



Speech **Frans van Houten** at 2017 AGM

1. Introduction

Ladies and Gentlemen,

Welcome to the Annual General Meeting of Royal Philips. Over the next 20 minutes, I would like to look back on 2016 and then look forward with confidence at our performance trajectory and future opportunities for Philips in health technology.

2016 was a defining year for our company, in which we celebrated our 125th anniversary as an innovation company. It was also the year in which we executed several major strategic initiatives as we transformed into a focused leader in health technology.

And the performance of the Philips Group as a whole, including Philips Lighting, also demonstrates that we have a good momentum.

2. 2016 & Q1 2017 performance

In 2016, our sales grew to 24.5 billion euros and net income more than doubled to 1.5 billion euros. Our operating cash flow was very strong at 1.9 billion euros.

I already mentioned that 2016 was a defining year.

We successfully listed Philips Lighting, and I am proud that in its first year as a stand-alone company, Philips Lighting delivered strong LED sales growth and an increased profitability. The value of Philips Lighting has increased significantly since it was initially listed.

This confirms that we chose the best path to unlock the value of Philips Lighting, and we are capitalizing on that. Earlier this year, we reduced our stake in Philips Lighting's issued share capital in two steps to approximately 41%. This is in line with our stated aim to fully sell down our stake over the coming years.

We also secured a good future for Lumileds, in a transaction that we expect to complete in the next weeks.

In the meantime we continue to emphatically build the "new Philips" as a leader in health technology. We acquired and integrated the digital pathology company PathXL and population health management leader Wellcentive. We also launched many new digital propositions at large trade shows such as HIMSS, IFA and RSNA.

Our strategic focus on health technology is working and delivering results. I am pleased with the 5% comparable sales growth of our HealthTech portfolio in 2016. At the same time, we delivered a 100-basis-point improvement in the Adjusted EBITA margin to 11.0%.

Let me zoom in on the performance of each of our segments.

Sales in our Personal Health businesses grew to EUR 7.1 billion, an increase of 7% on a comparable basis. This was driven by double-digit growth in Health & Wellness and mid-single-digit growth in Personal Care, Sleep & Respiratory Care, and Domestic Appliances. The adjusted EBITA margin improved by 130 basis points to 15.6%. All round, this was a strong performance.

Philips introduced a range of personalized health programs at last year's IFA trade show in Berlin, including the Philips Sonicare FlexCare Platinum Connected toothbrush and the uGrow medical-grade baby app. Our connected Dream series within our Sleep & Respiratory Care portfolio, delivers nightly relief and rest with assisted breathing for millions of sleep apnea patients. These innovative propositions all leverage Philips HealthSuite, a secure, cloud-enabled connected health ecosystem of devices, apps and digital tools.

Meanwhile, sales in our Diagnosis & Treatment businesses amounted to EUR 6.7 billion in 2016, an increase of 4% on a comparable basis. This was driven by double-digit growth in Image-Guided Therapy and low-single-digit growth in Diagnostic Imaging. The adjusted EBITA margin improved by 150 basis points to 9.4%.

Leveraging our innovation leadership in diagnostic imaging, we launched Philips' IQon Spectral CT globally. IQon provides clinicians with a comprehensive diagnostic analysis in a single low X-ray dose examination. The market success of IQon is a direct result of the modality's superb image quality and disease assessment, in particular for oncology.

We successfully integrated our Volcano acquisition, achieving multiple quarters of double-digit growth, as well as significant growth synergies with our image-guided therapy business, and cost synergies well beyond our original plans.

Sales in our Connected Care & Health Informatics businesses rose to EUR 3.2 billion, an increase of 4% on a comparable basis. This was driven by mid-single-digit growth in Patient Care & Monitoring Solutions and low-single-digit growth in Healthcare Informatics. The adjusted EBITA margin improved by 60 basis points to 10.3%.

Expanding Philips' global leadership in patient monitoring solutions beyond acute care settings, we launched the latest version of our IntelliVue Guardian solution in Europe. This solution includes a set of smart wearable biosensors combined with Big Data-derived clinical decision support algorithms. The solution has been designed to aid clinicians in the early recognition of a patient's deterioration in the hospital's general wards. Enabling timely intervention helps to avoid adverse events and unplanned transfers back to the ICU. This is hugely important for our customers and their patients.

Last month, we announced our first quarter results for 2017. We had a solid start to the year and continued our growth, with our Health Tech portfolio expanding 3% on a comparable basis, as Adjusted EBITA increased by 80-basis-points to 7.4%. The operating cash flow for the Group including Philips Lighting improved to EUR 343 million.

This was a very active quarter in which we again launched several breakthrough innovations, announced new strategic partnerships, and won various integrated solutions deals.

In the first quarter, we also informed the market about our discussions on a civil matter with the US Department of Justice representing the FDA. As reported, these discussions arise from past inspections by the FDA in and prior to 2015, focusing primarily on the external defibrillator business in the US. At this moment there is nothing new to report and this matter will not deter us from maintaining our performance momentum.

The transformation of Philips into a global leader in health technology is appreciated by customers and employees, and also hasn't gone unnoticed in financial markets. Last year the FTSE Group's ICB reclassified our stock to the 'Health Care' industry, and more recently the STOXX Europe 600 Index also reclassified us to 'Health Care'.

Our share price is on the rise, with significant room for future upside. The evolution of our performance in the past five years shows that Philips is on the right path and I am convinced that we will be able to continue to build on our momentum.

