



Shareholders Circular of Royal Philips (Koninklijke Philips N.V.)

relating to the proposal to approve the separation of the Lighting business from Royal Philips

to be voted on at the Annual General Meeting of Shareholders,
to be held at **Beurs van Berlage**, Damrak 243, Amsterdam,
on Thursday, **May 7, 2015, beginning at 14.00 hours.**

March 19, 2015

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This Shareholders Circular relates to item 3 on the Agenda of the 2015 AGM, and forms part of the explanatory notes to the Agenda. All documents relevant for the 2015 AGM are available on the company's website (www.philips.com/agm). The meeting documents are also available at the offices of the company, at ABN AMRO Bank N.V. (Gustav Mahlerlaan 10 (HQ 7050), 1082 PP Amsterdam) and at the 2015 AGM.

Letter to the shareholders

Dear Shareholder,

As part of the next decisive phase of our multi-year Accelerate! transformation program, we announced our plan to capitalize on fundamental market changes and new growth opportunities by separating Philips into two market-leading independent companies focused on the vast opportunities in health technology (HealthTech) and lighting solutions, respectively. We believe that it is the right time to pursue this decision.

Our goal is to become the global leader in HealthTech and shape the future of the industry, which we plan to achieve by building on the strengths of our Healthcare and Consumer Lifestyle businesses. At the same time, we will establish a separate Lighting Solutions company that will be better able to expand its global leadership position and capture adjacent market opportunities. Both companies will be well-positioned to drive profitable growth, ultimately generating more value for our customers, employees and shareholders.

We intend to create the Lighting Solutions company by separating the Lighting business from Royal Philips. The purpose of this Shareholders Circular is to provide shareholders with more information on the proposed separation and to explain why we consider the separation to be in the best interests of Royal Philips and its shareholders. It is our pleasure to submit this proposal for your approval.

We advise all shareholders to read this Shareholders Circular carefully and recommend that you vote to approve the relevant proposal at the 2015 Annual General Meeting of Shareholders.

We thank you, our shareholders, for your continued support of Royal Philips and look forward to meeting you at the 2015 AGM.

Yours sincerely,



Jeroen van der Veer
Chairman of the Supervisory Board



Frans van Houten
President and Chief Executive Officer

1. The next strategic step: two independent companies

This Shareholders Circular relates to the proposal made to the shareholders of Royal Philips, included as item 3 of the agenda for the 2015 AGM, to be held on May 7, 2015.

The proposal follows our announcement on September 23, 2014 that we are sharpening our strategic focus by separating Philips into two market-leading companies focused on HealthTech and Lighting Solutions markets.

The decision to separate Philips into two focused, fit for purpose, companies that are better positioned to capture growth and value in HealthTech and Lighting Solutions is the natural next phase of our multi-year transformation journey. Since 2011, our Accelerate! transformation program has increased customer focus, reduced costs and improved the profitability of our underlying businesses, among others.

An integral element of the transformation is our focus on industries and markets with attractive long-term industry fundamentals, and where we can generate value for shareholders, customers and employees. We have already taken significant steps in this regard, including the divestments of the Television and Audio, Video, Multimedia & Accessories businesses among others. We have also made several strategic acquisitions to strengthen our Lighting Solutions business and expand our global leadership position in image-guided therapy. We are also making progress with the sale of the combined Automotive Lighting and Lumileds (LED components) businesses.

As we continue our transformation, we see the next wave of value creation occurring in two distinct areas. The HealthTech and Lighting Solutions business areas both offer attractive end-markets, yet each has unique customer needs, value drivers, industry trends and competitive dynamics. Both markets are rapidly evolving and experiencing shifts in their underlying fundamentals, which are changing customer needs and creating attractive value generating opportunities for companies that are able to respond to these needs. Now is the time to establish two strong independent companies singularly capable of doing just that.

Our Lighting business has leading positions across the lighting value chain, with an addressable Lighting Solutions market of more than EUR 60 billion. Lighting is an attractive and growing industry. The transition towards LED systems and services, and increasing connectivity and intelligence, are creating attractive growth opportunities. We have global market leadership in conventional and LED lamps, luminaires and lighting systems & services, which uniquely positions us to capture the professional systems and services opportunity and establish a winning position in connected lighting ecosystems.

By establishing a stand-alone Lighting Solutions company, the Lighting business and management team will be better positioned to capture growth opportunities, be closer to customers, adapt more quickly to evolving customer needs, and enable decisive investments in the future of lighting.

Royal Philips will retain its leading portfolio of businesses addressing the health continuum, from healthy living and prevention, to diagnosis, treatment, recovery and home care, serving an addressable HealthTech market estimated at over EUR 100 billion. The combined Healthcare and Consumer Lifestyle businesses are strongly positioned, with leadership in ultrasound diagnostics, cardiac care, home healthcare and personal hygiene, among others. With its current businesses and new opportunities on the horizon, Royal Philips can address the entire health continuum in a way that we believe gives us a unique advantage over competitors and can respond to changing market demands. We see attractive value creation opportunities for these businesses as increasing connectivity, proactive consumer engagement, and pressure on healthcare systems to deliver effective and affordable care solutions, drive convergence of professional healthcare and consumer end-markets across the continuum.

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A united HealthTech portfolio, enabled by a cloud-based digital health platform and big data analytics capabilities, will be uniquely positioned to capture the key opportunities in population health management, improved solutions for health systems and accountable care organizations, and coordinated care delivery across the health continuum.

