

## Agenda for the Annual General Meeting of Shareholders 2015

To be held at **Beurs van Berlage**, Damrak 243, Amsterdam on Thursday, **May 7, 2015, beginning at 14.00 hours**.

### 1. Speech of the President

### 2. Annual Report 2014

- a. Explanation of the implementation of the remuneration policy
- b. Explanation of policy on additions to reserves and dividends
- c. Proposal to adopt the financial statements
- d. Proposal to adopt a dividend of EUR 0.80 per common share, in cash or in shares at the option of the shareholder, against the net income for 2014 and retained earnings
- e. Proposal to discharge the members of the Board of Management for their responsibilities
- f. Proposal to discharge the members of the Supervisory Board for their responsibilities

### 3. Separation of the Lighting business from Royal Philips

Proposal to approve the separation of the Lighting business from Royal Philips, on conditions to be determined by the Board of Management with the approval of the Supervisory Board

### 4. Composition of the Board of Management

- a. Proposal to re-appoint Mr F.A. van Houten as President/CEO and member of the Board of Management with effect from May 7, 2015
- b. Proposal to re-appoint Mr R.H. Wirahadiraksa as member of the Board of Management with effect from May 7, 2015
- c. Proposal to re-appoint Mr P.A.J. Nota as member of the Board of Management with effect from May 7, 2015

### 5. Composition of the Supervisory Board

- a. Proposal to re-appoint Mr J.P. Tai as member of the Supervisory Board with effect from May 7, 2015
- b. Proposal to re-appoint Mr H. von Prondzynski as member of the Supervisory Board with effect from May 7, 2015
- c. Proposal to re-appoint Mr C.J.A. van Lede as member of the Supervisory Board for a term of two years with effect from May 7, 2015
- d. Proposal to appoint Mr D.E.I. Pyott as member of the Supervisory Board with effect from May 7, 2015

## **6. Remuneration of the Supervisory Board**

Proposal to revise the remuneration of the members of the Supervisory Board

## **7. Appointment of the external auditor of the company**

- a. Proposal to appoint Ernst & Young Accountants LLP as the external auditor of the company
- b. Proposal to amend the term of appointment of the external auditor in the Articles of Association

## **8. Authorization of the Board of Management to (i) issue shares or grant rights to acquire shares and (ii) restrict or exclude pre-emption rights**

- a. Proposal to authorize the Board of Management for a period of 18 months, effective May 7, 2015, as the body which is authorized, with the approval of the Supervisory Board, to issue shares or grant rights to acquire shares within the limits laid down in the Articles of Association
- b. Proposal to authorize the Board of Management for a period of 18 months, effective May 7, 2015, as the body which is authorized, with the approval of the Supervisory Board, to restrict or exclude the pre-emption rights accruing to shareholders

The authorization referred to above under a. will be limited to a maximum of 10% of the number of issued shares as of May 7, 2015, plus 10% of the issued capital as of that same date in connection with or on the occasion of mergers, acquisitions and/or strategic alliances.

## **9. Authorization of the Board of Management to acquire shares in the company**

Proposal to authorize the Board of Management for a period of 18 months, effective May 7, 2015, within the limits of the law and the Articles of Association, to acquire, with the approval of the Supervisory Board, for valuable consideration, on the stock exchange or otherwise, shares in the company at a price between, on the one hand, an amount equal to the par value of the shares and, on the other hand, an amount equal to 110% of the market price of these shares on the Official Segment of NYSE Euronext Amsterdam; the market price being the average of the highest price on each of the five days of trading prior to the date of acquisition, as shown in the Official Price List of NYSE Euronext Amsterdam.

The maximum number of shares the company may acquire and hold, will not exceed 10% of the issued share capital as of May 7, 2015, which number may be increased by 10% of the issued capital as of that same date in connection with the execution of share repurchase programs for capital reduction purposes.

## **10. Cancellation of shares**

Proposal to cancel common shares in the share capital of the company held or to be acquired by the company. The number of shares that will be cancelled shall be determined by the Board of Management.

