions to reserves and dividends.

Mr *Rougeot* explains the characteristics of the company's capital structure and how that evolved in 2016. He explains that the company's cash level at the end of the year was around one billion euro with a gross debt of around 1,381 million, which debt mainly resulted from the IPO. Furthermore, he explains the different components of the company's current debt profile, and explains the financial covenant on the net leverage the company must comply with. Overall, the net debt has been consistently decreased since the time of the IPO which reflects the significant free cash flow generation of the company in 2016. Finally, he explains that at the time of the IPO the company has entered into a revolving credit facility which can be used if needed.

Mr *Rougeot* then talks about the company's capital allocation policy which is driven by a strict financial discipline in the way it generates and uses cash. In terms of the cash generated, the company is committed to managing its financial ratios in order to maintain a financing structure compatible with an investment-grade profile. In terms of cash uses, the company will continue to invest in its business and aims to pay out an annual regular cash dividend. Finally, the company also considers some additional capital returns to shareholders as well as seizing some non-organic opportunities, primarily focused on small- to medium-sized acquisitions.

The company's dividend policy reflects the profitability of the company and its cash generation. A key objective is to provide a stable return for our shareholders, while at the same time continuing to invest in the business and keep the right financial flexibility. This means that the company aims to distribute an annual cash dividend within 40% to 50% of its continuing net income. This year a proposal is made to pay a dividend of 1.10 euro per share.

Finally, Mr *Rougeot* mentions the objective to return capital of up to 300 million euro to shareholders over the years 2017 and 2018 by participating in further sell-downs by Royal Philips. He also mentions that the company participated in two sell-downs by Royal Philips in February and April of this year and that the shares acquired will be cancelled in the course of this year.

After his presentation Mr Rougeot gives the floor back to the chairman who moves on to agenda item 4, the financial statements 2016.

4. Financial statements 2016

To start the *chairman* makes a couple of introductory comments on the annual report 2016. He mentions that the report, including the financial statements, was available for inspection at the company's office and was published on the corporate website in late February. He also points out that, at the time of the IPO, the General Meeting of Shareholders nominated Ernst & Young as external auditors for 2016, up to ending 2019. Therefore, the financial statements have been audited by Ernst & Young which firm is represented by Mr Jonker as responsible audit partner. Finally, he gives Mr Jonker the floor.

Mr *Jonker* gives an explanation on Ernst and Young's auditing activities and Ernst & Young's auditor's report that can be found in the annual report. He points out that the annual report includes the first financial statements for Philips Lighting and it was the first time that Ernst & Young carried out an audit in respect thereof. This meant that there was a lot of additional work, gathering information about the organisation and reviewing the audits carried out by and discussion with the previous auditor. As Ernst & Young was closely involved in the separation of Philips Lighting from Royal Philips and part of the IPO prospectus this provided the auditor with a good understanding of the organization for its audit plan which was agreed with the Audit Committee and management in July 2016.

Mr *Jonker* then explained how the firm organized the audit activities that needed to be carried out around the world. This was handled in close cooperation between the central audit team and local teams which were instructed on the type and depth of the work they needed to carry out. Also, the company's main locations were visited at least once and sometimes several times. Moreover, Ernst & Young concluded that there were no significant findings when testing the internal controls of the company.

Mr *Jonker* mentions that the materiality threshold applied during the audit was 17 million euro. Identified audit differences over 900,000 euro were also discussed with the company's Audit Committee. Finally, he also addresses important key audit matters included in the auditor's report, which involved organizational changes including the separation of the company, the valuation of goodwill, the valuation of deferred taxes and liabilities for uncertain tax positions, and revenue recognition.

As part of the audit, Ernst & Young had weekly contact with the company and any findings were discussed with the CFO, management and the Audit Committee every quarter. Ernst & Young also met with the Audit Committee without management being present and had frequent contact with the chairman of the Audit Committee aside from the actual formal meetings.

By way of conclusion, Mr *Jonker* expresses his thanks to all involved in the successful first audit of Philips Lighting.

The chairman thanks Mr Jonker and opens the floor for questions.

