

# 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 25, 2004, beginning at 14.00 hours

## 1. Opening

## 2. Annual Report 2003, dividend and discharge

- a. Proposal to adopt the 2003 financial statements
- b. Explanation of corporate governance structure
- c. Explanation of policy on additions to reserves and dividends
- d. Proposal to adopt a dividend of EUR 0.36 per common share
- e. Proposal to discharge the members of the Board of Management in respect of their responsibilities
- f. Proposal to discharge the members of the Supervisory Board in respect of their responsibilities

## 3. Composition of the Supervisory Board

- a. Proposal to re-appoint Mr K.A.L.M. van Miert as a member of the Supervisory Board of the Company with effect from March 25, 2004
- b. Proposal to appoint Mr E. Kist as a member of the Supervisory Board of the Company with effect from July 1, 2004

## 4. Remuneration Board of Management

- a. Proposal to adopt the remuneration policy for the Board of Management
- b. Proposal to allocate a pool of the maximum number of stock options and restricted shares to be granted to members of the Board of Management

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

Proposal to authorize the Board of Management for a period of 18 months, as of March 25, 2004, 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 issued capital plus 10% of the issued capital in connection with or on the occasion of mergers and acquisitions.

## 6. Authorization to acquire shares in the Company

Proposal to authorize the Board of Management for a period of 18 months, as of March 25, 2004, 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.

## 7. Record date

Proposal to authorize the Board of Management for a period of 18 months, as of March 25, 2004, 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.

## 8. Any other business

## 9. Closing

# Explanatory notes to the Agenda

## 2. Annual Report 2003, dividend and discharge

These agenda items include the regular proposals to adopt the 2003 financial statements and a dividend, and to discharge the members of the Board of Management and the Supervisory Board in respect of their responsibilities. Furthermore, and in view of the reporting on the Company's corporate governance structure as described in the Annual Report 2003, this item includes an explanation of the Company's policy on additions to reserves and dividends, as well as an explanation of the corporate governance structure. In line with the recommendation by the Dutch Corporate Governance Committee in its report of December 9, 2003 to discuss the way the Company expects to give effect to this Code as from 2005, the description of the Company's corporate governance structure will be dealt with under these agenda items.

## 3. 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 the curriculum vitae of the nominees 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 Van Miert

Mr Van Miert was born in 1942 and has Belgian nationality. He has been a member of the Supervisory Board of the Company and a member of the Audit Committee of the Supervisory Board since 2001.

Mr Van Miert is a former Vice-President of the European Commission and President of Nyenrode University and is currently a member of the Supervisory Board of Wolters Kluwer, RWE, DHV, Agfa Gevaert, De Persgroep, Fraport, Munich Re and Anglo American.

In view of the knowledge, experience and contribution Mr Van Miert brings to the Supervisory Board and its Audit Committee, the Supervisory Board, in agreement with the Meeting of Priority Shareholders, proposes to re-elect Mr Van Miert.

### Mr Kist

Mr Kist was born in 1944 and has Dutch nationality. He is Chairman of the Executive Board of Amsterdam-based ING Group. Through the years, Mr Kist has held several managerial positions within the Group, including a 3-year term in Washington D.C. as President of ING's US insurance operations. He is a board member of several Dutch organizations such as the Association of Insurers, the Confederation of Dutch

Employers, the Netherlands' Red Cross and the National Fund for Aid to Victims. Internationally, he is a board member of the International Insurance Society in New York, the Peace Palace in The Hague and a member of the Geneva Association. Mr Kist will retire as Chairman of the Executive Board of ING Group as of June 1, 2004.

Besides his managerial business experience, the Supervisory Board, in agreement with the Meeting of Priority Shareholders, bases its recommendation to the General Meeting of Shareholders to appoint Mr Kist as a member of the Supervisory Board on his knowledge and experience of the financial and economic aspects of international business.

## 4. Remuneration Board of Management

### Introduction

For several years, Philips, in its annual reports, has provided extensive details on the remuneration of individual members of the Board of Management. Such remuneration is determined by the Supervisory Board on the advice of the Remuneration Committee. For a description of the ways of working of this Remuneration Committee and the manner in which the remuneration is determined, please refer to the Report of the Supervisory Board (pages 65 - 74 of the Annual Report 2003, Management Report).

Against the background of the continuous endeavors to improve our corporate governance, in continuation of our initiative at the 2003 shareholders meeting to seek approval for the Long-Term Incentive Plan, and in line with expected Dutch legislation and the recommendations of the Dutch Corporate Governance Committee, we now submit our remuneration policy for the members of the Board of Management to the General Meeting of Shareholders for approval. The Supervisory Board, through the Remuneration Committee, implements the remuneration policy and determines – on the basis of this policy and the evaluation of the individual and team performance – the remuneration of individual members of the Board of Management.

### The remuneration policy in general

The objective of the remuneration policy for members of the Board of Management is in line with that for Philips Executives throughout the Philips Group: to focus them on improving the performance of the Company and enhancing the value of the Group, to motivate and retain them, and to be able to attract other highly qualified executives to enter into Philips' service, when required.

In determining the remuneration policy, the Remuneration Committee ensures that a competitive remuneration package for Board-level executive talent is maintained and benchmarked with other multinational companies operating in global markets. The main focus – and the strongest weight in this

benchmark – is on companies with headquarters based in Europe. Total individual compensation is aimed at the median of comparable companies in the general industry. For that purpose, benchmark research is carried out each year on a great number of Dutch companies (among others Shell, Unilever and Akzo Nobel), other European companies (e.g. Siemens, Nokia, STM and Alcatel), and over ten global multinational companies (e.g. IBM, Intel and Motorola) of comparable size, complexity and international scope in the general industry. Additional market data on hundreds of companies in the general industry is provided by a number of independent external expert advisers.