## **11. Any other business**

*This Agenda, the explanatory notes thereto, the draft amendment of the Articles of Association (relating to agenda item 7.b) and other documents relevant for the AGM 2015 have been published on the company's website ([www.philips.com/agm](http://www.philips.com/agm)). The meeting documents are also available at the offices of the company and at ABN AMRO Bank N.V. (Gustav Mahlerlaan 10 (HQ 7050), 1082 PP Amsterdam) and will be available at the meeting.*

*Agenda items indicated as "proposal" are voting items*

## Explanatory notes to the agenda for the AGM 2015

### 1. Speech of the President

In his speech the President will look back on the financial year 2014, including the company's financial performance. The President will also explain the strategic direction of Royal Philips going forward.

### 2. Annual Report 2014

This agenda item first includes two non-voting items: the implementation of the company's remuneration policy in 2014, and the company's policy on additions to reserves and dividends. In respect of the first item, please refer to the Report of the Supervisory Board as well as other information on remuneration included in the Annual Report 2014. Furthermore a number of proposals are included: to adopt the 2014 financial statements, to adopt an optional dividend in cash or shares; as well as to discharge the members of the Board of Management and the Supervisory Board, in accordance with Dutch law, for the performance of their respective duties in the financial year 2014. The proposed discharge will take place on the basis of information provided to the General Meeting of Shareholders and other information publically available when the resolution to discharge is adopted.

It is proposed to distribute a dividend of EUR 0.80 per common share (up to EUR 735 million), in cash or shares at the option of the shareholder, against the net income for 2014 and retained earnings, in accordance with the company's present dividend policy.

If the above dividend proposal is adopted, the shares will be traded ex-dividend as of May 8, 2015 and May 11, 2015 at the New York Stock Exchange and NYSE Euronext Amsterdam, respectively. In compliance with the listing requirements of the New York Stock Exchange and the stock market of NYSE Euronext Amsterdam, the dividend record date will be May 12, 2015. Shareholders will be given the opportunity to make their choice between cash and shares between May 13, 2015 and June 5, 2015. If no choice is made during this election period the dividend will be paid in shares. On June 5, 2015 after close of trading, the number of share dividend rights entitled to one new common share will be determined based on the volume-weighted average price of all traded common shares Koninklijke Philips N.V. at NYSE Euronext Amsterdam on June 3, 4 and 5, 2015. The company will calculate the number of share dividend rights entitled to one new common share (the 'ratio'), such that the gross dividend in shares will be approximately equal to the gross dividend in cash. On June 9, 2015 the ratio and the number of shares to be issued will be announced. Payment of the dividend and delivery of new common shares, with settlement of fractions in cash, if required, will take place from June 10, 2015.

The newly issued common shares rank for the dividend for the 2015 financial year and following financial years.

Dividend in cash is in principle subject to 15% Dutch dividend withholding tax, which will be deducted from the dividend in cash paid to the shareholders. Dividend in shares paid out of net income and retained earnings is in principle subject to 15% dividend withholding tax, but only in respect of the par value of the shares (which value amounts to EUR 0.20 per share). Some shareholders may be eligible to claim a tax credit for or a refund of the tax withheld, if certain conditions are met. Shareholders are advised to consult their tax advisor on the applicable situation both with respect to withholding tax and the possibility to claim a tax credit for or a refund of the tax withheld, as well as the tax due (such as corporate income tax, personal income tax) on the dividend received.

### 3. Separation of the Lighting business from Royal Philips

On September 23, 2014, Philips announced that it is sharpening its strategic focus by establishing two market-leading companies in Lighting Solutions and in HealthTech, combining Healthcare and Consumer Lifestyle.

To enable the separation of the Lighting business it will be transitioned into a separate holding company structure. Such structure will in principle comprise (directly or indirectly) all of Lighting's activities, related assets and liabilities and allocated activities from Innovation, Group & Services. The Lighting business groups Automotive Lighting and Lumileds (LED components) will be divested separately, subject to unforeseen developments.

It is the current intention that the separation of the Lighting business will be effectuated through an Initial Public Offering, but the Board of Management and the Supervisory Board will continue to review alternatives (including, but not limited to, private sale).

For a further specification and explanation of this proposal, reference is made to the Shareholders Circular published on the company's website ([www.philips.com/agm](http://www.philips.com/agm)) which forms part of these explanatory notes. The Shareholders Circular is also available at the offices of the company and at ABN AMRO Bank N.V. (Gustav Mahlerlaan 10 (HQ 7050), 1082 PP Amsterdam) and will be available at the meeting.