Mr *Rienks* asks about the relationship between Philips Lighting and its major shareholder Royal Philips. For example, is there is any impact on the decision-making process within the Supervisory Board of Philips Lighting because it includes two Royal Philips officers. He also would like to know to which company belongs the brand name and how any conflicts between the two companies are dealt with if and when they arise. Furthermore, Mr *Rienks* asks about the speed of the transformation from conventional lighting technologies to LED technology in countries in which the use of incandescent technology has not yet been banned and how Philips Lighting should position itself in these markets.

The *chairman* addresses the governance related question and explains that as a matter of law all Supervisory Board members, including the Royal Philips nominees, need to act in the interest of the company. Decisions are taken by the Supervisory Board of the company and not based on instructions received from its major shareholder. Moreover, the composition of the Supervisory Board has been disclosed in the IPO prospectus. In addition, arrangements have been made to deal with the relationship between both companies after the IPO in particular with regard to conflicts of interest and related party transactions.

With respect to the brand name, Philips Lighting has a brand licence and pays an annual fee for the usage thereof as was disclosed at the time of the IPO.

Regarding the industry technology transformation Mr *Rondolat* explains that for many years to come it is very likely that there will still be some conventional technologies that are going to remain, mainly in fluorescent tubes, because an equivalent in LED is still being produced at a much higher cost. In view thereof, the company's strategy is to be for these technologies the last company that is going to be able to offer its customers a solution based on conventional technology. Finally, he mentions that the company obviously has had to adapt its industrial footprint in view of the transition. Historically, Lighting had many factories, producing conventional technology and some had to be closed in line with the declining market for conventional lighting technologies.

Mr *Smids* speaks on behalf of the Dutch Association of Shareholders (VEB) and a large number of retail investors. His first question is about the dividend pay-out ratio; as this year the pay-out is above the 40-50% range he wonders whether this range should be reconsidered and adjusted upwards. Furthermore, he asks about whether the company as an innovative player should not spend more on R&D since its R&D investments have slightly decreased in the past years. His final question relates to the effect of price erosion in the LED Lamps business and if the company could give further insight into the future product mix.

Mr *Rougeot* answers that the proposed dividend level for this year is slightly above the range. However, moving forward this allows the company, considering a future improvement in the net result, to maintain at least the value of the dividend in absolute value while it is still in the range of 40-50%.

Regarding R&D investments Mr *Rondolat* answers that the company believes that at this point in time it has an adequate ratio on how much it spends on R&D. In particular, if one looks at other lighting players, Lighting clearly invests a much larger amount on R&D than other players in that field which has helped the company to grow the business. Finally, he explains that the company directs a large part of R&D investments to businesses with potential for higher growth. In conventional the R&D investments are much lower and are focussed on quality value engineering rather than new offerings. On the LED lamps business, Mr *Rondolat* explains that the company did not really suffer from price erosion even though it impacted top line growth. Compared to 2015 Lighting sold many more LED lamps at a much lower unit cost but this was not fully translated to the top line because of this mix impact and this price erosion. The business has taken actions to drive growth back up as was reflected in the Q1 results and the business anticipates that the (overall) mix will have less impact in 2017 than it had in 2016. Also, it is expected that the years of double digit price erosion that the business has experienced will stop since less value can be extracted via cost downs in this new technology.

Mr *Taverne* represents the association of shareholders for sustainable development (VBDO). He compliments management with its first integrated annual report since both sustainability and non-financial aspects of the business have been discussed in a prominent way. Regarding the presentation of the strategic goals for 2016 and 2017 he would appreciate it if sustainability targets are clearly discussed next to the financial targets. Mr *Taverne* continues and would like to understand better what the company considers to be "sustainable revenues" as he believes this is not clearly described in the annual report although it is an important KPI for the company. Furthermore, he states that it seems that the sustainability targets for 2020, at least in part, have already been achieved and would like to know if the company considers adjusting the 2020 targets upwards. As to the topic of “circular economy” he encourages the company to provide further details on the company’s “design rules”. Finally, he addresses the following topic on what we call living wages. This concerns the wages, not for the higher levels of management, but for those people working somewhere down the supply chain (in one of the sourcing countries possibly) for Philips Lighting. Mr *Taverne* asks whether the company has any policies and any instruments in place to effectively check the application of living wages two or three tiers down the supply chain.