On January 1, 2015, we have started to better leverage capabilities across Healthcare and Consumer Lifestyle. We have also begun implementing a new leaner operating model which will allow all our Business Groups and Markets to further drive performance. With a single value-added layer providing world-class functional support, we will have greater customer focus, faster decision-making and lower overhead costs.

We have also started the process to carefully transition the current Lighting business into a stand-alone holding company structure, to enable the proposed separation from Royal Philips.

As independent companies with dedicated, focused and lean management structures, both Royal Philips and the Lighting Solutions company will be able to make the appropriate investments to boost growth and drive profitability, ultimately generating significantly more value for our customers, employees and shareholders.

Both companies will continue to leverage the Philips brand.

2. Approach to the separation

We are carefully reviewing and considering various options for future ownership structures for the Lighting business, taking into account various factors, including (but not limited to) general market conditions and the lighting industry landscape. Our current intention is to fully separate the Lighting business, potentially through a staged process. Notwithstanding our ongoing review of potential structures, it is our current intention to effectuate the separation through an Initial Public Offering (IPO) of shares in a company comprising the Lighting business (as further described below in this section 2). An IPO of such Lighting Solutions company would be expected to take place in the first half of 2016, subject to market conditions and other relevant circumstances.

In light of the size of the Lighting business, Royal Philips will probably initially offer only a minority interest in the IPO. This initial divestment is expected to be followed by one or more secondary offerings, or by one or more other transactions, with the aim of full divestment of the Lighting Solutions company over time.

At the same time, we will continue to carefully review alternatives (including, but not limited to, private sale) in light of all relevant circumstances, such as general market conditions and developments in the Lighting business as well as in the lighting industry. It should therefore be noted that there is no certainty as to the method, scope or timing of the separation of the Lighting business. In determining the definitive method, scope and timing of the separation, we will continue to carefully consider the interests of the shareholders, the other stakeholders and the long-term objectives of Royal Philips.

We currently intend to use the proceeds of the separation to deliver on our HealthTech strategy and aim to increase growth and drive profitability through a disciplined capital allocation policy. We furthermore plan to balance funding growth through both organic investments and strategic acquisitions, with other factors such as a robust capital structure, pension exposures and our commitment to a financially sound and well-structured Royal Philips, as well as other options for shareholder value creation. The appropriate use of any proceeds will be determined in due course, as such use depends on the amount and timing of such proceeds as well as other factors and future circumstances.

The transition of the Lighting business into a separate, stand-alone holding company structure is guided by the principle that such holding company will comprise (directly or indirectly) substantially all of Lighting's activities¹, related assets and liabilities, and allocated activities from Innovation, Group & Services. Depending on the final structure and other relevant considerations, the extent of application of this principle may vary. Certain historical exposures and liabilities (such as from divested companies) will be allocated to the new company or to Royal Philips, which are unrelated to the respective businesses.

The Lighting business to be separated is currently expected not to include Automotive Lighting and Lumileds (LED components). These businesses are being combined into a stand-alone lighting components company within the Royal Philips group. Royal Philips is actively discussing the sale of this business with potential buyers and expects a transaction to be completed in the first half of 2015.

Royal Philips will actively monitor its interest in the Lighting business for as long as it maintains an ownership stake in it. As is common in these kinds of situations, certain governance arrangements will be made to enable both Royal Philips and the Lighting Solutions company to serve and safeguard their respective interests. These arrangements could, for example, include Royal Philips' information rights and approval rights on certain decisions. If and when Royal Philips' ownership stake is reduced through further divestments, such rights would be reduced or eliminated in accordance with certain ownership levels.

3. Recommendation to shareholders

Having given due and careful consideration to the strategic considerations set forth in this Shareholders Circular and the financial and social aspects and consequences thereof, the Board of Management and the Supervisory Board believe that pursuing two independent strategic directions for Royal Philips and the Lighting Solutions company is in the best interests of shareholders and other stakeholders. We therefore recommend that shareholders vote in favor of the proposal to separate the Lighting business from Royal Philips.

1. Reference is made to sub-section 6.3.4 of our Annual Report 2014 for key (historical) data on our Lighting business.

Disclaimers

Forward-looking statements

This Shareholders Circular contains certain forward-looking statements with respect to the financial condition, results of operations and business of Royal Philips (Koninklijke Philips N.V.) and certain of the plans and objectives of Royal Philips with respect to these items and in particular with respect to the creation of the separate HealthTech and Lighting Solutions companies. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances and there are many factors that could cause actual results and developments to differ materially from those expressed or implied by forward-looking statements.

“No Offer”

This Shareholders Circular does not constitute, or form part of, an offer to sell, or a solicitation of an offer to purchase, any securities in the United States of America (including its territories and possessions, any state of the United States of America and the District of Columbia) (the “United States”) or elsewhere. No securities in the Lighting Solutions company have been registered under the U.S. Securities Act of 1933 (the “Securities Act”) and may not be offered or sold within the United States absent registration or an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Presentation of information

The information included in this Shareholders Circular reflects the situation as at the date of this Shareholders Circular, unless specified otherwise. The publication of this Shareholders Circular shall under no circumstances imply that the information contained herein is accurate and complete as of any time subsequent to the date of this Shareholders Circular or that there has been no change in the information set out in this Shareholders Circular or in the intentions or expectations of (the Board of Management and/or the Supervisory Board of) Royal Philips in relation to the strategic decision to pursue two independent strategic directions focused on HealthTech and Lighting Solutions (including the method and timing thereof) since the date of this Shareholders Circular. The foregoing does not affect the obligation of Royal Philips to make a public announcement pursuant to applicable laws.

Dutch version

This Shareholders Circular is also available in Dutch. In the event of any discrepancies between the two versions, the English version will prevail.