### 4. Composition of the Board of Management

In accordance with the Articles of Association, the Supervisory Board has made binding recommendations regarding the re-appointment of the members of the Board of Management. The binding recommendations are available at the offices of the company and at ABN AMRO Bank N.V. (Gustav Mahlerlaan 10 (HQ 7050), 1082 PP Amsterdam) as well as on the company's website ([www.philips.com/agm](http://www.philips.com/agm)) and will be available at the meeting.

The following persons are proposed for re-appointment:

#### a. Frans van Houten (1960, Dutch)

Mr van Houten has held the positions of President/Chief Executive Officer and Chairman of the Board of Management since April 1, 2011.

The Supervisory Board recommends to the shareholders to re-appoint Mr van Houten as President/Chief Executive Officer and member of the Board of Management with effect from May 7, 2015.

#### b. Ron Wirahadiraksa (1960, Dutch)

Mr Wirahadiraksa has held the positions of Executive Vice President/Chief Financial Officer and member of the Board of Management since April 1, 2011.

The Supervisory Board recommends to the shareholders to re-appoint Mr Wirahadiraksa as member of the Board of Management with effect from May 7, 2015.

#### c. Pieter Nota (1964, Dutch)

Mr Nota has held the positions of Executive Vice President and member of the Board of Management since April 1, 2011, Chief Executive Officer of Philips Consumer Lifestyle until December 31, 2014 and Chief Business Leader for Personal Health Businesses since January 1, 2015.

The Supervisory Board recommends to the shareholders to re-appoint Mr Nota as member of the Board of Management with effect from May 7, 2015.

The Supervisory Board is very pleased that Messrs Van Houten, Wirahadiraksa and Nota remain available as members of the Board of Management. Their re-appointment is recommended in view of their performance, and the importance of continuity in the ongoing transformation process of the company and the proposed separation of the

Lighting business from Royal Philips. In line with the Dutch Corporate Governance Code, members of the Board of Management are (re-)appointed for the term of four years as laid down in the Articles of Association. The services agreements (*overeenkomsten van opdracht*) between the company and Messrs Van Houten, Wirahadiraksa and Nota, respectively (which agreements are subject to their re-appointment), have been published on the company's website.

## 5. Composition of the Supervisory Board

In accordance with the Articles of Association of the company, the Supervisory Board has made binding recommendations regarding the (re-)appointment of members of the Supervisory Board. The binding recommendations are available at the offices of the company and at ABN AMRO Bank N.V. (Gustav Mahlerlaan 10 (HQ 7050), 1082 PP Amsterdam) as well as on the company's website ([www.philips.com/agm](http://www.philips.com/agm)) and at the meeting.

The following persons are proposed for (re-)appointment:

### a. Jackson Tai (1950, American)

Mr Tai has been a member of the Supervisory Board since 2011. He is also member of the Boards of Directors of Bank of China Limited, MasterCard Incorporated and Eli Lilly and Company, and Non-Executive Director of privately held Russell Reynolds Associates and of Vapor Stream.

Mr Tai is recommended to be re-appointed in view of his knowledge and experience in financial and economic aspects of international businesses, and the way he fulfils his role as a member of the Supervisory Board and of the Audit Committee.

The Supervisory Board proposes to re-appoint Mr Tai, in line with the Dutch Corporate Governance Code, for the term of four years (effectively until the end of the annual general meeting of shareholders to be held in 2019).

### b. Heino von Prondzynski (1949, German)

Mr Von Prondzynski has been a member of the Supervisory Board since 2007. He is also Chairman of the Supervisory Boards of HTL Strefa and Epigenomics AG, and member of the Boards of Directors of Hospira, Inc. and Quotient Ltd.

Mr Von Prondzynski is recommended to be re-appointed in view of his experience in the medical business, and the way he fulfils his role as a member of the Supervisory Board, of the Audit Committee, of the Remuneration Committee and of the Corporate Governance and Nomination & Selection Committee. The Supervisory Board proposes to re-appoint Mr Von Prondzynski, in line with the Dutch Corporate Governance Code, for the term of four years (effectively until the end of the annual general meeting of shareholders to be held in 2019).

### c. Kees van Lede (1942, Dutch)

Mr Van Lede has been a member of the Supervisory Board since 2003. He is also chairman of the Supervisory Boards of Royal Imtech N.V., and member of the Supervisory Boards of Air France-KLM and Air Liquide.

