

Rules of Conduct

Philips' Rules of Conduct with respect to Inside Information (2005)

PHILIPS

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Foreword

As part of its policies on corporate governance Philips is firmly committed to principles of integrity and proper transparency and disclosure. Philips aims to prevent all forms of misappropriation by its officers or employees of non-public information obtained in connection with work for Philips. This applies to trading in Philips securities while being in possession of non-public price-sensitive information. But the principle of integrity is much wider. It also covers other forms of misappropriation of non-public information obtained in connection with work for Philips, e.g. information in respect of real-estate development plans or in respect of shares in companies which are or may become long-term cooperation partners of Philips.

The rules set out in this document were adopted by the Board of Management to reaffirm and bring up to date Philips' longstanding policies in respect of preventing officers and employees from trading in Philips securities while being in possession of non-public price-sensitive information. The present rules reflect recent changes in European and Netherlands' law. Philips welcomes its officers and employees having ownership of Philips securities, but such investments should be made on a long-term basis and in strict observance of the principles and rules referred to.

It must also be pointed out that the rules following hereafter are not the only rules which may become applicable in the case of trading by Philips officers and employees in Philips securities. Statutory rules and penal sanctions under Netherlands' and/or other national or international law may also become applicable. Full adherence to all principles and rules laid down in this document is required.

Amsterdam, October, 2005
Gerard Kleisterlee
President/CEO of the Board of Management

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Chapter 1

General Rules applicable to all Philips employees

1. Prohibitions for all Philips employees

1. All Philips employees who possess Inside Information are prohibited from using that information by trading, directly or indirectly, in Philips Securities.
2. All Philips employees are prohibited from disclosing any Inside Information to third parties other than in the ordinary execution of their professional or functional tasks, or from recommending trading, on the basis of Inside Information, in Philips Securities.

2. Explanation of terms

1. **“Trading”** means any transaction in Philips Securities, including the exercise of stock options and the conversion or repayment of convertible personnel debentures, except the acceptance of Philips Securities under a Philips Long-Term Incentive Plan.
2. **“Philips employees”** are employees of companies belonging to the Philips Group world-wide.
3. **“Inside Information”** is knowledge of information of a precise nature concerning, directly or indirectly, Philips or the trading in Philips Securities which has not been made public and which, if disclosed, could have a significant influence on the market price of Philips Securities.

4. **“Philips Securities”** are:
 - a. shares in Philips, rights to those shares (e.g. convertible personnel debentures, warrants, stock options, restricted share rights and other derivative securities), share swaps and similar agreements;
 - b. other securities issued by Philips which are admitted to trading on a regulated market or for which a request for admission to trading on such a market has been made, and
 - c. securities issued by Philips or others, whose value is determined in whole or in part by the value of securities referred to above.
5. **“Compliance Officer”** means the officer or officers so designated by the Board of Management.
6. **“Insiders”** shall have the meaning set forth in paragraph 1 of Chapter 2.
7. **“Qualified Insiders”** shall have the meaning set forth in paragraph 1 of Chapter 3.
8. **“Special Insiders”** are all Philips employees who are placed on a special list of insiders as referred to in paragraph 1 sub g of Chapter 4. The General Rules of Chapter 1 are applicable to Special Insiders.
9. **“Heads of Corporate Staff”** are the heads of certain corporate staff departments within the Philips Group so designated by the Board of Management.
10. **“Philips”** is Koninklijke Philips Electronics N.V. (Royal Philips Electronics).

3. Exemptions

The following transactions are exempt from the prohibition to trade Philips Securities as referred to in Rule 1.1:

1. The conversion of convertible personnel debentures and the exercise of stock options under a Philips Long-Term Incentive Plan, as well as the subsequent sale of Philips shares so acquired, provided that (a) such conversion, exercise and subsequent sale, if any, takes place within five business days prior to the expiration date or on the expiration date of the conversion or exercise rights and (b) the Compliance Officer has been notified in writing of such intended subsequent sale of shares, if any, four months prior to the expiration date.

