

Speech Frans van Houten at 2018 AGM

Spoken word prevails

1. Introduction

Ladies and Gentlemen,

Welcome to the 2018 Annual General Meeting of Royal Philips. I am excited to be here today to discuss the progress we made last year. I see this as a prelude to even greater things to come!

Over the next 20 minutes, I would like to:

- briefly look back on what we have achieved;
- explain how our innovations enable us to serve unmet health needs;
- and demonstrate how our strategy is delivering results

2. Our achievements

2017 was a good year of solid progress. We continued our transformation to become a focused leader in health technology with higher growth and profitability.

It was a year characterized by the introduction of many new products and solutions, and ten bolt-on acquisitions that further strengthened our businesses. At the same time, we further sold down our shareholding in Philips Lighting, and completed the sale of Lumileds.

2017 also saw the completion of the industry reclassification of our stock to Healthcare at all major indices. Our customers, and the financial markets, appreciate the way we have pivoted and executed on our strategic roadmap.

These achievements have further boosted our ability to win. Philips has deep clinical know-how, combined with strong consumer insights, and co-creative partnerships with leading businesses and institutions.

But first, let's take a look at our operational results, which clearly demonstrate that we are on track to become a EUR 20 billion company by 2020.

In 2017, we delivered 4% comparable sales growth, 6% order intake growth, and 110 basis points adjusted EBITA improvement. I would like to remind you that we achieved these results during challenging economic circumstances, foremost in Europe, and considerable uncertainty in the US about healthcare policy. The results underscore our ability to stay the course and make progress.

I am pleased that all three of our business segments contributed to our growth and operational performance improvement in 2017. Sales in our Personal Health businesses amounted to EUR 7.3 billion, an increase of 6% on a comparable basis. And adjusted EBITA margin improved by 110 basis points. Here, I would like to highlight the remarkable success of the Philips OneBlade. It is a revolutionary hybrid styler and it generated annual sales of more than EUR 100 million within 18 months of its launch.

In our Diagnosis & Treatment businesses, sales grew to EUR 6.9 billion, an increase of 3%, while adjusted EBITA margin improved by 100 basis points. We renewed 60% of the Diagnosis & Treatment portfolio. For example, we saw the very successful launch of Philips Azurion, our next-generation image-guided therapy platform.

Sales in our Connected Care & Health Informatics businesses rose to EUR 3.2 billion, an increase of 3%, while profitability improved by 150 basis points. To expand our Health Informatics portfolio, we launched the IntelliSpace Enterprise Edition – an industry-first managed service solution for hospital-wide clinical informatics and data management. This software-as-a-service business model will result in predictable recurring revenues.

Additionally, we completed several acquisitions last year, and we are happy to see these performing well within the Philips Business System.

Last week, we announced our first quarter results for 2018. I am pleased to say we started the year well, with 10% order intake growth, 5% sales growth and a 130 basis points improvement in profitability. During the quarter, we saw strong customer interest in our innovations, as demonstrated by mid-teens order intake growth in our Diagnosis & Treatment businesses.

Let me now zoom out a bit and look at our broader strategy.

3. Our integrated approach to health

As this slide shows, we regard the delivery of care as a continuum - from healthy living and prevention, to diagnosis, treatment and home care. A truly patient-centric approach. By taking this integrated approach to health, we can unlock gains and efficiencies and drive innovations that all help deliver the so-called 'quadruple aim' of healthcare, namely: enhancing the patient experience, improving outcomes, lowering costs, and improving the lives of care providers.

We focus on end-to-end disease pathways, where we believe our integrated approach can add even greater value for our customers. We do so primarily in cardiology, oncology, sleep and respiratory care, and pregnancy and parenting.

Our three business segments allow us to span the full health continuum.

The Diagnosis & Treatment businesses deliver solutions to support first-time-right diagnosis and precision treatment, such as minimally-invasive therapies that improve outcomes, lower the cost of care delivery, and enhance the patient experience.

