



Press Information

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Philips to sharpen strategic focus by establishing two market-leading companies in Lighting solutions and in HealthTech, combining Healthcare and Consumer Lifestyle

- *The HealthTech company combines Healthcare and Consumer Lifestyle to capitalize on the convergence of professional health care and consumer end-markets across the health continuum, from healthy living and prevention to diagnosis, treatment, recovery and home care*
- *The Lighting solutions company¹ will be better positioned to build on its existing market leadership in LED lamps, luminaires and connected lighting systems & services and benefit from fundamental lighting industry changes*
- *Both companies will continue to leverage the Philips brand and will be optimally positioned to deliver long-term profitable growth*
- *Philips will start the process to transition the Lighting solutions company into a separate legal structure and consider various options for alternative ownership structures with direct access to capital markets*
- *Philips' adjusted EBITA in the second half of 2014 is expected to be slightly below the adjusted EBITA in the same period last year*
- *Philips 2016 targets: comparable sales growth of 4-6%, EBITA margin of 11-12% and ROIC of more than 14%*

London, UK – At a meeting with investors and analysts in London, Royal Philips (NYSE: PHG, AEX: PHIA) today announces the next strategic step to capitalize on fundamental market changes, by creating two market-leading companies focused on the HealthTech and Lighting solutions opportunities. Both companies will continue to benefit from leveraging the Philips brand. With 2013 sales of EUR 15 billion for Philips' combined HealthTech businesses and EUR 7 billion for the Lighting solutions businesses^[1], each company has the scale to fully leverage Philips' heritage of more than 120 years of innovation.

"I do appreciate the magnitude of the decision we are taking, but the time is right to take the next strategic step for Philips, as we continue on our transformation," said Frans van Houten, Chief Executive Officer of Royal Philips. "To become the global leader in HealthTech and shape the future of the industry, we will combine our vibrant Healthcare and Consumer Lifestyle businesses into one company. At the same time, giving independence to our Lighting solutions business will better enable it to expand its global leadership position and venture into adjacent market opportunities. Both companies 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.”

Royal Philips will capture new HealthTech opportunities by combining Philips’ existing Healthcare and Consumer Lifestyle businesses. Building on this strong foundation, Philips will be able to capitalize on the convergence of professional health care and consumer end-markets across the health continuum, from healthy living and prevention, to diagnosis, treatment, recovery and home care. This is illustrated by the rising engagement of consumers to proactively monitor and manage their health, and by increasing pressures on the healthcare system to create new models of care along the health continuum to deliver better and affordable care. The HealthTech businesses already have leading positions in, for example, oral healthcare, healthcare informatics, ultrasound diagnostics, cardiac care and home healthcare, and serve a total addressable market estimated to exceed EUR 100 billion.

“Philips is uniquely positioned to help reshape and optimize population health management by leveraging big data and delivering care across the health continuum, from healthy living and prevention to diagnosis, minimally invasive treatment, recovery and home care,” continued Frans van Houten. “The combination of our Healthcare and Consumer Lifestyle portfolios and the integration of the data from the connected products on Philips’ cloud-based digital health platform illustrate our opportunity to capture growth in an increasingly connected world, where societies are looking for more effective and lower cost health solutions.”

The Lighting solutions business, already the global leader in lighting and serving a growing market estimated to exceed EUR 60 billion, will be better positioned to capitalize on the fundamental changes taking place in the lighting industry, in which the value is shifting from individual products to systems and services. As a stand-alone company, the Lighting solutions business will benefit from improved speed and agility in its operations to deliver innovation and capital market access to boost growth in connected LED lighting systems and services, more than offsetting the decline of conventional lighting. The creation of the Lighting solutions company follows the recently announced plan to combine Philips’ Lumileds (LED components) and Automotive lighting businesses into a stand-alone lighting components company.

In relation to the company’s strategic repositioning, Philips will start the process to transition its Lighting solutions business into a separate legal structure and consider various options for alternative ownership structures with direct access to capital markets. More information on this will follow in the course of 2015.

Each company will have a dedicated, focused and lean management structure, as a result of the planned integration of the relevant sector and group layers. The new operating structure enables additional cost savings across the enabling functions resulting in EUR 100 million additional savings in 2015 and further EUR 200 million in 2016. Philips expects to incur approx. EUR 50 million additional annual restructuring costs in the period 2014 till 2016.

Second-half 2014 financial outlook

The continued support from cost savings programs and Philips Excellence, a less negative impact from currency headwinds compared to the first half of 2014, and the gradual improvement in performance in Professional Lighting Solutions North America and Consumer Luminaires Europe are positively impacting the second half of 2014. Factors that are negatively impacting the second half of 2014 are additional costs related to the Cleveland facility with an EBITA impact of around EUR 100 million, provision related to certain legal proceedings, and softness in multiple markets. As a result, Philips' adjusted EBITA in the second half of 2014 is expected to be slightly below the adjusted EBITA in the same period last year. In addition, the Healthcare reported EBITA in the second half of 2014 is now expected to be lower than the reported EBITA in the second half of 2013.

2016 financial targets

For 2016, Philips targets a comparable sales growth of 4-6%, an EBITA margin of 11-12% and a ROIC of more than 14%.

Capital Markets Day

Additional details regarding Philips' operational performance, strategic direction, and path-to-value will be presented by Frans van Houten, Ron Wirahadiraksa (Chief Financial Officer), and other senior Philips executives at the Capital Markets Day in London. Presentations in London will begin at 08:25 AM GMT (09:25 AM CET) and can be followed via a live and on-demand webcast. Please click on this link to follow the webcast and download the slides that will be used during the day.

[1] Excluding the Lumileds (LED components) and Automotive lighting businesses

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About Royal Philips:

Royal Philips (NYSE: PHG, AEX: PHIA) is a diversified health and well-being company, focused on improving people's lives through meaningful innovation in the areas of Healthcare, Consumer Lifestyle and Lighting. Headquartered in the Netherlands, Philips posted 2013 sales of EUR 23.3 billion and employs approximately 113,000 employees with sales and services in more than 100 countries. The company is a leader in cardiac care, acute care and home healthcare, energy efficient lighting solutions and new lighting applications, as well as male

shaving and grooming and oral healthcare. News from Philips is located at www.philips.com/newscenter

Forward-looking statements

This release may contain certain forward-looking statements with respect to the financial condition, results of operations and business of Philips and certain of the plans and objectives of Philips with respect to these items. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future and there are many factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements.