

# Agenda

Agenda for the General Meeting of Shareholders of Royal Philips Electronics (Koninklijke Philips Electronics N.V.) to be held at the Hotel Okura Amsterdam, Ferdinand Bolstraat 333, Amsterdam on Thursday, March 27, 2003, beginning at 14.00 hours

## 1. Opening

## 2. Annual Report 2002, distribution to shareholders and discharge

- a. Adoption of the 2002 financial statements
- b. Distribution to shareholders of EUR 0.36 per common share, charged to the other reserves
- c. Discharge of the responsibilities of the members of the Board of Management and of the Supervisory Board

## 3. Language of the Annual Report

Proposal to designate English as the official language for the Annual Report

## 4. Composition of the Supervisory Board

- a. Proposal to re-appoint Mr J.M. Hessels as a member of the Supervisory Board of the Company with effect from March 27, 2003
- b. Proposal to appoint Mr J.M.Thompson as a member of the Supervisory Board of the Company with effect from April 1, 2003
- c. Proposal to appoint Mr C.J.A van Lede as a member of the Supervisory Board of the Company with effect from April 1, 2003

## 5. Long-Term Incentive Plan

Proposal to approve the long-term incentive plan applicable from 2003 onwards to members of the Group Management Committee, Philips Executives and other key employees, including certain high potentials

## 6. Authorization to issue (rights to) shares

Proposal to authorize the Board of Management for a period of 18 months, as of March 27, 2003, as the body which is authorized to decide, with the approval of the Supervisory Board and the Meeting of Priority Shareholders, to issue shares or rights to shares within the limits laid down in the Articles of Association, as well as to restrict or exclude the pre-emption right accruing to shareholders. This authorization will be limited to 10% of the paid-up capital plus 10% of the paid-up capital in connection with or on the occasion of mergers and acquisitions.

## 7. Authorization to acquire shares in the Company

Proposal to authorize the Board of Management for a period of 18 months, as of March 27, 2003, within the limits of the law and the Articles of Association, to acquire 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 Euronext Amsterdam N.V.'s stock market (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 Euronext Amsterdam.

## 8. Record date

Proposal to authorize the Board of Management for a period of 18 months, as of March 27, 2003, to determine within the limits of the law, upon convening a General Meeting of Shareholders of the Company, that those persons who are registered in a register and on a date specified by the Board of Management have to be considered as entitled to participate in and to vote at such meeting.

## 9. Any other business

## 10. Closing

# Explanatory notes to the Agenda

## Agenda item 3: Language of the Annual Report

The proposal to designate English as the official language for the Annual Report with effect from 2003 has been made against the background of the global character of the financial markets in which Philips operates, the international spread of Philips' shareholders and the fact that English is generally accepted as the language of international business. As the primary financial statements are drawn up in accordance with generally accepted accounting principles in the United States (US GAAP) and the preparation of the Annual Report is conducted wholly in English, designating English as the official language for the Annual Report will avoid potential translation and interpretation issues. A Dutch-language summary of the full Annual Report will be provided.

## Agenda item 4: Composition of the Supervisory Board

In accordance with the Articles of Association of the Company, the Supervisory Board, in agreement with the Meeting of Priority Shareholders, has made a binding recommendation regarding nominees for election as members of the Supervisory Board. A list of two nominees for each vacancy and their curriculum vitae will be available for inspection at the offices of the Company and of ABN AMRO Bank N.V. in Amsterdam.

The following persons are proposed for election:

### Mr Hessels

Mr Hessels was born in 1942 and has Dutch nationality. He has been a member of the Supervisory Board of the Company since 1999 and Chairman of the Audit Committee of the Supervisory Board since 2000. Mr Hessels is a former Chief Executive Officer of Royal Vindex KBB and currently Chairman of the Supervisory Board of Euronext and a member of the Supervisory Boards of Heineken, Fortis, Royal Vopak, Barnesandnoble.com, Laurus and Amsterdam Schiphol Group.

### Mr Thompson

Mr Thompson was born in 1942 and has Canadian nationality. He held a variety of management positions at IBM from 1966. Until September 2002 he was Vice-Chairman of the Board of Directors, in which capacity he oversaw IBM's worldwide strategy, with specific focus on developing IBM's leadership in important emerging markets. He is currently a director of Thomson Corporation, Robert Modavi Corporation and TD Bank Financial Group, of which company he will become Chairman of the Board as of April 2003.