The Connected Care & Health Informatics businesses deliver digital solutions that facilitate the seamless flow of data needed to productively support and connect care givers and patients in the hospital and at home. For example our patient monitoring solutions, supported by powerful algorithms, can predict adverse patient events many hours in advance.

The Personal Health businesses deliver integrated, connected solutions that support healthier lifestyles, and also support those living with chronic disease.

Our strong portfolio generates more than 60% from sales out of leadership positions.

The common denominator across our businesses is of course innovation. Innovation that directly addresses today's and tomorrow's health and healthcare challenges. This drive for innovation is already having an impact on making the world healthier and more sustainable, and I am convinced that it will increasingly do so in the future.

Let me elaborate on that.

Philips has an unrivaled ability to innovate across the health continuum. Through our global R&D programs, we leverage exciting new technologies, such as the cloud, Internet of Things and artificial intelligence, to transform the delivery of care. Philips is increasingly becoming an informatics company, as is evidenced by the fact that today 60% of our R&D people are in software and data sciences.

We have expertise in consumer health and professional healthcare. For example, we offer connected solutions for preventative care such as good oral hygiene, and advanced visualization and quantification technologies to aid in the first-time-right diagnosis of diseases.

The digitalization of healthcare has reached the point where value is shifting from stand-alone products to solutions combining systems, smart devices, software and services, which deliver greater benefits to customers. For example – and I have already briefly mentioned this - for monitoring of patients in the general ward, we offer an integrated solution of patient monitors, wearable biosensors, and clinical decision support software, to predict and prevent adverse events.

By taking an integrated solutions approach to healthcare, everything is coming together. And it's where we see significant value opportunities for Philips and our customers.

Let me now provide you with some insights into our value creation strategy.

4. Our strategy to unlock more value

As we embark on the next phase of our journey, we see significant opportunities to further increase value – by boosting growth in our existing core business, by growing in adjacencies, and further driving customer and operational excellence. We know that our strategy already has strong traction, so now it is all about the execution.

As you can see on this slide, each lever contains various elements that will enable us to grow revenues, improve margins, increase cash generation, improve return on invested capital, and thereby increase shareholder value.

Now let me zoom in on each of these levers and their elements.

One of the ways we will drive new growth is by bringing proven and successful products to new markets. Take, for example, our Sonicare toothbrush launch in China. In a mature market like North America, market penetration for power toothbrushes is around 35%. A couple of years ago in China, it was 0%. After Philips began collaborating with China's dental professionals, market penetration has now reached 4% of Chinese households. That's a great start in a massive market where we have over 50% share. And there's much more to come.

We are also driving growth through integrated solutions. One example is Philips' Dream Family, comprising sleep diagnostics, our DreamWear masks, the Dream Series therapy devices, and the cloud-based DreamMapper patient engagement app. It's a complete sleep solution for people suffering from sleep apnea.

Philips continues to gain share with these proven innovations in connected patient management. This strategy of delivering integrated solutions is enjoying great traction with our customers, as evidenced by the many long-term strategic partnerships we have signed.

I am proud to say that we now have more than 100 in place. And the number continues to rise, because it's a win-win situation. Through these partnerships, we are optimally positioned to serve our customers, providing us with a larger share and predictable revenues. And most importantly, the hospitals gain an accountable partner that helps them deliver on their clinical and financial goals, while providing the latest technology at predictable cost.

A good example is the Augusta University Health partnership, the first of our ten partnerships in the US, with the aim to improve patient care and operational performance. Together we co-designed an entirely new radiology workflow, with Philips' IntelliSpace Portal at its heart. The results are very impressive: improved productivity, standardized workflows, a 17% increase in procedure volumes for CT, MR and AMI studies, and a 22% decrease in turnaround time.

