
Long-Term Incentive Plan

Introduction

Please find below the Long-Term Incentive Plan (LTIP), approved by the 2003 General Meeting of Shareholders.

Features of the Long-Term Incentive Plan

Type of plan

A single global LTIP has been introduced. 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.

Numbers of options/restricted shares

The maximum number of Philips securities to be granted under the LTIP is 16 million, to be divided into up to 12 million stock options and 4 million restricted shares.

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 [1] 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 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.

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; 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 LTIP will also cover the first granting date of the following year, i.e. the date of publication of the Annual Report. 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.

[1] 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

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.
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.