## Mr Van Lede

Mr Van Lede was born in 1942 and has Dutch nationality. He is currently Chairman of the Board of Management of Akzo Nobel N.V., which company he joined in 1991. Mr Van Lede will retire from this position on May 1, 2003. He is Chairman of the Supervisory Board of the Dutch Central Bank, a member of the Supervisory Boards of Sara Lee|DE and Heineken, a non-executive board member of Sara Lee Corporation and Scania AB, Vice-Chairman of the Board of Directors of INSEAD, a member of the European Round Table of Industrialists, a member of the Board of Trustees of The Conference Board and a member of the International Council of JP Morgan Chase.

## Agenda item 5: Long-Term Incentive Plan

### Introduction

For many years Philips has operated a long-term incentive plan, which has served to align the interests of the participating employees with the shareholders' interests and to attract, motivate and retain participating employees. Until now the long-term incentive awards have consisted exclusively of stock options, but several developments have led to a search for alternatives.

The extreme volatility of stock markets in recent years could lead to undesirable reward consequences for grantees, both upwards as well as downwards. Prolongation of a long-term incentive plan consisting exclusively of stock options would sustain these potential consequences. Continuation of the old stock option plan would also lead to a considerable future overhang (i.e. the total number of stock options granted by Philips as a percentage of the total number of outstanding shares in the Company).

In view of the above, the Board of Management and Supervisory Board have designed a long-term incentive plan consisting of a mix of restricted shares and stock options. For grantees, this will result in less volatility in their income. For the Company the plan will reduce the impact of future overhang, because restricted shares will partly replace the original number of stock options in each grant (1 restricted share for 3 stock options).

By granting additional (premium) shares after the grantees have held the restricted shares for 3 years after delivery, provided they are still in service, grantees will be more stimulated to focus on the longer term as shareholders of the Company. This is considered important to the success of our efforts to become world-class.

Stock options will remain a part of the long-term incentive plan as the labor market trend towards more extensive use of restricted shares is at an early stage. Philips, as one of the first employers to introduce restricted shares on such a wide scale, will continue to monitor closely the trend towards employee long-term incentive plans during the coming period in order to secure its position in the labor market. Although it is not a legal requirement to request shareholder approval of

the proposed Long-Term Incentive Plan, against the background of the continuous endeavors to improve our corporate governance Philips is now seeking that approval. This plan will be continued after 2003. If substantial changes are to be made, Philips will again seek shareholder approval.

## Features of the Long-Term Incentive Plan

### Type of plan

A single global Long-Term Incentive Plan (LTIP) is proposed. This plan consists of a stock option program and a restricted share program. The value of a grant consists of approximately 50% restricted shares (including premium shares) and 50% stock options. The ratio of the number of restricted shares to the number of stock options in each grant is 1 to 3.

### Eligibility for the Long-Term Incentive Plan

Under the LTIP, members of the Philips Group Management Committee (including the members of the Board of Management), Philips Executives and key employees, including certain high potentials, will be eligible. It is estimated that in 2003 approximately 10,000 to 12,000 employees of the 170,000 Philips employees may participate in the plan.

### Numbers of options/restricted shares

For 2003, the maximum number of Philips securities to be granted under the LTIP is 16 million, to be divided into some 12 million stock options and 4 million restricted shares (in 2002 some 22 million stock options were granted).

### Size of awards

The grant size ranges for long-term incentives vary, depending on the job grade of the participating employee in line with market practice.

### Performance-based awards

The actual number of long-term incentives that will be granted to the eligible employees depends on the performance of the individual employee and on the share performance of Philips.

The responsible management, under the supervision of the Group Management Committee and the Supervisory Board, is involved in assessing the performance of an individual employee, using the Company's People Performance Management process. The individual's performance will influence the number of long-term incentives granted.