3. Our strategy to unlock more value

Let me now provide some insights into the markets we serve and on our strategy to unlock more value for our shareholders. As the slide shows, our HealthTech portfolio targets attractive and growing market segments.

Growth in the market is driven by multiple factors. Globally, ageing populations are resulting in an ever-increasing number of chronic, often lifestyle-related, diseases. There's also a global need to give more people access to care at affordable costs, both in mature and in emerging markets.

We see many opportunities for technology to play a role in data-enabled healthcare delivery and productivity improvement.

Our Personal Health businesses are enabling people to take care of their own health, and deal with chronic diseases at home, through connected products and services.

Our Diagnosis & Treatment businesses, meanwhile, is all about helping doctors come to a 'first-time-right' diagnosis and performing minimally invasive operations.

And clinical informatics play an increasingly important role in bringing together all the different sources of data around the patient in order to come to the best possible outcome for each individual patient, more integrated patient care, and a higher productivity for the hospital. With our Connected Care & Health Informatics businesses, that's precisely what we do. We can predict potential adverse health events in the hospital and the home, leveraging big data-derived algorithms, and supporting care teams to deliver effective telehealth services, thus helping to save lives.

Let me now expand on our strategy going forward.

We specialize in systems and smart devices, software and services to support consumers and care providers to make healthcare affordable and accessible across the globe. We operate from a position of strength, with over 60% of our products and services already enjoying leadership positions.

To unlock the next phase of value creation, our HealthTech strategy leverages three focus areas of initiatives.

Firstly, we create value by improving margins through better serving customers and raising operational productivity. The ongoing productivity programs target approximately EUR 1.2 billion over the next three years. Our quality drive is making good progress, with customer satisfaction rising and much improved performance to drive the highest standards of compliance as part of our culture. We acknowledge there is more work to be done.

Secondly, we create value in our core businesses by gaining market share through deeper, more comprehensive customer partnerships, to which I will speak in a minute. We also aim to increase geographic coverage, for example in emerging markets.

Thirdly, we create value by expanding our portfolio of innovative solutions along the health continuum, through continuing R&D investments, co-creation with customers and partners, and selective acquisitions.

Within this three-pronged strategic approach, I would like to highlight the opportunities for Philips to grow its revenue and margins by leveraging our deep clinical and consumer insights to deliver innovative healthcare solutions to our customers. Solutions that comprise advanced systems, smart devices, software and a broad range of services, including consultancy services. Our solutions sales are growing fast, in fact more than twice as fast as our overall growth rate.

Our customers increasingly look for trusted partners such as Philips to help solve complex medical challenges. Our success in building long-term strategic partnerships, such as the 15-year agreement that we have in place with Banner Health in Arizona, the U.S., is the ultimate example of delivering higher value to customers, while at the same time ensuring recurring revenues for Philips at accretive margins. With the help of Philips' Intensive Ambulatory Care program, Banner Health reduced hospitalizations for chronically ill patients by nearly 50%, reducing overall cost of care by more than one third.

We achieved a significant expansion of such partnerships in 2016, entering into 15 new multi-year contracts with an aggregate value of approximately EUR 900 million.

In summary, we will further improve our underlying performance and continue to target 4% to 6% comparable sales growth and an improvement in Adjusted EBITA margin of around 100 basis points per year.

Our outlook for 2017 remains unchanged as we expect further operational improvements and comparable sales growth in the year to be back-end loaded. Regarding our capital allocation policy, we will continue to target investments in organic growth, selective M&A and returns to shareholders.

In line with our confidence in Philips' future success, we propose to maintain the dividend over 2016 at EUR 0.80 per share in cash or in shares, which is slightly above 50% of our continuing net income.

4. A responsive and responsible company

Philips aims to be a responsive and responsible actor in the world. Last year, our products and services already improved the lives of 2.1 billion people around the world.

In 2016, we launched our new five-year 'Healthy people, sustainable planet' program, supporting our goal to improve the lives of 3 billion people per year by 2025. Our sustainability program reflects our commitment to the United Nation's Sustainable Development Goals, especially those that seek to ensure healthy lives and promote well-being for all at all ages, and to ensure sustainable consumption and production patterns.

For example, Philips committed to becoming net carbon neutral with respect to its operations by 2020. In addition, by 2020 we aim to have 70% of our products meet green standards, and target that 15% of our revenue will embrace circular economy concepts.

Already today many of our products and services meet these goals. By embedding sustainability in the way Philips does business, we believe we can contribute to our value creation and meet the expectations of all our stakeholders.

For example, in partnership with local governments, Philips has launched its first Community Life Centers in Africa with the aim to strengthen the health care system at the primary level. This is a new, locally developed business model that comprises an integrated solution to provide access to health care and at the same time enables social, educational and commercial activities after dusk, and enhances safety and security of the neighborhood.

I am proud of the progress we continue to make here.

5. Conclusion

So let me conclude.

Philips' performance trajectory as a focused health technology company gives me confidence for the future. I am convinced that we are on the right path to deliver mid-single digit growth, achieve mid to high teens profitability driven by annual improvement of around 100 basis points, and mid to high teens Return On Invested Capital over the next years.

I'd like to take this opportunity to thank our customers for continuing to trust us as vital providers of innovative products and solutions. And also our employees who drive customer value, growth and profitability improvements, and at the same time deliver the vitally important transformation of our company.

We know what we have to do and are committed to executing effectively against our clear plan.

Thank you for your attention.

