

Speech Frans van Houten at 2022 AGM

Spoken word prevails

Introduction

Ladies and gentlemen, welcome to the 2022 Annual General Meeting of Royal Philips. In the next twenty minutes, I would like to share with you our view on the current state of affairs at Philips.

It is clear that 2021 has been an eventful and challenging year for Philips and its stakeholders. The impact of the sleep recall is significant for patients, our partners and our shareholders. And I will discuss that and our financial performance in 2021 in a moment. At the same time, thanks to the hard work of our employees, on many fronts Philips is doing well despite external headwinds.

Nevertheless, let me say up front that I am not satisfied where the company is right now and recognize there is more work to be done. Our team is laser focused on resolving the sleep recall and addressing the external headwinds such as the global supply chain issues. We are all committed to getting Philips on an upward trajectory and are taking decisive action to deliver value for our shareholders.

We will do this based on the strong fundamentals of Philips: Our customers are appreciating our strategy and portfolio, we have made significant progress in our transformation to a solutions leader in health technology, and we are recognized for doing business responsibly and sustainably.

Let me start with the customer view.

Our strategy resonates very strongly with customers

I am encouraged that our strategy to help transform the delivery of care across the health continuum continues to show strong traction. Our businesses focus on personal health, precision diagnosis, image-guided therapy and connecting care. They all have attractive value propositions, as can be seen from the volume and consistency of our all-time-high order book.

Hospitals continue to be challenged by staff shortages, ageing equipment and patient and staff dissatisfaction, even as they are confronted with an increasing number of patients and a growing backlog.

Philips has breakthrough solutions available to alleviate these challenges, and support our customers to achieve the quadruple aim of healthcare: better outcomes, higher productivity and improved patient and staff experiences.

I would like to give you three concrete examples of value propositions that are in high demand. Let's start with helping people to stay healthy.

As you know, oral hygiene is essential for well-being, but it also contributes to better overall health and may help prevent diseases, such as certain cardiovascular diseases. Through our Philips Sonicare connected toothbrushes we offer market leading care for optimal oral hygiene.

Sonicare's advanced sensor technology senses and adapts to teeth and gums, offering a personalized brushing experience with 100% coverage. Moreover, the clinically proven premium brush heads remove up to 20 times more plaque, providing healthier gums.

In the United States, Germany and the Netherlands, health insurance companies have partnered with us to offer a new type of dental insurance that is focused on prevention. As part of the insurance, participants receive a connected Sonicare toothbrush, a coaching app and regular replacement brushes for optimal oral hygiene.

Let's now switch to one of the cornerstones of precision diagnosis, the Radiology Department in a hospital.

We offer a vendor neutral Radiology Operations Command Center that connects imaging experts in a central location with local and remote diagnostic imaging sites. This enables virtual operation of the scanners, improved utilization and uptime, and enhanced efficiency of operation. It also provides an additional layer of remote, expert support to radiology services across the diagnostic imaging sites.

The ability for imaging experts to support others in more than one location at a time removes limitations of distance and travel time, and helps to improve access to imaging services for patients. One customer said an expert at the Radiology Operations Command Center was, and I quote: "able

to help us identify a critical finding, an acute brain tumor, when a junior radiographer reached out from a different location for assistance with something they saw on an MRI scan”.

This took place while the patient was in the scanner, and the team was able to notify the patient’s referring doctor immediately. This is a huge step forward in accelerating care pathways and also goes a long way in improving job satisfaction.

The final example that I would like to highlight relates to our telehealth offering. Inspired by their experiences during the height of the COVID-19 pandemic, care providers are very keen to adopt virtual care models more widely. As a pioneer, West Moreton Health in Australia had already piloted virtual care, as they were looking to improve ambulatory care for patients with chronic conditions, like heart failure.

