

Speech Frans van Houten at 2019 AGM

Spoken word prevails

1. Introduction

Ladies and Gentlemen,

Welcome to the 2019 Annual General Meeting of Royal Philips. I am honored to be here today, to update you on the continued progress of Philips as a leading health technology company.

Philips has always been, and will always be, an innovator. Our strength in innovation is key to our mission to make the world healthier and more sustainable. Today I'll share some tangible examples of how we are fulfilling that mission.

Over the next 20 minutes, I would like to:

- briefly reflect on our transformation journey over the past eight years;
- discuss our performance in 2018 and the first quarter of 2019;
- highlight the strategic drivers for continued growth and profitability;
- and zoom in on our approach to apply artificial intelligence in health and healthcare.

2. A focused global health technology leader

Many of you will remember where we came from. But it's valuable to reflect on what we have achieved over the past eight years.

When I joined Philips as CEO in 2011, we concluded that we needed to radically transform to stay relevant. At that time, more than half of Philips' sales were in mature businesses. These had lower rates of growth and low profitability. And that impacted the overall performance of the company.

So we found new homes and business models for those businesses. We stepped up investments for growth and focused our innovation strength where it could make a meaningful difference, namely transforming healthcare through innovation. We have now largely completed this massive portfolio transformation, moving us from a diversified industrial conglomerate to a focused health technology leader.

Today, Philips is truly a vibrant company, and the 2018 results are only a prelude to more to come.

3. Performance in 2018 and the first quarter of 2019

2018 was a year of continued progress for Philips. Despite a more challenging macro-economic environment, we continued on the improved growth and profitability trajectory we have been on during the past four years.

Our focus on innovation and our holistic approach to healthcare resonates with our stakeholders. We see real interest from consumers, healthcare professionals, insurers and policy makers in our shift to integrated solutions. Solutions that comprise suites of systems, smart devices, software and services. Our customers all want to know more about our solutions approach, and how we can partner with them, applying new business models, to deliver on the Quadruple Aim of improved patient experiences, better health outcomes, improved staff satisfaction, and of course lowering the cost of care.

It should come as no surprise that this has led to growing demand for our products and solutions - in fact, we had a 10% comparable order intake growth last year - and a significant increase in our long-term strategic partnerships. It is also paying off in terms of the number of talented individuals who want to join Philips. And it's having a positive impact on our results.

With 5% comparable sales growth, 10% order intake growth, and 100 basis points adjusted EBITA improvement, we continued to deliver on our financial targets. Moreover, we generated a free cash flow of 1.2 billion euros excluding certain incidentals.

Our Diagnosis & Treatment businesses had a very good year in terms of sales growth, order intake growth and improved earnings. We launched several important innovations in support of precision diagnosis, such as the new Philips Ingenia Ambition MR system. The difference with that system is that it uses only 7 liters of helium instead of 1,500. It also features AI-enabled applications to improve the patient experience, the workflow, and diagnostic confidence.

At Connected Care & Health Informatics, as we continued to make substantial investments in the future with R&D, topline growth was flat. But the expanding order book, especially the 14% comparable order intake growth in the fourth quarter of 2018, gives us confidence we are on the right path to boost growth this year.

A good example of the strength of this business is the 15-year strategic partnership we have signed with Children's Health in Dallas, Texas. As part of that agreement, they will use our IntelliVue X3 patient monitors for standardized patient monitoring across the enterprise. In usability terms, the X3 is like using a smartphone – and it's mobile and allows staff to monitor and track a patient's vital signs during transport and at the bedside.

Another strong example is our eICU program. This telehealth program enables healthcare professionals from a centralized eICU center to provide around-the-clock care for critically ill patients. Avera Health, another large health system in the US that uses Philips eICU technology, reported cost savings of 62 million dollars and a reduction of 11,000 bed days in the ICU, with over 260 lives saved over a period of 12 months. That is an impressive result.

After several years of mid-to-high single-digit growth, Personal Health had a slower year in 2018. However, I am pleased to see that the actions we took last year have already resulted in regaining momentum in the first quarter of 2019. We are bringing exciting, innovative new products and services to market, and this makes me confident about the road ahead.

Let me give you an example. We launched the new Philips Sonicare ProtectiveClean power toothbrush in North America, with further roll-outs around the world. Innovations like this will further drive the profitable growth of our Oral Healthcare business. In 2018, we sold our one-billionth male grooming product and we launched the Philips Smart Shaver series 7000, the world's first AI-powered connected shaver to provide each man with a personalized shaving plan. Equipped with SmartSensor technology, the connected app tracks the user's technique and provides immediate, tailored feedback to perfect their method.

But it's not all about doing good business; it's about doing business in the right way. So I am extremely proud to say that we are achieving these good results in a way that contributes to the United Nations' Sustainable Development Goals.