Deviations on elements of this remuneration policy, when deemed necessary in the interests of the Company in extraordinary circumstances, will be disclosed in good time prior to the appointment of the individual.

In order to link executive remuneration to the Company's performance, the remuneration package includes a significant variable part in the form of an annual cash bonus incentive and a long-term incentive in the form of restricted shares and stock options

### **Features of the remuneration for members of the Board of Management**

#### **Base salary**

Base salaries are based on a function-related salary system and are in line with market developments shown by the benchmark research and the additional market studies. When first appointed, an individual Board member's base salary will usually be below the maximum function-related salary. Normally (and subject to the decision by the Supervisory Board) the base salary will reach the maximum function-related salary level over a maximum 3-year period from appointment. The annual review date for the base salary is April 1. Adjustment of individual salaries by the Supervisory Board is influenced by the (annual) adjustment, if any, of the function-related salary levels and the progress to the (maximum) function-related salary level if this level has not yet been reached. The individual salary levels are shown in the table on page 114 of the separate booklet entitled 'Financial Statements and Analysis'.

#### **Annual Incentive (bonus)**

Each year, a variable cash incentive (Annual Incentive) can be earned, based on factors such as the achievement of specific targets. These targets are set at a challenging level, taking into account general trends in the relevant markets, and are partly (as from 2004: 80%) linked to the financial results of the Philips Group and partly (as from 2004: 20%) to the set team targets based on the areas of responsibility monitored by the individual members of the Board of Management. The Annual Incentive criteria are 1) the financial indicators of the Company: net income and cash flow, and 2) team targets. The related targets for the members of the Board of Management are determined annually at the beginning of

the year by the Remuneration Committee on behalf of the Supervisory Board and hence are linked to the Company's financial performance, as well as to the team targets. The financial targets, based on US GAAP financial measures, pursue value creation as the main business objective

The on-target Annual Incentive percentage is set at 60% of base salary, and the maximum Annual Incentive achievable is 90% of the annual base salary. In exceptional circumstances, the Remuneration Committee may decide to increase this percentage by 20% (resulting in an Annual Incentive percentage of 108%). The Annual Incentive pay-out in any year relates to the achievements of the preceding financial year versus agreed targets.

#### Long-Term Incentive Plan (LTIP)

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. In 2003, the General Meeting of Shareholders approved the current Long-Term Incentive Plan, consisting of a mix of restricted shares and stock options, which will be continued in 2004 and beyond. This approval of the shareholders meeting included the approval of a pool of up to 12 million stock options and 4 million restricted shares based on a Philips Total Shareholder Return (TSR) multiplier – determined from year to year and explained in the 2003 shareholders meeting – of 1.1 (excluding 20% premium shares). This pool may be granted yearly to the members of the Board of Management, the other members of the Group Management Committee, Executives and other key employees. Grants can also 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 Supervisory Board now proposes to the General Meeting of Shareholders to allocate 2.5% of the annual pool as a maximum number to be granted to members and, if applicable, to future new members of the Board of Management on an annual basis. The actual number of stock options and restricted shares that will be granted to the members of the Board of Management will be determined by the Supervisory Board. This number depends on the achievement of the set team targets based on the areas of responsibility monitored by the individual members of the Board of Management and on the share performance of Philips at grant date relative to a peer group of companies, or on the circumstances of the case in the event of new members of the Board of Management or in the event of promotion. In 2003 a total of 167,220 stock options and 55,740 restricted shares were granted, and in 2004 a total of 152,019 stock options and 50,673 restricted shares will be granted to the current members of the Board of Management.

### Pensions

The final-pay pensions of members of the Board of Management are funded by the Stichting Philips Pensioenfond (the 'Philips Pension Fund') of the Netherlands. The conditions contained in the by-laws and the regulations of the Philips Pension Fund apply, with the proviso that the pensionable age – from the point of view of pension accrual – has been set at 60. The final-pay pension plan equals that of other Dutch senior Philips Executives. If the employment agreement of members of the Board of Management continues after the age of 60, the pension payments are postponed accordingly, as provided for in the Philips Pension Fund by-laws and regulations. As the retirement age is different from the date of commencement of the state pension, the pension scheme provides for a bridging payment in order to compensate for the adverse effect. The Board of Management members' own contribution comprises 4% of EUR 63,024 (annually set by the pension fund) and 6% of the difference between the gross pensionable salary minus a deductible part (the so-called "franchise") and the above-mentioned amount of EUR 63,024. A different arrangement resulting in additional pension benefits may apply in some cases as a result of past policies. A review of the pension plan has been scheduled for 2004.

### Additional arrangements

In addition to the main conditions of employment, a number of additional arrangements apply to members of the Board of Management. These additional arrangements, such as expense and relocation allowances, medical insurance, accident insurance and company car arrangements, are broadly in line with those for Philips Executives in the Netherlands. In the event of disablement, members of the Board of Management are entitled to benefits in line with those for other Philips Executives in the Netherlands. They also benefit from coverage under the Company's Directors and Officers (D&O) policies. The Company's policy forbids personal loans to members of the Board of Management.

### Contracts of employment

Members of the Board of Management have a contract of employment with the Company. The form of contract used for members of the Board of Management is in line with the standard form used for other Philips Executives. As of 1 August 2003 for newly appointed members of the Board of Management the term of the contract is set at 4 years, and if the Company terminates the contract of employment the maximum severance payment is in principle limited to one year of base salary in line with the Dutch Corporate Governance Code. The main elements of the contract of a newly appointed member of the Board of Management shall be made public after it has become effective, but at the latest prior to the appointment.