A few years ago, West Moreton Health and Philips formed a partnership to introduce the MeCare program based on Philips’ eCareCompanion telemonitoring and tailored health management plans. The results speak for themselves: a 35% reduction in preventable hospital visits within the program, and median cost savings of around 1,200 dollars per patient per month for a group of hundreds of patients. Dr. Kerrie Freeman, CEO of West Moreton Health, said: “Our patients say it has changed their lives. They have chronic conditions but are able to have a much better quality of life.”

These were just three examples of the many innovations we continue to introduce. They show our current portfolio is very strong and will drive sustained growth at Philips.

Major divestments completed, innovation in solutions to drive future growth

Let me now say a few words on the significant progress that we have made in our transformation to a solutions leader in health technology. In 2021, we concluded our major divestments with the completion of the sale of the Domestic Appliances business to Hillhouse Investment.

Our 25 acquisitions over the last 5 years have strengthened our portfolio and further enhanced its relevance to our customers. On the systems side, our R&D programs led to many innovations, including the launch of our new Spectral CT 7500 system helping clinicians make precision diagnoses without the need for multiple re-scans.

Moreover, the core of our portfolio is based on informatics, data science, Artificial Intelligence and Cloud-based solutions, helping care providers to improve workflows, access the right data, at the right time, for the right patient. This is especially relevant given the staff shortages and escalating costs of healthcare.

The acquisitions of BioTelemetry, Capsule Technologies and Cardiologs further strengthened our offerings in this domain last year. These acquisitions are delivering double-digit-growth and help us further accelerate our transformation into a solutions company both for the hospital and ambulatory care.

Our Image Guided Therapy business is another successful example of our synergistic organic and inorganic investments. This fast-growing business is about to reach annual sales of 3 billion euros. Did you know that every second, a patient is treated - somewhere in the world - with our image-guided therapy offering? This includes minimally invasive treatments for cardiac and vascular diseases, cancer, and stroke.

In January 2022, we completed the acquisition of Vesper Medical, further expanding our offering with an advanced stent portfolio specifically for the treatment of deep venous disease. The patient benefit is enormous: through this treatment, amputation of legs may be prevented.

Advancing patient safety and quality

Let me now update you on the sleep recall and also touch on the broader topic of Quality at Philips. The origin of the issue is the choice of the sound abatement material in the design of the products many years ago. In a very low percentage of the produced devices, we have seen that the material may degrade. When we became aware of this, we immediately and voluntarily issued a field safety notice and started the remediation actions.

We started this recall based on limited information, and there was a lot that we did not know yet at that time. The recall is a complex undertaking, because of the sheer volume of devices to be remediated, and the outreach to every individual patient.

We have established a dedicated team of 1,000 colleagues working under direct supervision of the Executive Committee and we have taken a systematic approach to addressing the unknowns and expand production capacity.

In an average year, we produce and distribute around one million sleep devices. In the meantime, we have scaled up by more than a factor of 3, but inevitably it still takes time to remediate over 5 million devices. While we are working as fast as we can, I acknowledge that this has been worrying for the patients and frustrating for our partners.

I mentioned that the outreach to each individual patient is complex. For example, in the United States, where we have a large installed base, Philips Respironics does not own or manage patient contact information for sleep therapy devices. Patient information is actually retained by the Durable Medical Equipment providers (DMEs), they are our customers.

Therefore, Philips Respironics has been working with DMEs and other healthcare providers to contact patients. And as the patient outreach became more effective, and insights, as well as the discussions with the competent authorities progressed, we have adjusted the number of devices that are eligible for remediation, and recorded additional provision increases.

I am encouraged that we have significantly ramped up and that we are now currently almost half-way through the shipments of repair and replacement devices to customers and patients. We do expect to complete over 90% of the production and shipments to customers by the end of 2022.

At the time we announced the recall, we had to take a worst-case scenario with regards to possible health risks for patients. In December however, we were able to demonstrate, after comprehensive testing, that the concentration of volatile organic compounds emitted by the DreamStation 1 devices is actually within the safety limits. We are currently working with outside experts to also test and to better characterize the probability and possible health risks of any particles of the sound abatement materials. We expect to be able to issue a report later this quarter.