2. Transactions to meet any enforceable obligation to acquire or dispose of Philips Securities, if such obligation already existed at the moment that the Philips employee acquired Inside Information.
3. Transactions executed by an independent portfolio manager having full and exclusive discretionary power to take and execute any investment decision for the account of a Philips employee, provided that the portfolio manager and the terms of reference of his assignment have been approved in writing by the Compliance Officer.

Chapter 2

Additional Rules for Insiders

1. Insiders

Insiders are all Philips employees designated as such by or on behalf of the Board of Management because they may have knowledge of Inside Information on a regular basis. The Compliance Officer will keep a list of the persons so designated and will duly inform the persons concerned.

2. Prohibitions for Insiders

In addition to and irrespective of the General Rules in Chapter 1, Insiders are prohibited from trading, directly or indirectly:

- in call options, put options, warrants and similar derivatives of Philips Securities listed on a stock exchange at any time;
- and
- in other Philips Securities on any dates other than during the period of ten business days as from the publication of Philips' annual or quarterly figures.

3. Compulsory notification by Insiders

All transactions in Philips Securities by Insiders shall be reported within ten calendar days to the Compliance Officer. Any conversion of personnel debentures, acquisition of Philips shares pursuant to the release of restricted share rights or exercise of stock options shall be reported on their behalf by Philips to the Compliance Officer. Insiders must provide the Compliance Officer with a signed statement of their holdings of Philips Securities and of all transactions in Philips Securities in the preceding year. For that purpose, the Compliance Officer will send each Insider a draft statement to be completed and signed.

4. Exemptions

In addition to and irrespective of the exemptions in Chapter 1, Rule 3.3, Insiders are exempt from the prohibitions, restrictions and notification requirements of this Chapter 2 if and as long as their interest in Philips Securities is managed by an independent portfolio manager as referred to in Chapter 1, Rule 3.3.

5. Termination of function

The additional rules for Insiders will remain applicable to these persons during a period of four months after the termination of their function. Under specific circumstances, this rule may be waived by the Compliance Officer.

Chapter 3

Additional Rules for Qualified Insiders

1. Qualified Insiders

Qualified Insiders are all members of the Group Management Committee, the Supervisory Board, the Heads of Corporate Staff and such persons as designated by the Board of Management. The Compliance Officer will keep a list of the persons so designated and will duly inform the persons concerned.

2. Prohibitions for Qualified Insiders

In addition to and irrespective of the General Rules in Chapter 1, Qualified Insiders are prohibited from trading, directly or indirectly:

- in call options, put options, warrants, and derivatives of Philips Securities listed on a stock exchange at any time;
- and
- in other Philips Securities on any dates other than during the period of ten business days as from the publication of Philips' annual or quarterly figures.

3. Compulsory notification by Qualified Insiders

1. Qualified Insiders may only proceed with a transaction in Philips Securities after the person concerned has notified the Chief Executive Officer and the Chief Financial Officer of Philips - via the Compliance Officer - of his or her intention to do so and has received written acknowledgement of receipt of this notification. If such intended transaction has not been executed within 10 business days after receipt of the written acknowledgement, the afore-mentioned notification will no longer be valid and, before any transaction may be executed, the Chief Executive Officer and the Chief Financial Officer must again be notified of such an intention in the manner described above.

2. All transactions in Philips Securities by Qualified Insiders shall be reported promptly to the Compliance Officer. Any conversion of personnel debentures, acquisition of Philips shares pursuant to the release of restricted share rights or exercise of stock options shall be reported on their behalf by Philips to the Compliance Officer. If and insofar as the Compliance Officer receives notification of transactions in Philips Securities, notification of which also needs to be given to the Netherlands Authority for the Financial Markets (AFM), the Compliance Officer will notify the AFM of these transactions.
3. Qualified Insiders must provide the Compliance Officer with a signed statement of their holdings of Philips Securities and of all transactions in Philips Securities in the preceding year. For that purpose, the Compliance Officer will send each Qualified Insider a draft statement to be completed and signed.

4. Reverse transactions

Qualified Insiders are prohibited from purchasing and selling Philips Securities, or selling and purchasing Philips Securities, within a six-month period. The subsequent sale of Philips shares acquired upon the exercise of stock options, release of restricted share rights or the conversion of convertible personnel debentures is exempt from this prohibition.