Mr *Rondolat* explains that “sustainable revenues” involve products offerings which bring a positive impact which is more than 10% versus the previous offerings or the minimum established legal standards. Also, how much energy-efficiency our offerings are bringing, compared to the minimum standards that are being applied or previous offers is an important metric next to other dimensions. As to upward adjustment of targets it is good to note that for “sustainable revenues” the company’s offerings are benchmarked every year and based thereon they still qualify as sustainable or not. This means we are not in a stable environment and our 2020 target in this respect is rather a challenging target.

Mr *Rondolat* explains that design rules in circular economy are not only about recyclable materials but also about new circular business models. He gives the example of the new circular lighting system at Schiphol Airport, which system can be taken out after a given number of years and re-used as it was specifically designed to allow for this. Finally, Mr *Rondolat* comments briefly on the topic living wages and explains what the company is doing.

Mr *Boom* asks about cybersecurity and would like to know whether the company is insured for all kinds of cybercrimes and how vulnerable the company is to cyberattacks. Finally, he asks about the nature and origin of the tax-related losses of 417 million euro as included in the financial statements; are these losses generated in the Netherlands for example or elsewhere.

The *chairman* responds that cybersecurity is top on the agenda of the full supervisory board and was in fact discussed in depth at the supervisory board meeting earlier today. Mr *Rougeot* adds that the company has taken out insurance for some impact of these type of events. More fundamentally, it is about how the company is managing cybersecurity in general. Within the company, a dedicated function has been set up in charge of the intelligence, governance, processes, and responses to those cyber risks. It is now up and running and is working closely with all the other functions and businesses within the company. So, the board is taking this subject very seriously.

Mr *Rougeot* talks about how the company assesses the valuation of tax losses together with its auditor and explains that some of the losses could be recovered based on various business plans. He also explains that a number of activities or countries where, based on the reasonable assumptions of our businesses, management believes that due to the lack of convincing evidence of sufficient future taxable profits or existing limitations on the recovery of tax assets no deferred tax asset can be recognized. or there are limitations that prevent the company activating the tax aspect of those losses. The amount of 417 million euro is a potential asset which the company has not recognized in the balance sheet. It can only be recognized if management believes that opportunities exist to generate sufficient taxable profits in the respective jurisdictions. Finally, these losses are not about the Netherlands but involve other countries and various types of businesses.

Mr *Smids* has a couple of remarks and questions on the financial statements. He first of all would like to get a better understanding on the different categories of outstanding receivables. In view of the company's commitment to break-off relationships with customers who pay too late, he does not quite understand why in some cases the amount of outstanding receivables has significantly grown. He also would like a bit more insight into the decrease in working capital in particular resulting from a reduction of inventories. As to goodwill Mr *Smids* mentions the relatively limited headroom for business group Professional and points out that the discount rate applied was changed (15.1 % to 13.9%). He would like to understand why such rate was changed and why did not the company impair goodwill given the limited headroom available. Finally, he asks about the status of the transition of the IT systems from Royal Philips to Philips Lighting and whether there was any delay, any impact on related costs since the indirect costs seem relatively high and whether the auditor has assessed the IT infrastructure in light of a standalone scenario.

Mr *Rougeot* explains the different categories which represent the total amount of receivables of 1.5 billion euro. He mentions that about 1.3 billion euro the company does not experience any payment issues with its customers. The remainder of outstanding receivables relate to customers who to a large extent pay a few weeks too late. In some countries however, the company experiences adverse macro-economic situation, and the company is facing some payment difficulties. This is particularly true for Saudi Arabia. In light thereof, the company has booked bad debt provisions in accordance with accounting rules but at the same time took action in order to eventually get paid. As a result of these actions the company saw a decrease of the provision, compared to 2015 as well as a decrease of the level of late payments. Moving on to the question on goodwill, Mr *Rougeot* explained that most of the company's goodwill is related to business group Professional. Every year an impairment test is carried out in accordance with applicable accounting rules. This includes the review of the business plan of this business group to assess whether the recoverable value of that cash generation unit is consistent and in line with the value of the goodwill or higher. Based on that assessment there was no reason to take an impairment at the end of 2016. The discount rate was also reviewed and is in line with the calculations for the discount rate applied in 2016 which takes into account the level of risks and market conditions (amongst others the levels of interest rates have gone down). This resulted in a lower discount rate of 13.9%.