The Supervisory Board notes that the adoption of this proposal would extend Mr Van Lede's consecutive (re-)appointments beyond the expiry of his third term in 2015. In line with the company's Articles of Association, the Supervisory Board considers the re-appointment of Mr Van Lede to be in the best interest of the company, particularly in view of his experience within the company and strong knowledge of corporate governance which will be of particular benefit as the company goes through a period of transition. The Supervisory Board therefore proposes to re-appoint Mr Van Lede for the term of two years (effectively until the end of the annual general meeting of shareholders to be held in 2017).

#### **d. David Pyott (1953, British)**

Mr Pyott was born in 1953 and has British nationality. He is former Chairman and Chief Executive Officer of Allergan, Inc. (from 2001 and 1998 until 2015, respectively). He is also a Director of Avery Dennison Corporation and its Lead Independent Director (since 1999 and 2010, respectively).

Mr Pyott is recognized as one of America's best-rated CEO's, and acclaimed for refocussing Allergan's strategy and turning it from a relatively small eye care business into a global specialty pharmaceutical and medical device company. In his career Mr Pyott has gathered in-depth knowledge of the pharmaceutical and healthcare industries, in North America as well as globally. His expertise will be invaluable in view of Philips' transition into a company focused on HealthTech. The Supervisory Board therefore proposes to appoint Mr Pyott as a member of the Supervisory Board, in line with the Dutch Corporate Governance Code, for the term of four years (effectively until the end of the annual general meeting of shareholders to be held in 2019).

The Supervisory Board is very pleased that Messrs Tai, Von Prondzynski and Van Lede remain available and Mr Pyott is available as members of the Supervisory Board. Upon the proposed (re-)appointments, Philips' Supervisory Board will consist of nine members, including three women, with six nationalities.

## **6. Remuneration of the Supervisory Board**

As the base fee for the members of the Supervisory Board has not changed since 2008, and in view of the increased activities and responsibilities of the Supervisory Board, it is proposed to revise the remuneration of the Supervisory Board. The Supervisory Board also intends to create an ad-hoc committee on the separation of the Lighting business from Royal Philips as mentioned in agenda item 3.

In view of the above it is proposed to determine the remuneration for members of the Supervisory Board with effect from January 1, 2015, as follows:

- a. Annual remuneration for the Supervisory Board: EUR 80,000 for a regular member, EUR 90,000 for the Vice-Chairman and EUR 135,000 for the Chairman (currently EUR 65,000, EUR 65,000 and EUR 110,000, respectively);
- b. Annual remuneration for the Supervisory Board's Audit Committee: EUR 13,000 for a regular member and EUR 22,500 for the chairman (currently EUR 10,000 and EUR 15,000, respectively);
- c. Annual remuneration for the Supervisory Board's Remuneration Committee: EUR 10,000 for a regular member and EUR 15,000 for the chairman (currently EUR 8,000 and EUR 12,500, respectively);
- d. Annual remuneration for the Supervisory Board's Corporate Governance and Nomination & Selection Committee: EUR 7,500 for a regular member and EUR 15,000 for the chairman (currently EUR 6,000 and EUR 12,500, respectively);
- e. Annual remuneration for the ad-hoc committee referred to above: EUR 10,000 for a regular member and EUR 15,000 for the chairman; and
- f. Attendance fee of EUR 2,500 per inter-European trip and EUR 5,000 per inter-continental trip (currently EUR 3,000 per inter-continental trip).

## **7. Appointment of the external auditor of the company**

It is proposed to appoint Ernst & Young Accountants LLP as the company's new auditor for a term of four years starting January 1, 2016. This proposal was announced in September 2014, following an extensive tender process under leadership of the Audit Committee of the Supervisory Board.



At the start of the tender process, Philips defined a number of selection criteria, including: the proposed audit team, the organization of the audit team, the technical consultation process, the audit approach, fee structure, flexibility and ability to respond to a changing environment, the transition plan, reputation and credentials and ability to mobilize relevant expertise and resources. The tender process included site visits to the most important markets and workshops with the Group Functions and Business Groups, which provided the opportunity to evaluate who the next auditor should be. These impressions, together with a comparison of the written tender offers, followed by presentations to members of the Executive Committee, other senior management and members of the Audit Committee, led to a decision of the Supervisory Board to propose and recommend – together with the Board of Management – the appointment of Ernst & Young Accountants LLP to the General Meeting of Shareholders.

