

**Annual Report 2023**

# Message from the CEO

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“2023 was a year of many challenges, as well as considerable progress, with continued strong focus on patient safety and quality, supply chain reliability, and performance improvement.”

**Roy Jakobs** CEO Royal Philips

## **Dear Stakeholder,**

The challenges of a world in turmoil amplify the sense of urgency I feel to make sure Philips delivers on its purpose and becomes an even stronger force for good, so people everywhere can look after their health and well-being and access the care they need, with us focusing on where we can help, from the hospital to the home.

In January 2023, we announced our multi-year plan to create value with sustainable impact. Throughout the year, Philips teams around the world worked relentlessly, in a volatile environment, to deliver on the first phase of that plan, laying a strong foundation for sustained future success.

Our products and services reached 1.9 billion people in 2023, including 221 million in underserved communities – taking us closer to our goal of improving 2.5 billion lives per year by 2030, including 400 million in underserved communities.

Our improved operational performance was driven by significant progress on the three pillars of our plan to create value for all our stakeholders: 1) focused organic growth; 2) scalable people- and patient-centric innovation; and 3) focus on execution to enhance patient safety and quality, strengthen our supply chain reliability, and establish a simplified, agile operating model.

We achieved our raised 2023 outlook with strong sales growth, improved profitability, and strong cash flow, despite the uncertainties brought about by an increasingly turbulent geopolitical environment. While the order book remains strong in absolute terms, order intake was down, for which the necessary improvement actions are under way. There is still a lot of work to be done, but 2023 represents a good start, and it reinforces our confidence in delivering on our three-year plan.

## **Patient safety and quality**

Resolving the consequences of the Respironics recall for our patients and customers is a key focus area, and I apologize for the distress caused. Globally, over 99% of the sleep therapy

device registrations that are complete and actionable have been remediated, while the remediation of the ventilator devices remains ongoing.

We are fully committed to complying with the terms of the consent decree agreed with the US Department of Justice (DOJ), representing the US Food and Drug Administration (FDA), which primarily focuses on Philips Respironics in the US. The proposed consent decree will provide Philips Respironics with a roadmap of defined actions, milestones, and deliverables to demonstrate compliance with regulatory requirements and to restore the business. Further details will become available once the consent decree has been finalized and submitted to the relevant US court for approval.

As well as implementing all measures agreed with the FDA and DOJ in connection with the Respironics recall, we will continue to rebuild relations with the FDA and other national regulators. In October, Philips Respironics received preliminary court approval for the class action settlement that would resolve all or nearly all private economic loss claims in the US related to the recall. The settlement does not include or constitute any admission of liability, wrongdoing, or fault by any of the Philips parties. The previously disclosed litigation, including the personal injury and medical monitoring claims, and investigation by the DOJ related to the Respironics recall are ongoing.

## **Driving progress on priorities**

With patient safety and quality the number one priority, oversight now resides at Executive Committee level, and we have a new organization in place, with stronger processes and more effective early warning systems in the businesses. We are pro-actively addressing quality improvements and first-time-right design. One of the most inspiring events of the year took place in October – a company-wide Timeout for Patient Safety and Quality. All 70,000 employees came together in their teams to discuss how we are moving forward on patient safety and quality, and how to take it further.

In our drive to create more reliable and resilient supply chains, we have significantly reduced our high-risk components and our inventories, and the actions we have taken continued to

have a positive impact on our sales and service levels. We continue to strengthen further through regionalization of the supply base and manufacturing capability to better respond to local requirements with a shorter value chain.

We also started the shift to our new, simplified operating model – with end-to-end businesses supported by a leaner enterprise layer, strong regions and a reinvigorated impact culture – and completed the realignment of workforce roles and reporting lines. This included the difficult but necessary reduction of approximately 8,000 roles to date, out of the planned reduction of 10,000 roles by 2025.

Reflecting our changing culture of people- and patient-centricity, accountability and impact, our Executive Committee was strengthened with the arrival of four new members in 2023, each bringing valuable experience and skills to the work of our leadership team. We also welcome the decision by Exor to take a 15% minority stake in our company – a sign of confidence in our plan, our people, and our future. And we marked the 100th anniversary of Philips in China, a remarkable achievement.

### The opportunity to deliver better care for more people

Today, millions of people around the world have little or no access to basic healthcare, and climate change is impacting both environmental and human health. Healthcare is simply not working as it needs to. There are not enough doctors and nurses to address the growing demand for care. In parallel, rising costs are stretching financial budgets to the limit.

That's why we are advocating for systemic change, driven by all ecosystem players, that addresses technology, clinical practice, financing and regulation as a whole. Change that delivers better, more productive healthcare that works for everyone. Without this change, communities all around the world will increasingly face challenges to get the care they need.

Focusing our efforts on where we can make a difference, we want to help more healthcare providers help more patients, in a sustainable way, and empower more people to take care of their health and well-being – by applying our combined capabilities in innovation, design and sustainability.

There is a lot of work to be done, but we see the potential for a future where health systems run smoothly, efficiently and sustainably, with doctors and nurses seeing the patient at the right time and at the right point of care. Where they can be confident that the right choice is also the easy choice, with simpler workflows enabling them to give patients the best care and best experience.

With real-time and predictive insights supporting collaboration across the patient journey. And AI being used in a responsible manner to optimize workflows and improve efficiency, so that clinical staff get the time and space to focus on what matters and what they do best: caring for their patients.

We see a future where it is also easier for people everywhere to look after their health and well-being. For example, with solutions helping more parents and babies in the first 1,000 days and supporting the connection between good oral care and good overall health.

Recognizing that human health and environmental health go hand in hand, we are collaborating with our customers and suppliers to decarbonize healthcare and so create a more sustainable and resilient industry.

### Looking ahead

While realistic about the challenging economic environment, geopolitical risks, and uncertainties around ongoing litigation, I am confident we will continue to deliver on our multi-year plan to create value with sustainable impact – helping consumers lead healthy lives and healthcare providers deliver efficient, high-quality care to patients in a sustainable way. Based on our ongoing actions to enhance execution – driving patient safety and quality, increasing supply chain reliability, and further simplifying how we work – we expect further performance improvement in 2024.

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

On behalf of the Executive Committee, I would like to thank our consumers, our customers and their patients, our suppliers and ecosystem partners for their support, and the Supervisory Board for their support and guidance. I also want to express my deep gratitude to our employees for their dedication to improving people's lives and our company's performance, and to our shareholders and other stakeholders for their continued support.

As I look ahead, I am realistic about the challenges we face, optimistic about building on the momentum we have created, and excited about delivering on our purpose – for the benefit of patients, customers and consumers the world over.

**Roy Jakobs**  
*Chief Executive Officer*