Regarding the litigation aspects of the recall, it will take time to work through those. We have a strong and experienced legal defense team in place for that. Today, there is no update to give, and I ask for further patience on that front.

I realize that many shareholders may want to hear more about the Quality management system for the Philips Group as a whole. Since turning Philips from a holding company into a focused operating company, we have made significant progress with standardized and transparent business processes.

During this last period, we have further enhanced the robustness of our quality design controls, post-market surveillance, and our systems around handling corrective actions. There are still some areas of improvement, and we are working through the ongoing field actions.

Our enterprise-wide Accelerating Patient Safety & Quality program brings a further step up to the focus on patient safety in our culture, processes, capabilities, and management accountability. Still, the vast majority of our other businesses are in very good shape.

Ladies and gentlemen, let me now move on to our 2021 financial results.

2021 financial results

With this AGM taking place in May, 2022, it feels quite some time ago. Financially, 2021 was a challenging year. The intensified global supply chain headwinds, postponement of customer equipment installations due to COVID-19 combined with the sales consequences of the Philips Respironics recall, resulted in a 1% comparable sales decline year-on-year in 2021.

The component shortage and shipping delays affected all our businesses. For example, semiconductor delivery times increased from several months to a year, and sometimes suppliers even de-committed orders on short notice. Our engineering teams are developing alternate parts, as well as adjusting product designs to diversify sourcing of components. However, in a regulated industry this all takes time.

Our Connected Care businesses posted a 23% decline in comparable sales, on the back of very high COVID-19-generated demand in 2020 and of course because of the Respironics field action. At the same time - and I want to underline that - our Diagnosis & Treatment businesses and Personal Health businesses performed very well in 2021, recording 8% and 9% comparable sales growth, respectively.

Our order intake grew a further 4% in the year, driven by 16% growth in the Diagnosis & Treatment businesses. The 80 new long-term strategic partnerships that we signed in 2021 further demonstrate the continued trust of our customers in our portfolio and in our people. We further grew our solutions-based sales and recurring revenues to around 45% of our total revenue.

Against this background, and reflecting the importance we attach to dividend stability, we propose to maintain the dividend at EUR 0.85 per share.

Doing business responsibly and sustainably

Driven by our purpose, we reached 1.7 billion people with our products, services, and solutions in 2021, including 167 million in underserved communities. We are on track to improve the lives of 2 billion a year by 2025, including 300 million people in underserved communities.

Philips has been carbon neutral in its own operations for the last two years. And, due to our focus on circular business practices, we bring near zero waste to landfills. Our circular revenues are at 16% of sales, driven by our software and services to enhance equipment uptime and utilization, system and software upgrades, and reusing refurbished parts and systems.

Did you actually know the world's healthcare systems account for over 4% of global CO2 emissions? We are therefore working closely with partners and customers to offer concrete solutions to help hospitals reduce their environmental footprint.

Creating further value

Let me conclude. As I already mentioned, our customers tell us that we are very relevant to them, and that we have a stronger-than-ever portfolio.

We are all fully focused on everyday execution to overcome the near-term headwinds, such as the continued supply chain shortages and COVID-19 resurgences, and to convert our all-time-high orderbook into higher revenue growth and expanding margins.

We continue to invest in the future, and leverage data science in all our propositions, thus advancing healthcare with solutions that deliver on the quadruple aim of healthcare. At the same time, advancing operational excellence, patient safety and quality remains a daily priority for all of us at Philips.

I would like to thank our customers, suppliers and partners for their continued support. And a special word of thanks to our employees for their fantastic contribution through a year of often difficult working circumstances.

I would also like to thank our shareholders for their patience and ask for their support, as we work through the near-term issues towards a bright future for Philips. The entire Philips team of 79,000 people is geared up to deliver on our full potential.

Thank you very much.