Notably with a focus on improving access to care, embracing the circular economy, and actions on climate change, our 'Healthy people, Sustainable planet' program is the primary vehicle that will enable us to deliver on our SDG commitments. We are halfway through this 5-year sustainability program, and we are fully on track to meet all our targets, with 12% of revenues from Circular Products and Solutions, and 64% from Green Revenues in 2018. I would like to highlight that in 2018, Philips increased its use of renewable electricity to 90% of the total, and that we are on track to becoming carbon neutral in our entire operations by 2020.

Last week, we announced our first-quarter results for 2019. As I said at the time, we had a reasonable start to the year, delivering 2% comparable sales and order intake growth. Building on strong order book growth in 2018, the regained momentum in the Personal Health businesses, and our productivity programs, we continue to expect our performance to improve over the course of the year. We therefore reiterate our targets for 2019.

4. Our strategy to unlock more value

I already mentioned that Philips is a vibrant company! This is recognized by our employees, customers and partners. And we are also creating value for our shareholders. Today, we are among the top three focused health technology companies in our TSR peer group in sales terms. Our profitability is up significantly, and very importantly, our total shareholder return is up 67% since 2016.

Based on our confidence in our performance trajectory, and considering the strength of our balance sheet, we have decided to propose a 6% dividend increase to 85 euro cent per share, on which you will vote today. The proposal is in line with Philips' dividend policy, which is aimed at dividend stability, and a pay-out ratio of 40% to 50% of adjusted income from continuing operations attributable to shareholders.

Looking ahead, our value creation story is built on three key levers, namely driving customer and operational excellence, driving growth in our core businesses, and winning with innovative solutions along the health continuum. Let me illustrate this.

We believe that by engaging more deeply with our customers, making it easier for them to do business with us, developing more compelling solutions, and acting with increased agility, speed and

efficiency... we will deliver greater value for them and for Philips. It is necessary that we continue to drive digital transformation in every area of our business, and I will elaborate on that in a moment.

We plan to capture geographic growth opportunities and are pivoting towards consultative customer partnerships and business models that engender a much deeper relationship with clients. And of course recurring revenue streams.

We will continue the shift from products to integrated solutions that are both innovative and add value, supported by our global R&D programs and disciplined M&A.

Together, these measures will grow revenues, improve margins, increase cash generation, improve return on invested capital, and ultimately increase shareholder value.

5. Transforming healthcare through AI

As I mentioned before, we plan to lead the digital transformation of healthcare. I am convinced that AI-enabled intelligent applications will support the delivery of care, and free up valuable time for healthcare professionals to focus on what they do best – curing patients, and support consumers to live healthy lives.

Anticipating this AI-enabled paradigm shift, Philips has significantly stepped up its activities in informatics and data science over recent years. Today, around one in every two of Philips' R&D professionals focuses on these fields. Moreover, the majority of the acquisitions that we have done since 2015 have strengthened our informatics capabilities. As a result, Philips is among the top three companies in the world in terms of AI related patent applications in healthcare.

Our approach is to combine AI and other technologies with knowledge of the clinical and operational context in which they are used – a people-centered approach that we call 'Adaptive Intelligence'. By embedding AI into people's workflow or daily environment and adapting to individual needs, Adaptive Intelligence enhances, rather than replaces, the capabilities of the people who use it.

In personal health, our adaptive intelligence solutions are aimed at supporting healthy lifestyles. It helps consumers manage their health with actionable insights, coaching – and where needed, support from care professionals.

A good example in the field of precision diagnosis is our integrated breast ultrasound solution called AI for breast. The automation and intelligence provides visual mapping and annotation of the anatomy, with minimal user interaction. As a result, AI for breast enhances reproducibility and streamlines workflow, while preserving superb image quality during breast exams.

As another example, we are supporting pathologists with intelligent digital solutions, in delivering quick and accurate diagnoses. This is important, because pathology services are under mounting pressure to provide efficient and high quality diagnoses, as their workloads expand in both volume and complexity due to a growing number of cancer cases.

Innovations like these will transform the delivery of care and help deliver on the quadruple aim of healthcare that I mentioned earlier. I am proud that Philips is a leader in this transformation.

6. Continued focus on value creation

Our determination to better serve customers lies at the heart of what we do. We know we have to be even faster, more agile, and more solutions-oriented to deliver greater value to our customers and reach our full potential. Our strategy will enable us to do just that.

We continue to target 4% to 6% comparable sales growth, and an average Adjusted EBITA margin improvement of 100 basis points per year over the 2017–2020 period. We have delivered performance improvements for the last four years, and 2020 is not the end of the self-help story.

Now let me conclude.

Our transformation into a solutions company is gathering pace, but we are conscious that we still have more work to do. I am confident we will be able to expand our strong positions in health technology, extend our solutions capability to address our customers' unmet needs, and deliver the full benefits of data-enabled connected care.

It only remains for me to thank our customers, shareholders and other stakeholders for the confidence they have shown in Philips over the past year. I would also like to thank our employees for their hard work and dedication.

I remain convinced that the combination of our sense of purpose, innovation strength, culture of

customer centricity, and deep commitment to continuous improvement, is a potent recipe for Philips to win and make the world healthier and more sustainable.

Thank you for your attention.