As to the IT split, Mr *Rougeot* answers that although a lot of work has been done in connection with the separation, the company is not yet completely disconnected from the Royal Philips IT systems. In a couple of areas the company still relies on Royal Philips but transition plans have been made to disconnect in the next few months. He also confirms that the timing is in line with what was planned, a few small exceptions aside. All costs involved have been clearly identified and are included to a large extend in what is called separation cost. Finally, he comments that once all systems operate on a standalone basis, the company believes it can reduce the level of its IT-cost further. Mr *Jonker* adds that Ernst & Young has been closely involved in the splitting of the IT infrastructure in light of a standalone scenario for the company. The audit activities in particular focussed on Lighting's own IT systems and the service level agreements that were put in place. All with a satisfactory outcome.

Mr *Smids* asks a few follow-on questions. First, he would like to know how the audit was carried out with regard to the write downs of receivables in Saudi Arabia. His final question is about the pension liabilities and he would like to know whether the pension liabilities after the separation are different then was indicated in the carve out combined financial statements as included in the IPO prospectus.

Mr *Rougeot* explains that the separation for the pensions had to be assessed and confirmed. The figure at the end of 2016 - a net liability of 602 million euro with about 1,2 billion euro of overall obligations - has been reviewed country by country and this is now the situation after the separation from Royal Philips.

Mr *Jonker* adds that pensions were examined by his firm's actuarial specialists in line with the underlying contracts. On the write down of the receivables in Saudi Arabia Mr *Jonker* comments that a full scope audit was carried out on the entity involved and that the receivables situation is closely monitored every quarter.

The *chairman* now moves to the voting of the agenda items that have now been discussed and gives the floor to the notary. The notary first of all states that at the beginning of this meeting were represented or present 121.965.747 shares and the same number of votes. In terms of the number of shares issued in the company on the registration date, which are entitled to vote, 83.25% of the issued share capital is present or represented at today's meeting. Finally, he walks through the voting procedure and mentions that the full voting results will be published on the corporate website and will also be included in the minutes of today's meeting in summary form.

The *chairman* now opens the vote on agenda item 4: the proposal to adopt the financial statements 2016. After the vote has closed the following voting results are published:

For:	121,965,537	100%
Against:	105	0%
Abstentions:	105	

The *chairman* concludes that the proposal has been adopted.

The *chairman* moves to the next agenda item and opens the vote on agenda item 5: the proposal to adopt a cash dividend of EUR 1.10 per ordinary share over the financial year 2016. After the vote has closed the following voting results are published:

For:	121,846,107	99.9%
Against:	119,239	0.1%
Abstentions:	401	

The *chairman* concludes that the proposal has been adopted.

Subsequently, the *chairman* opens the vote on agenda item 6a: the proposal to discharge the members of the Board of Management in respect of their duties performed in 2016. After the vote has closed the following voting results are published:

For:	121,341,144	99,5%
Against:	624,496	0,5%
Abstentions:	106	

The *chairman* concludes that the proposal has been adopted.

Finally, the *chairman* opens the vote on agenda item 6b: the proposal to discharge the members of the Supervisory Board in respect of their duties performed in 2016. After the vote has closed the following voting results are published:

For:	121,339,839	99.5%
Against:	625,251	0.5%
Abstentions:	656	

The *chairman* concludes that the proposal has been adopted.

7. Composition of the Board of Management

The *chairman* explains the nomination of Mr Rougeot as a member of the Board of Management as addressed in the agenda. He explains that an important point in 2016 was to enlarge the Board of Management with someone who would take on the position as CFO. The Supervisory Board is therefore delighted to see that Mr Rougeot started working as a CFO at Philips Lighting at the beginning of September 2016. In view thereof, the Supervisory Board proposes to appoint Mr Rougeot to the Board of Management for a period of four years.