The decisive factors to recommend Ernst & Young Accountants LLP were the consistent strong performance of the proposed team, the best perceived integrated audit approach and competitive fee proposal.

Philips' current auditor, KPMG Accountants N.V., will remain in function until the conclusion of the audit for the financial year 2015.

The proposed four years' term of appointment of Ernst & Young Accountants LLP will be subject to an amendment to the Articles of Association.<sup>1</sup> The Articles of Association currently provide that the external auditor may be appointed for a maximum period of three years, after which the auditor may be re-appointed for a new period of three years. In view of Dutch legislation (effective January 1, 2016) on the total period of the consecutive terms of appointment of the external auditor, it is proposed by the Supervisory Board and the Board of Management to amend paragraph 4 of Article 33 of the Articles of Association to reflect that the appointment of the external auditor will be for a period to be determined by the General Meeting of Shareholders (upon the proposal of the Board of Management and the Supervisory Board). The relevant draft amendment of the Articles of Association has been published on the company's website ([www.philips.com/agm](http://www.philips.com/agm)), is also available at the offices of the company and at ABN AMRO Bank N.V. (Gustav Mahlerlaan 10 (HQ 7050), 1082 PP Amsterdam) and will be available at the meeting.

## **8. Authorization of the Board of Management to (i) issue shares or grant rights to acquire shares and (ii) restrict or exclude pre-emption rights**

The proposals to authorize the Board of Management to (i) issue shares or grant rights to acquire shares in the share capital of the company and (ii) restrict or exclude pre-emption rights, are intended to give the Board of Management flexibility in financing the company in the most efficient manner. Furthermore, such authorization gives the Board of Management flexibility in the context of mergers, acquisitions and/or strategic alliances.

Adoption of these proposals by the General Meeting of Shareholders will replace the current authorization of the Board of Management to (i) issue shares or grant rights to acquire shares in the share capital of the company and (ii) restrict or exclude pre-emption rights, which was granted by the General Meeting of Shareholders on May 1, 2014.

## **9. Authorization of the Board of Management to acquire shares in the company**

The proposal to authorize the Board of Management to repurchase shares in the share capital of the company intends to allow the Board of Management to cover the company's obligations related to share-based remuneration, such as those under the LTI Plans and any other employee stock purchase plan under which employees may acquire Philips securities, and other obligations the company may have. Furthermore,

<sup>1</sup> If the proposal to appoint Ernst & Young Accountants LLP as the company's new auditor is adopted, but the proposal to amend the company's Articles of Association is not adopted by the General Meeting of Shareholders, the appointment of Ernst & Young Accountants LLP will be for a term of three years starting January 1, 2016.

the proposal intends to allow the Board of Management to repurchase shares for capital reduction purposes.

The maximum number of shares the company may acquire and hold, equals 10% of the issued share capital per May 7, 2015. In case of repurchase for capital reduction purposes, the number of shares that the company may acquire and hold will be increased with an additional 10% of such issued share capital. This higher maximum of shares that may be held is intended to allow the Board of Management to execute such share repurchase programs in an efficient and expedited manner.

Adoption of this proposal by the General Meeting of Shareholders will replace the current authorization of the Board of Management to repurchase shares which was granted by the General Meeting of Shareholders on May 1, 2014.

## **10. Cancellation of shares**

It is proposed to the General Meeting of Shareholders to cancel any or all common shares in the share capital of the company held or repurchased by the company under the authorization referred to under agenda item 9 resulting in a reduction of the company's issued common shares. The cancellation may be executed in one or more tranches.

The number of shares that will be cancelled (whether or not in a tranche) shall be determined by the Board of Management, with a maximum of the number of shares that may be acquired pursuant to agenda item 9. Pursuant to the relevant statutory provisions, cancellation may not be effected earlier than two months after a resolution to cancel shares is adopted and publicly announced; this will apply for each tranche. The purpose of this proposal is cancellation of common shares held by the company or that have been acquired in accordance with the proposal under agenda item 9, to the extent that such shares shall not be used to cover obligations under share-based remuneration or other obligations, and it includes the common shares already repurchased under the EUR 1.5 billion share buyback program announced on September 17, 2013.

