



Speech Frans van Houten at AGM 2016

1. Introduction

Ladies and Gentlemen,

Welcome to the Annual General Meeting of Royal Philips.

This year will be a truly historic year for our company for two reasons: firstly, we celebrate our 125th anniversary, and secondly, in 2016 Philips will continue as a company focused on health technology, following the planned separation of Philips Lighting. I am convinced both Philips and Philips Lighting will have a great future.

2. 2015 & Q1 2016 performance

Let me start by covering our performance. Overall, 2015 was a solid year for Philips, in which our multi-year Accelerate! program supported our efforts to record consistent performance improvements in the face of challenging economic conditions.

Comparable group sales were up 2% to EUR 24.2 billion, driven by a very encouraging 4.5% growth in our HealthTech portfolio. Our adjusted EBITA amounted to EUR 2.2 billion, or 9.2% of sales, while net income amounted to EUR 659 million.

So last year, we successfully delivered on our operational improvement trajectory, while we still have much more potential to further improve. We also continued to deliver on our ambitious sustainability commitments, with Green Products sales now accounting for 54%.

Our first-quarter results in 2016 reflect solid comparable sales growth across our HealthTech businesses and our LED Lighting business, bolstered by the successful launch of several new products. Comparable sales increased by 3%, driven by a strong 5% growth in the health technology portfolio. Adjusted EBITA improved 14% to EUR 374 million euros, or 6.8% of sales.

Our outlook for 2016 remains unchanged, as we continue to expect operational improvements.

3. Philips – Two Strong Companies

As we announced in 2014, we are separating Philips into two companies. We are committed to this path as we believe that for the first time in a long time, we are well-positioned to step up growth in two important markets: smart LED lighting and health technology. Each plays into important mega trends as the world needs energy efficient and smart connected lighting,



while innovation can bring new solutions to the challenges that billions of people face to get access to care at affordable costs.

To capture enduring success in these two important markets, I feel strongly that we need to focus. By separating into two companies, each part of the house will have focus, agility and the ability to grow faster, both organically and inorganically. And just as importantly, each company will be a clear, well positioned, attractive investment opportunity for shareholders, getting the valuation it deserves.

Let's start with lighting.

Philips Lighting is an industry world leader, serving an attractive addressable market of more than EUR 65 billion in size. The company has a strong patent portfolio with more than 14,000 patent rights, which we believe is more than any competitor. Philips Lighting is leading the significant transformation that the industry is undergoing: First in the shift from conventional to LED lighting and second in the expansion from individual products to connected lighting systems and services.

Philips Lighting is managing the inevitable decline of the conventional lighting market while sustaining highly attractive margins. We call that 'managing the golden tail.'

At the same time, we are emerging as the winner in the attractive, fast-growing energy efficient LED lighting market. In the first quarter, LED revenue increased by an impressive 27%, and now accounts for 50% of overall lighting sales.

Philips Lighting is extending the Internet of Things into lighting to better serve customers, by providing quality energy efficient lighting, and also enabling them to create new lighting experiences and benefits through apps and cloud-based services.

To make it more concrete: at the recent Light + Building, a leading industry trade show, Philips Lighting introduced great innovations, showcasing its connected LED lighting growth platforms for smart cities, smart retailing, smart offices and smart homes.

For example, Philips Lighting introduced DigiStreet, a new range of LED street lighting luminaires which can wirelessly connect to the successful CityTouch platform, enabling street lights to be monitored, controlled and managed remotely for additional savings on energy and maintenance.

And in connected home lighting, we continue to expand our Hue portfolio with innovations such as the Philips Hue white ambiance. The Hue white ambiance can gradually brighten to help you wake up naturally and gently dim to help you drift to sleep more peacefully. It uses so-called light recipes that help you to relax or feel energized throughout the day via the app on your smart device.

The performance of Philips Lighting is showing the fruit of a lot of hard work and has resulted in six consecutive quarters of operational improvements. The performance has benefitted

directly from operational excellence programs, our North American professional and home lighting businesses are regaining growth, LED lighting continues to increase margins, and conventional lighting keeps on delivering strong profitability.

We believe Philips Lighting's future status as a listed entity will enable it to further strengthen its position as a global market leader in LED and connected lighting, and potentially drive industry consolidation in a fragmented market. I have full trust in Eric Rondolat and his team to navigate the profound shifts happening in the industry.

That brings me to the separation process and our recent announcement to list Philips Lighting on Euronext Amsterdam. We diligently evaluated all strategic options for Lighting. After careful deliberations, we have concluded that an IPO is the best option for this great business, in terms of value, deal complexity and, last but definitely not least, finding a good home for Lighting. The IPO route fulfils all three key criteria. Furthermore, with this route we will continue to have for some period of time a significant shareholding in Philips Lighting – their success will contribute to our success. To me, Philips Lighting will be a Dutch jewel, and I am proud this jewel will be traded in Amsterdam. We expect this milestone, subject of course to regulatory approval of the prospectus and market conditions, to be accomplished during this quarter.

Health technology

Let me now speak about the future of Royal Philips to become the leader in the exciting health technology market. This is a huge and growing market, exceeding EUR 140 billion in size, and a market where we already have many leading positions. As we have said before, we aim to expand our portfolio in health technology through both organic and in-organic means.

With a growing world population, we see the strain on society to give people access to care at affordable costs. It is clear that a more holistic approach is needed whereby preventative care will help people stay healthy and whereby acute and chronic disease management will need to extend beyond the four walls of the hospital to better and more pro-actively support people in need. We believe that innovation will play a key role in deal with these challenges. It is clear that health systems around the globe are looking for new ways to deliver effective and efficient healthcare.