Since nobody wishes to take the floor regarding the nomination of Mr Rougeot, he opens the vote on agenda item 7: the proposal to appoint Mr Rougeot as member of the Board of Management. After the vote has closed the following voting results are published:

For:	121,927,033	99.9%
Against:	38,699	0.1%
Abstentions:	15	

The *chairman* concludes that the proposal has been adopted and congratulates Mr Rougeot on his appointment.

8. Composition of the Supervisory Board

The *chairman* discusses the composition of the Supervisory Board. In particular the fact that Mr Van Lede wishes to step down at the end of this year and the fact that Royal Philips wishes to continue divesting its shareholding in Philips Lighting. The chairman points to the two recent sell-downs as a result of which Royal Philips reduced its interest in Philips Lighting to about 40% of the issued shares.

In view thereof, the Supervisory Board believes it in the interest of the company to nominate two new members to the Supervisory Board and is delighted that Jill Lee and Gerard van de Aast are available for nomination to the Supervisory Board. He furthermore points to the explanatory notes to the agenda for more details on both nominations and mentions that each candidate is to be appointed for a four-year period. Finally, he asks Jill Lee and Gerard van de Aast to introduce themselves to the shareholders before the floor is opened for questions.

Mr *Smids* mentions the current investigation by the receivers into the course of affairs relating to the bankruptcy of Imtech N.V. of which company Mr van de Aast was the former CEO. In particular, he points out that this could take up a lot of time from not only Mr Van de Aast but possibly from the company as well. He would like to know how the Supervisory Board has taken this into account in discussing the nomination of Mr van de Aast.

First the *chairman* says a few words on the bankruptcy of Imtech and that it is standard procedure that receivers carry out an investigation into the reasons and causes of a bankruptcy. As part of such investigation all persons involved in Imtech will be asked to provide information; Mr Van de Aast is no exception. The Supervisory Board has carefully discussed and fully supports the nomination of Mr Van de Aast. It also believes that he will be able to dedicate the relevant amount of time to the Philips Lighting Supervisory Board bringing his valuable experience and knowledge as CEO. Finally, the chairman points out that Mr Van de Aast joined Imtech at an already difficult time in which it became clear that a project in Poland led to great difficulties for the company which needed to be addressed. Unfortunately, and despite Mr Van de Aast his efforts, Imtech could not turn the tide.

The *chairman* now opens the vote on agenda item 8a: the proposal to appoint Ms Jill Lee as member of the Supervisory Board. After the vote has closed the following voting results are published:

For:	121,665,391	99.8%
Against:	300,105	0.2%
Abstentions:	250	

The *chairman* concludes that the proposal has been adopted.

The *chairman* then opens the vote on agenda item 8b: the proposal to appoint Mr Gerard van de Aast as member of the Supervisory Board. After the vote has closed the following voting results are published:

For:	121,527,174	99.6%
Against:	437,581	0.4%
Abstentions:	992	

The *chairman* concludes that the proposal has been adopted and congratulates Ms Lee and Mr Van de Aast with their appointments.

9. Remuneration of the Board of Management

The *chairman* now proceeds to the next agenda item, remuneration of the Board of Management. He indicates that this concerns two aspects of the remuneration resulting in two separate voting items. One relates to the proposal to amend the annual cash incentive. The other is a proposal to change the long-term incentive plan for the Board of Management. An extensive explanation is included in the annotated agenda. The chairman gives the floor to the Chairman of the Remuneration Committee, Mr Van Lede.

Mr *Van Lede* first explains that as expected at the time of the IPO the remuneration policy was reconsidered by the Supervisory Board, to further align the policy with the company's strategy and market developments. He then discusses the proposal to amend the structure of the annual cash incentive. One objective is to specify the financial performance measures for the annual cash incentive in the remuneration policy. The Supervisory Board proposes that in the future it may choose annually two or three financial performance measures from the list of six measures as described in the agenda. The Supervisory Board believes that this approach gives flexibility to ensure continuous alignment of performance measures and the company's strategy and financial objectives for the mid-term. For example, in 2016 the measures were linked to sales growth, operational profitability and free cash flow but depending on requirements and events in a particular year it might make more sense to focus a bit more on working capital, in which case working capital could be an indicator for the bonus assessment. This approach is similar to what other companies do with respect to setting the financial measures for the annual incentive.

