

Priority Shares

For a description of Priority Shares, see pages 107 and 158 of the 2003 Annual Report – Financial Statements and Analysis (“Stockholders’ equity” and “Meeting of Priority Shareholders and the Dr. A.F. Philips-Stichting”), which are incorporated herein by reference.

Preference shares

For a description of Preference Shares, see page 107 and pages 158 and 159 of the 2003 Annual Report – Financial Statements and Analysis (“Stockholders’ equity” and “Preference shares and the Stichting Preferente Aandelen Philips”), which is incorporated herein by reference.

Material contracts

For a description of the material provisions of the employment agreements with members of the Board of Management, refer to Item 6 “Directors, senior management and employees – Board practices”.

The terms and conditions of the employment agreements entered into by members of the Board of Management, are filed herewith as Exhibit 4.

Exchange controls

There are currently no limitations, either under the laws of the Netherlands or in the Articles of Association of the Company, to the rights of non-residents to hold or vote Common Shares of the Company. Cash dividends payable in Euros on Netherlands registered shares and bearer shares may be officially transferred from the Netherlands and converted into any other currency without Dutch legal restrictions, except that for statistical purposes such payments and transactions must be reported to the Dutch Central Bank, and furthermore, no payments, including dividend payments, may be made to jurisdictions subject to sanctions adopted by the government of the Netherlands and implementing resolutions of the Security Council of the United Nations.

The Articles of Association of the Company provide that cash distributions on Shares of New York Registry shall be paid in US dollars, converted at the rate of exchange on the stock market of Euronext Amsterdam at the close of business on the day fixed and announced for that purpose by the Board of Management in accordance with the Company’s Articles of Association.

Taxation

The statements below are only a summary of the present Netherlands tax laws and the Tax Convention of December 18, 1992 between the United States of America and the Kingdom of the Netherlands (the US Tax Treaty) and are not to be read as extending by implication to matters not specifically referred to herein. As to individual tax consequences, investors in the Common Shares should consult their own tax advisors.

Withholding tax

In general, a distribution to shareholders by a company resident in the Netherlands (such as the Company) is subject to a withholding tax imposed by the Netherlands at a rate of 25%. Distributions paid out of the Company’s paid-in share premium recognized for Netherlands tax purposes are not subject to the above mentioned withholding tax. Distributions in capital stock paid out of the Company’s retained earnings are subject to dividend withholding tax on the nominal value of the shares issued.

Pursuant to the provisions of the US Tax Treaty, dividends paid by the Company to a beneficial owner of shares (as defined in Dutch Dividend Tax Act) and who is a resident of the United States (as defined in the US Tax Treaty), are generally eligible for a reduction in the rate of Dutch withholding tax to 15%, unless (i) the beneficial owner of the dividends carries on business in the Netherlands through a permanent establishment, or performs independent personal services in the Netherlands from a fixed base, and the Common Shares form part of the business property of such permanent establishment or pertain to such fixed base, or (ii) the beneficial owner of the dividends is not entitled to the benefits of the US Tax Treaty under the “treaty-shopping” provisions thereof. Subject to certain conditions and limitations, the Dutch withholding tax will be treated as a foreign income tax that is eligible for credit against the shareholder’s US income taxes. Dividends paid to qualifying exempt US pension trusts and qualifying exempt US organizations are exempt from Dutch withholding tax under the US Tax Treaty.

However, for qualifying exempt US organizations no exemption at source upon payment of the dividend can be applied for; such exempt US organizations should apply for a refund of the 25% withholding tax.

Dividends

The gross amount (including the withheld amount) of dividends distributed on Common Shares out of current or accumulated earnings and profits will be dividend income to the US shareholder and subject to United States federal income taxation. Dividends paid with respect to shares will generally be “qualified dividend income”. If you are a noncorporate US shareholder, qualified dividend income paid to you in taxable years beginning after December 31, 2002, and before January 1, 2009 will be taxable to you at a maximum tax rate of 15% provided that you hold the shares for more than 60 days during the 120-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. On February 19, 2004, the IRS announced that it will permit taxpayers to apply a proposed legislative change to the holding period requirement described in the preceding sentence as if such change were already effective. This legislative “technical correction” would change the minimum required holding period, retroactive to January 1, 2003, to more than 60 days during the 121-day period beginning 60 days before the ex-dividend date. The dividend will not be eligible for the dividends received deduction generally allowed to United States corporations in respect to dividends received from other United States corporations.

Capital gains

Capital gains upon the sale or exchange of Common Shares by a non-resident individual or by a non-resident corporation of the Netherlands are exempt from Dutch income tax, corporation tax or withholding tax, unless (i) such gains are effectively connected with a permanent establishment in the Netherlands of the shareholders’ trade or business or (ii) are derived from a direct, indirect or deemed substantial participation in the share capital of a company (such substantial participation not being a business asset).

In general, an individual has a substantial participation if he holds either directly or indirectly and either independently or jointly with his spouse or steady partner, at least 5% of the total issued share capital or particular class of shares of a company. For determining a substantial participation, other shares held by close relatives are taken into account. The same applies to options to buy shares. A deemed substantial participation amongst others exists if (part of) a substantial participation has been disposed of, or is deemed to have been disposed of, on a non-recognition basis. Under the US Tax Treaty, however, the Netherlands may only tax a capital gain that is derived by an alienator who is an US resident under the US Tax Treaty and is not disqualified from treaty benefits under the treaty-shopping rules from a substantial participation and that is not effectively connected with a permanent establishment in the Netherlands if the alienator has been a resident of the Netherlands at any time during the five-year period preceding the alienation, and owned at the time of alienation either alone or together with his relatives, at least 25% of any class of shares.

Capital gain of noncorporate US shareholder that is recognized after May 6, 2003, and before January 1, 2009, is generally taxed at a maximum rate of 15% where the shareholder has a holding period greater than one year.

Net wealth tax

As of January 1, 2001, the net wealth tax is abolished in the Netherlands.

Estate and gift taxes

No estate, inheritance or gift taxes are imposed by the Netherlands on the transfer of Common Shares if, at the time of the death of the shareholder or the transfer of the Common Shares (as the case may be), such shareholder or transferor is not a resident of the Netherlands, unless such Common Shares are attributable to a permanent establishment or permanent representative of the shareholder in the Netherlands.

Inheritance or gift taxes (as the case may be) are due, however, if such shareholder or transferor:

- (a) has Dutch nationality and has been a resident of the Netherlands at any time during the ten years preceding the time of the death or transfer; or
- (b) has no Dutch nationality but has been a resident of the Netherlands at any time during the twelve months preceding the time of transfer (for Netherlands gift taxes only).