We envision a new model of continuous care across the health continuum, from healthy living and disease prevention, to diagnosis, treatment and care at home. It is an approach that puts people at the center and encourages them to take an active role in the management of their own health. The consumerization of healthcare – and concurrently the merging of consumer health and professional healthcare spaces – is evidence that people are taking a much more active role in becoming and staying healthy.

Let me make this more concrete, using a few propositions from across our portfolio.

Personal health: Our vision is to enable healthier lives with connected propositions focused on key health routines and care in the home, for example in the kitchen and the bathroom. More and more people are closely involved in preparing healthy food, their oral hygiene and personal care and this has proved to be a growth opportunity for Philips. Moreover, the

Philips brand is ideally positioned to provide chronic care solutions to people right into their home setting and we aim to expand our portfolio in this direction. For example, for people with a chronic sleep condition, we introduced the Dream Family which delivers sleep therapy for people with obstructive sleep apnea. The range includes sleep masks, but also devices that are connected to the cloud, allowing online coaching of the patient. In just a few months, we have already gained more than 200,000 users!

Diagnosis & Treatment: A key trend in healthcare is the increased focus on providing first-time-right diagnosis in order to come to personalized care pathways with minimally invasive treatment. Medical imaging plays a vital role in this, and has become one of the corner stones of modern healthcare, enabling disease localization and quantification, therapy planning, and treatment guidance and assessment.

For example: Innovations like the new specialized analysis of tumors in our IntelliSpace Portal 8.0 informatics platform supports doctors in planning the trajectory of a cancer patient's treatment. Another example is our integrated solution of interventional X-ray imaging and EchoNavigator navigation tool that enables the minimally invasive replacement of defective heart valves as an alternative to open heart surgery. Here, the acquisition of Volcano has further strengthened our capabilities with a full range of smart catheters that seamlessly integrate with our imaging systems.

Connected Care & Health Informatics: In our vision of a new way of patient engagement with health care professionals along what we call the health continuum, data analytics and the cloud will play a huge role.

Digital technologies will be a key enabler for achieving the necessary touch points and care coordination across the health continuum. As an enabling platform, we have launched the HealthSuite cloud platform and services designed to safely and securely bring together data from a multitude of health devices, healthcare systems, connecting consumers and caregivers, mining individual, clinical and research data to optimize outcomes. It enables stakeholders across the health continuum to better identify and understand diseases, treat them sooner, design more efficient and effective treatment workflows, and shape solutions to address population-wide health issues.

Our patient monitoring systems can oversee large numbers of patients in real time and direct care to those who need it. A great example of Philips technology in this area is our IntelliVue Guardian Solution that uses Early Warning Scoring to help caregivers in hospital wards to spot patient deterioration quickly and send proper notification to caregivers. And for patients who are discharged, care can be extended beyond the hospital. An example is our hospital to home patient support solution E-care coordinator for chronic cardiac patients.

Supplementing such a solution is our home medication dispensing service Medido. This service in the Benelux countries provides automated, compact dispensers loaded with personalized pre-packaged medication and features a dedicated web-based IT connection to the patient's care giver organization and pharmacist. By offering the prescribed medication at the preprogrammed time, as well as monitoring and support, the service aims to increase medication adherence.

And I could go on. Suffice it to say that the opportunities I see are enormous.

Across our entire portfolio, in our new business model approach, we will complement our smart devices with software and services. We seek long-term partnerships with health systems to transform the delivery of care. We build long term relationships with consumers as we support them in living healthy or coping with chronic diseases. This will create a higher proportion of recurring revenues and better margins.

By focusing Philips on health technology, we will be able to successfully navigate a rapidly transforming and consolidating industry. Digital technology is going to be instrumental key driver. We will be making the investments required to succeed. This will enhance our growth profile into the mid to high single digit growth range, with profitability expanding over time to mid to high teens. By becoming a focused health technology company, we believe we can be a very attractive investment opportunity for shareholders.

4. Dividend proposal / Share buy-back program

As a sign of our confidence in Philips' future, we propose to maintain the dividend over 2015 at EUR 0.80 per share, in cash or in shares. We are continuing to execute on our EUR 1.5 billion share buy-back and as of March 31st, had completed 82%.

5. Conclusion

Before I end, I want to highlight two other things, and this is linked to our Supervisory Board. After this meeting, Ewald Kist will step down from the Supervisory Board. Ewald has served as member of the Supervisory Board for 12 years and he has done a great job in providing advice and guidance. Thanks, Ewald!

Cees van Lede will step down from the board in order to join the Philips Lighting board, in order to support a smooth transition. Cees has served 13 years on the Philips Supervisory Board and has always assisted us with his wisdom. As Jeroen already said, Cees is regrettably not here today, but I still would like to extend my thanks to him.

Let me conclude.

2015 was a year in which we made great progress on our transformation journey. I look forward to a new era with the creation of two new companies, both using the strong Philips brand name.

As I said in the beginning, 2016 is a special year as we celebrate our 125th anniversary. And we are proud of our heritage as an innovative and entrepreneurial company. Just look at the image behind me – it shows one of the first portable X-ray devices in the world, and it was already being used in the Forbidden City in Beijing in the 1920s!

We are taking the right steps to secure a proud future as well. I know that the separation into two companies evokes many emotions. I am convinced that people will understand that this is

an important step to enable future success, and deliver great outcomes for our customers, our shareholders and our employees.

Throughout our 125-year history, Philips has re-invented itself many times. Throughout all the changes, one thing has stayed the same: the tenacious focus on innovation and entrepreneurship that our founders Anton and Gerard instilled in the company. That is what turned Philips into an innovation powerhouse. And that is why Philips and Philips Lighting are celebrating the future by marking 125 years of innovation!

Thank you for your attention.