Mr *Zee* asks whether the company will each year provide a transparent overview of the measures choosen. Mr *Van Lede* confirms that this is the case.

Mr *Smids* asks at which point in time the Supervisory Board chooses the measures to be used for a particular year. In his view this should be done before the start of the new year. As to transparency Mr *Smids* asks whether it is possible to carry out a scenario analysis on what would have happened to the remuneration if the Supervisory Board would have selected other parameters ? In his view shareholders could have some kind of control on the process. Therefore, there must be some kind of accountability, which could be found in the use of scenario analysis. Finally, he would like to understand why in 2016 free cash flow was chosen and not working capital. Also why would the board like to have the flexibility to move from three to two measures.

Mr *Van Lede* mentions that the specific measures for the coming year are discussed before the start of such year. He further comments that scenario analyses are quite popular and it is a useful instrument, but ultimately it is up to the Supervisory Board's judgment and experience to select the appropriate measures. One really needs to assess the situation to choose the appropriate measures. Of course, if a choice is made which differs from a previous year this will be explained, however, the ability to respond immediately and make changes to the measures is critical, in particular if the Supervisory Board believes that one of the chosen measures, in light of changed circumstances, would lead to perverse incentives and wrong behaviour.

The *chairman* adds that free cash flow is quite important for the company as set out at the time of the IPO.

Mr *Smids* states that he not satisfied with the answers and therefore notes for the record that the VEB will vote against this agenda item.

The *chairman* then opens the vote on agenda item 9a: the proposal to amend the annual cash incentive as included in the remuneration policy. After the vote has closed the following voting results are published:

For:	121,397,167	99.5%
Against:	567,859	0.5%
Abstentions:	721	

The *chairman* concludes that the proposal has been adopted

Subsequently, the *chairman* briefly introduces the next proposal to approve the long-term incentive plan for the Board of Management. An extensive explanation is included in the annotated agenda.

As Chairman of the Remuneration Committee Mr *Van Lede* explains the details of the proposed long-term incentive plan for members of the board of management. He points out that the performance shares are conditionally granted and are tied to three performance measures: 40% is TSR (Total Shareholder Return), 40% free cash flow, and 20% sustainability. The Supervisory Board is delighted to see sustainability really taking up a significant share there. The importance of free cash flow speaks for itself and Relative Total Shareholder Return means the increase in share price taking into account that dividends are reinvested. As to the composition of the peer group Mr *Van Lede* notes that this is a group of companies which any person considering investing in Philips Lighting might also consider investing in; comparable companies. Furthermore, a reserve list with four more companies has been determined. The reason is because sometimes a company can be taken over and the peer group needs to be adjusted. Finally, he points to the pay-out levels linked to the TSR performance measure.

Mr *Smids* asks about the TSR and related pay-out zone. His question is, will the company still pay out a bonus if the results are negative but the company is doing least badly? Furthermore, he points out that in the view of the VEB the pay-out zone is quite rich as a pay-out will also happen if the company comes in at the lower third of the spectrum. The VEB holds the view that in such event no bonus should be paid out.

Mr *Van Lede* understands the points made and explains that in any event the Supervisory Board, and in particular the Remuneration Committee, use their judgement. If the situation - described by Mr Smids- arises, it is extremely unlikely that a bonus would be paid out. Again, it is all about applying common sense. As to the second comment made, Mr *Van Lede* mentions that this is the way the market works, although it might be slightly different in the English-speaking world. Finally, he explains that given the context that the company has only recently been spun-off from Royal Philips, the Supervisory Board believes it is too early days to introduce a more, let's say, aggressive pay-out zone. This is the thinking behind the choice made here.

Mr *Taverne* notes for the record that the VBDO is satisfied to see that sustainability targets are part of the long-term component of the remuneration plan. However, the VBDO believes that a large part of remuneration is variable which in their view is rather Anglo-Saxon and the VBDO does not support this. This is why the VBDO will vote against, although it supports the content of the plan.