The second lever is driving growth in adjacencies. Over the last few years, we completed two substantial acquisitions: Volcano and Spectranetics. These two acquisitions provide smart diagnostic and therapeutic devices specifically targeted to complement our leadership in cardiovascular interventions. Volcano has worked out extremely well, and we have similar expectations of the Spectranetics acquisition. We expect our Image-Guided Therapy business to grow to EUR 3 billion a year in 2020, with attractive margins.

Another route to higher growth is through organic investments in R&D. For example, we continue to invest in Digital Pathology, because we believe the digitization of tissue slides is going to completely transform the clinical practice of pathology. We are proud of the fact that we are the only vendor in the US that markets a digital pathology solution for primary diagnostic use. Today, the Digital Pathology business has several tens of millions of revenue. However, we expect it to grow to a several hundred million euro business over the next five years.

We also develop and leverage strategic partnerships. In 2017, for example, we partnered with B. Braun to expand into the ultrasound-guided regional anesthesia market. The combination of Philips' strong ultrasound business and ultrasound-guidance technologies, together with B. Braun's leadership in applying anesthesia, has already resulted in the launch of a dedicated ultrasound platform, together with navigational software, devices and services. Later this year, we will further expand this portfolio.

The third lever to improve performance is driving customer and operational excellence. To ensure that our solutions are truly customer-centric, we combine 'design thinking' with our proven 'Co-create' methodology. That means coming together with healthcare professionals to explore how our combined knowledge, resources and shared vision can improve the delivery of care and improve people's health.

In our drive for operational excellence, we continue with disciplined implementation of the Philips Business System and Lean principles. Our productivity measures will add up to over EUR 1.2 billion over

the time window 2017 to 2019.

As part of our drive to improve operational excellence, we are also improving our quality and regulatory performance across our company. As part of this commitment, we continue to address two regulatory challenges related to Cleveland and the Emergency Care & Resuscitation business operations in Andover and Bothell that arose from several years ago. While these efforts are making very good progress, they also show that we must continue our improvement journey forcefully. I can tell you we are and we will!

As I said last week when we published our first-quarter results, there is still more work that can be done at Philips. I am pleased with the progress in our transformation to become a focused leader in health technology and see tremendous further potential to grow Philips' market positions and expand margins. Our strategy is enabling us to do that.

We continue to target 4% to 6% comparable sales growth, and an improvement in Adjusted EBITA margin of around 100 basis points every year.

In relation to the 2017 performance, we propose a dividend of EUR 0.80 per share, in line with our policy of dividend stability and a pay-out ratio of 40% to 50% of continuing net income. That brings the pay-out for 2017 slightly above 50% of our continuing net income.

5. Improving the lives of 3 billion people a year by 2025

But finally, let's not forget why we are really here: improving the lives of 3 billion people a year by 2025. Because our purpose is clear: we are here to improve health and healthcare through innovations.

To guide our efforts, we take a two-dimensional approach: both social and ecological. Solutions from our portfolio that directly support people's health contribute to our social impact. This is also our contribution to the UN Sustainable Development Goal 3: ensuring healthy lives and promoting well-being for all at all ages.

Our contribution to the ecological dimension is determined by our growing Green Solutions portfolio, and by becoming carbon neutral in our own operations, and having 15% of our revenue from circular economy business models by 2020. This is our contribution to the UN Sustainable Development Goal 12: ensuring sustainable consumption and production patterns.

I am proud to say that we improved the lives of 2.2 billion people in 2017, with more to come.

Now let me conclude. Overall, I am pleased with the progress we made in 2017 and we have good momentum to position ourselves for a future with higher growth and higher earnings. Clearly, we can still improve, but I am very confident in our ability to capture the opportunities and deal with any challenge ahead.

It only remains for me to thank our customers, shareholders and all stakeholders for the support they all continue to give us. And, of course, to thank our Philips people around the world for their tremendous engagement and efforts over the past year.

We know what we have to do, and I am confident we will be able to expand our strong positions across the health continuum, extend our solutions capability to address our customers' unmet needs, and deliver the full benefits of data-enabled connected care.

Thank you for your attention.