5. Exemptions

In addition to and irrespective of the exemptions in Chapter 1, Rule 3.3, Qualified Insiders are exempt from the prohibitions, restrictions and notification requirements of this Chapter 3 if and as long as their interest in Philips Securities is managed by an independent portfolio manager as referred to in Chapter 1, Rule 3.3.

6. Termination of function

The additional rules for Qualified Insiders will remain applicable to these persons during a period of four months after the termination of their function. Under specific circumstances, this rule may be waived by the Compliance Officer.

Chapter 4

The Compliance Officer and the Review Committee (supervision and sanctions)

1. Compliance Officer's tasks

The Compliance Officer's tasks are:

- a. to keep a list of Insiders and Qualified Insiders and to duly inform the persons concerned as referred to in paragraph 1 of Chapters 2 and 3;
- b. to establish, in consultation with the Board of Management, "Blocked Periods" for the purpose of certain internal rules and/or regulations or any other purpose;
- c. to register any transactions in and any holdings of Philips Securities reported to him by Insiders and Qualified Insiders as referred to in paragraph 3 of Chapters 2 and 3;
- d. to notify the Netherlands Authority for the Financial Markets (AFM) of transactions in Philips Securities by Qualified Insiders as referred to in paragraph 3 of Chapter 3, if and insofar as required by law;
- e. to report quarterly to the President, Chief Financial Officer and the Chairman of the Supervisory Board on all transactions of Insiders and Qualified Insiders as referred to in paragraph 3 of Chapters 2 and 3. This report is available for inspection by any member of the Board of Management or Supervisory Board;
- f. to decide upon a written request for approval of a portfolio manager and the terms of reference of his assignment as referred to in paragraph 3 of Chapter 1; and
- g. to keep special lists of persons who on an incidental basis may have knowledge of Inside Information, and to designate persons to be included on such lists and update such lists.

2. Composition of Review Committee

There is a Review Committee consisting of the Legal Advisor, the Compliance Officer and the Manager of Corporate Security. The Review Committee appoints one or two secretaries to be approved by the Board of Management.

3. Review Committee's tasks

The Review Committee's tasks are:

- a. to promote compliance with these Rules;
- b. to recommend to the President measures against persons who have infringed these Rules; and
- c. to propose any changes to these Rules.

4. Review Committee procedure

1. If the data on transactions by Insiders or Qualified Insiders or the absence thereof give grounds to presume that these Rules have been infringed, the secretary of the Review Committee will obtain information and/or documents containing data relevant to an assessment of the infringement.
2. The secretary of the Review Committee will inform the person in question regarding the presumed infringement and invite him or her to provide the Review Committee with an explanation and/or all documentation that such person deems relevant to the assessment of the case by the Review Committee.
3. If the Review Committee, having reviewed all data and the response of the person involved, is of the opinion that these Rules have been infringed, it may resolve the issue itself. In serious cases, however, it will notify the President of the infringement and recommend possible measures against the person concerned.
4. The Review Committee will report to the President each year on its work and on all matters which it feels should be brought to the President's knowledge.

5. Possible sanctions

Possible measures which may be taken against a person who has infringed these Rules are, depending on the seriousness of the infringement: a warning, a serious warning, a formal reprimand, the withdrawal of rights arising from convertible personnel debentures, restricted share rights and stock options, the transfer to Philips of the benefit that has been gained, suspension, dismissal, and reporting of the infringement to the Public Prosecutions Department and the Netherlands Authority for the Financial Markets (AFM)

6. Requests from outside for information

Requests from the Amsterdam or any other stock exchange, the Netherlands Authority for the Financial Markets (AFM), the Economic Surveillance Department (ECD) or the Public Prosecutions Department for information or for cooperation in a criminal enquiry will be dealt with by the Compliance Officer in consultation with the Review Committee.

7. Preservation of secrecy by the Compliance Officer and members of the Review Committee

Everyone who is involved in the implementation of these Rules and thereby has access to data whose confidential nature he/she knows or may reasonably be expected to presume is obliged to preserve the secrecy of those data, save insofar as any legal obligation or regulation in these Rules obliges him/her to disclose confidential information.