The *chairman* now opens the vote on agenda item 9b: the proposal to approve the long-term incentive plan for the Board of Management. After the vote has closed the following voting results are published:

For:	114,501,509	94.4%
Against:	6,814,706	5.6%
Abstentions:	649,531	

The *chairman* concludes that the proposal has been adopted.

10. Authorization of the Board of management to (a) issue shares or grant rights to acquire shares, and (b) restrict or exclude pre-emptive rights

The *chairman* now moves on to agenda item 10: the proposal to authorize the Board of Management to (a) issue shares or grant rights to acquire shares, and (b) restrict or exclude pre-emptive rights to shares, subject to the conditions as set out in the annotated agenda. The *chairman* clarifies that these are two separate voting items and will be voted on separately. He furthermore explains that the proposal is to grant an authorization for an eighteen months' period, starting today. The first authorization is a 10% of issued capital plus an additional 10% of issued capital in the case of mergers, acquisitions or strategic alliances. The second proposal is about the ability to restrict pre-emptive rights. These proposals are standard authorizations for publicly-listed companies in the Netherlands. Finally, he notes that for all such management decisions, the prior approval of the Supervisory Board would be required.

Since nobody wishes to take the floor regarding this proposal, the *chairman* opens the vote on agenda item 10a: the proposal to authorize the Board of Management to issue shares or grant rights to acquire shares. After the vote has closed the following voting results are published:

For:	106,569,029	87.4%
Against:	15,396,065	12.6%
Abstentions:	358	

The *chairman* concludes that the proposal has been adopted.

Subsequently, the chairman opens the vote on agenda item 10b: the proposal to authorize the Board of Management to restrict or exclude pre-emptive rights to shares. After the vote has closed the following voting results are published:

For:	108,240,924	88.7%
Against:	13,724,000	11.3%
Abstentions:	822	

The *chairman* concludes that the proposal has been adopted.

11. Authorization of the Board of Management to acquire shares in the company

The *chairman* discusses the next agenda item, the proposal to authorize the Board of Management to acquire shares in the company, subject to the conditions as set out in the annotated agenda. He explains that the authorization is proposed for a period of eighteen months and is restricted to 10% of the shares at issue plus an additional 10% for share repurchase programs with the purpose of reducing the share capital. Any decision to proceed with any repurchase transaction requires the prior approval by the Supervisory Board. Also, this is a standard authorization for publicly-listed companies in the Netherlands.

Since nobody wishes to take the floor regarding this proposal, the *chairman* opens the vote on agenda item 11: the proposal to authorize the Board of Management to acquire shares in the company. After the vote has closed the following voting results are published:

For:	119,990,897	98.4%
Against:	1,906,350	1.6%
Abstentions:	68,500	

The *chairman* concludes that the proposal has been adopted.

12. Cancellation of shares

Then the *chairman* moves straight on to agenda item 12, authorizing the Board of Management to cancel shares, subject to the conditions set out in the annotated agenda. This proposal is about the cancellation of shares held by the company or to be acquired by the company under the authorization referred to under agenda item 11, resulting in a reduction of the company's issued share capital. This, again, is a standard authorization for publicly-listed companies in the Netherlands.

After having concluded that nobody wishes to take the floor on this topic, the *chairman* opens the vote on agenda item 12: the proposal to authorize the Board of Management to cancel shares in the share capital of the company. After the vote has closed the following voting results are published:

For:	120,246,748	98.6%
Against:	1,718,346	1.4%
Abstentions:	552	

The *chairman* concludes that the proposal has been adopted.

13. Any other business

The *chairman* moves on to the last agenda item and asks who would like to take the floor.

Mr *Van den Berg* representing the Board of the Association of Retired Philips Officers asks about the expenses of such association which, so far, have been borne by Royal Philips. He would like to know if the company would pay one third of the total expenses paid by Royal Philips in the past.

Mr *Rondolat* answers that the company will look into this matter and get back on this.

Finally, the *chairman* thanks everybody for coming and closes the first annual general meeting of shareholders of the company.

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