The share performance of Philips is measured on the basis of the Philips Total Shareholder Return (TSR) compared to the TSR of a peer group of 24 leading multinational electronics/electrical equipment companies\* over a three-year period. The TSR performance of Philips and the companies in the peer group is divided into quintiles. Based on this relative TSR

\* Electrolux, Emerson Electric, Ericsson, General Electric, Gillette, Hitachi, IBM, Intel, LG Electronics, Lucent, Marconi, Matsushita, Motorola, NEC, Nokia, Philips, Samsung, Sanyo Electric, Sharp, Siemens, Sony, Texas Instruments, Tyco International, Whirlpool

position at the end of December; the Supervisory Board establishes a multiplier which varies from 0.8 – 1.2 and depends on the quintile in which the Philips TSR result falls. For 2003 the Supervisory Board has applied a multiplier of 1.1, based on the Philips share performance over the period from the last working day in December 1999 to December 31, 2002.

Every individual grant, the size of which depends on the job grade and performance of the individual employee, will be multiplied by the outcome of the multiplier:

Quintile in which Philips' TSR performance falls	LTIP multiplier
Top (percentile 80-100)	1.2
Second (percentile 60-80)	1.1
Mid (percentile 40-60)	1.0
Fourth (percentile 20-40)	0.9
Bottom (percentile 0-20)	0.8

#### Granting dates of the plan

There are 4 granting dates per year, which coincide with the publication of the annual report and the quarterly reports. The main grant will be once a year (in 2003: 15 April); other grant dates can be used for one-off situations, for example in the event of initial grants to new employees and additional grants in the event of promotion.

The Long-Term Incentive Plan will also cover the first granting date of the following year; i.e. the date of publication of the annual report (in 2004 this is 10 February). The reason for this is that the cycle of the plan will start from the date of publication of the first quarterly report and end on the date of publication of the annual report in the following year.

#### Restricted shares

Restricted shares are Philips shares that the grantee will receive in three equal instalments in three successive years, provided he/she is still with the Company on the respective delivery dates. If the grantee still holds the shares after three years from the delivery date, Philips will grant 20% additional (premium) shares, provided he/she is still with Philips.

#### Stock options

A stock option is the right to buy a share at a fixed price under the terms and conditions of the applicable stock option program. The grant price will be equal to the price of a listed Philips share at the closing of Euronext Amsterdam on the date of grant. Options can be exercised within ten years from the date of grant, but will not vest during the first three years after the date of grant.

### Global restricted share program

Eligibility	The Philips Group Management Committee, Philips Executives and key employees, including certain high potentials
Restricted share (right)	A restricted share (right) is a right granted to a participant to receive a share subject to the terms of the plan. Shares will be delivered on the delivery date(s).
Delivery date	The Company will deliver 1/3 of the restricted share rights as shares after one year; 1/3 after two years and 1/3 after three years after the date of grant. These are the delivery dates. Participants will only have rights or privileges of shareholders (including the right to receive dividends and to vote) if the shares are actually delivered to the participant in accordance with the plan.
Premium shares	If the grantee still holds the shares after three years from the delivery date, Philips will grant 20% additional (premium) shares, if he/she is still with Philips.
Termination of employment	Granted restricted share rights will be forfeited if the employment is terminated before the delivery date, unless the Supervisory Board or the Board of Management, at its sole discretion, decides otherwise. In the event of, for example, (early) retirement, death, disablement or divestment, rights will not be forfeited.
Changes to the program	In exceptional cases, where the program would lead to highly unfavorable consequences for the employee because of the legislation in a specific country, the Board of Management can decide to adapt the program.

### Global stock option program

Eligibility	The Philips Group Management Committee, Philips Executives and key employees, including certain high potentials
Grant price	The price will be equal to the price of a listed Philips share at the closing of Euronext Amsterdam on the dates of publication of the Company's annual and quarterly results. For 2003 these are 11 February, 15 April, 15 July and 14 October. For 2004 this is 10 February.
Option period	Options can only be exercised within a ten-year period from the date of grant.
Vesting period	Options cannot be exercised in the first three years after the date of grant.
Termination of employment	Stock options granted will be forfeited and become unexercisable as of the date of termination of employment, unless the Supervisory Board or the Board of Management, at its sole discretion, decides otherwise. In the event of, for example, (early) retirement, death, disablement or divestment, stock options can be exercised under changed conditions.
Changes to the program	In exceptional cases, where the program would lead to highly unfavorable consequences for the employee because of the legislation in a specific country, the Board of Management can decide to adapt the program.