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## Employment contract between the Company and Mr F.A. van Houten

The following contract is the employment contract of Mr F.A. van Houten, containing the terms of employment and other arrangements that apply with effect from March 31, 2011 as President/CEO and member of the Board of Management of Royal Philips Electronics (“Koninklijke Philips Electronics N.V.”, hereinafter also referred to as “the Company”).

### 1. Continuation of employment

You are appointed as President and Chief Executive Officer, and your employment with Royal Philips Electronics will be continued after March 31, 2011 subject to appointment by the General Meeting of Shareholders of the Company.

The Supervisory Board undertakes to submit to the General Meeting of Shareholders to be held on March 31, 2011 a proposal for your appointment as President and Chief Executive Officer of Royal Philips Electronics as of March 31, 2011.

In the event of such appointment, the terms and conditions stated in this letter agreement and its annexes replace all terms and conditions laid down in your previous employment agreement and all oral and written understandings reached with you and any company belonging to the Philips Group.

### 2. Duration of employment

- A. The contract of employment (hereinafter referred to as the “Contract”) with the Company connected with you being President and Chief Executive Officer shall be entered into for a period of four years commencing on March 31, 2011 and shall terminate, without any notice being required, at the end of the month in which the General Meeting of Shareholders will be held in 2015 (“hereinafter referred to as “End Date”).
- B. No later than six months before the End Date the parties will discuss a possible extension of the Contract. The parties agree that the Company at least every four years will review whether your position, and subsequent Contract, will be continued. The Contract will ultimately be terminated at the first day of the month following the month in which you have reached the age of 62.5.
- C. Both parties shall have the right to terminate this agreement before the End Date or before any later contract expiration date against the end of a calendar month. In this respect, you will adhere to a written notice period of three months and the Company will give no less than six months prior written notice.
- D. If the Contract is terminated at the request of the Company or by mutual agreement before the End Date, or before any other expiration date if the Contract has been renewed, other than for a compelling reason (“dringende reden”), within the meaning of Dutch labor law, we agree with you already now that in that case you shall be entitled

to an once-only payment by way of compensation in the amount of one time your annual salary as mentioned in paragraph 3. You shall not be entitled to such payment if the Contract is terminated immediately following a period in which the Company made industrial disability payments to you under paragraph 12.

- E. In case of termination of the Contract you will resign ultimately per the effective date of such termination as President and Chief Executive Officer.

### **3. Salary**

Your annual salary as of April 1, 2011 shall amount to EUR 1,100,000 (gross), which amount includes mandatory holiday allowances, to be paid in twelve monthly instalments.

Annual review and subsequent upwards adjustment, if any, of your annual salary, will be determined at the discretion of the Supervisory Board of the Company on the advice of the Remuneration Committee of the Supervisory Board (hereinafter also referred to as “the Remuneration Committee”). You shall be informed in writing, on behalf of the Supervisory Board, of any salary increases awarded to you in this way. Only salary increases determined and approved by the Supervisory Board will replace the salary amount mentioned above.

### **4. Annual Incentive**

In addition to the salary referred to under paragraph 3, you shall be eligible each year for an annual incentive. This incentive shall be determined annually by the Supervisory Board on the advice of the Remuneration Committee. The annual incentive to be awarded relates to the preceding financial year and is based on criteria to be determined annually. You shall be notified in writing of these annual incentive targets.

The on-target (= 100% score) annual incentive amount to be realized by you is currently set by the Supervisory Board at 80% of your annual salary as mentioned under paragraph 3. It can become 160% of your annual salary if the stretched targets are realized (= 200% score).

### **5. Long Term Incentive Plan**

The Supervisory Board, within the framework approved by the Company’s General Meeting of Shareholders and on the advice of the Remuneration Committee, can decide by discretion to grant Royal Philips Electronics restricted share rights, stock options and/or other equity related incentives to members of the Board of Management (including the President and Chief Executive Officer) on a year-to-year basis. The conditions of such incentives, if any, are also approved by the General Meeting of Shareholders and may be changed on a yearly basis.

As President and Chief Executive Officer you are in principle eligible to participate in such plan.

In April 2011 you will be eligible for a grant of restricted share rights and stock options according to the level applicable to the President and Chief Executive Officer.

For the period you will be President and Chief Executive Officer you will not be eligible to participate in any other Philips share purchase or equity related scheme than approved by the Supervisory Board for the Board of Management.

To improve Philips’ Corporate Governance and to more align the interests of senior Philips Executives with the interests of the shareholders, you are required to hold 36,000 Philips shares by December 31, 2018, of which 50% should be held by December 31, 2015.

For further details you are referred to the Philips Share Ownership Guidelines on the attached CD-rom.

## 6. Claw back

If any of the Company's financial statements are (required to be) restated, resulting from errors, omission, or fraud, the Supervisory Board may (in its sole discretion, but acting in good faith), direct that the Company recover all or a portion of any Annual Incentive made to you with respect to any fiscal year of the Company the financial results of which are negatively affected by such statement. This right also applies in other cases of any Annual Incentive having been made to you on the basis of incorrect financial or other data.

If equity-related incentive has been awarded to you on the basis of incorrect financial or other data, the Supervisory Board may, in its sole discretion but acting in good faith, resolve to recoup some or all of such incentive compensation in all appropriate cases (taking into account all relevant factors, including whether the assertion of a recoupment claim may in its opinion prejudice the interests of the Company in any related proceeding or investigation), granted to you, if and to the extent that:

- the size of the equity-related incentive was calculated based upon the achievement of certain financial or other data that were subsequently reduced or changed due to a correction thereof resulting from errors, omissions, fraud or otherwise, and
- the size of such incentive that would have granted to you, had the financial or other data been properly reported would have been lower than the size actually granted.

## 7. Pension Rights

You are entitled to a pension in conformity with the conditions contained in the Philips Executives Pension Plan of "Stichting Philips Pensioenfonds". The pension plan is a combination of average pay (annual accrual percentage: currently 1.25%) and defined contribution (employer contribution: currently 20%). The target retirement age under this plan is 62.5. No employee contribution is required.

The pension base is your annual gross salary, as mentioned in paragraph 3 hereof, minus the offset (so-called "franchise").

For further information about the actual scheme, you are referred to the attached CD-rom. When this scheme will be changed in future, the new version is also applicable to you.

## 8. Company Car

You are entitled to a leased company car according to the conditions valid for Philips Executives. In principle, a personal contribution is not required if the monthly lease price does not exceed the standard lease price at the moment of ordering of the lease car. In case the monthly lease price exceeds the standard lease price, a personal contribution for the private use of the car has to be paid. You are not entitled to conclude a new lease agreement before the expiration date of the present lease agreement.

## 9. Allowances

- For business entertainment expenses  
With respect to your position within the Company you are be eligible for a fixed allowance for business entertainment expenses. Currently the tax-free allowance in your case is EUR 29,040 per annum. This sum is meant to enable you amongst others to cover the expenses you incur in entertaining business guests on behalf of the Company.
  - For the use of a home for representative purposes  
Members of the Board of Management are eligible for a fixed allowance of EUR 6,800
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tax-free to cover the use of their own home for representative purposes.

The above-mentioned allowances will be paid at the end of each quarter.

Parties agree that changes in fiscal legislation could make it necessary or desirable for the Company to change the above arrangements.

## **10. Senior Executive Ambassador Program**

You are invited to participate in the Senior Executive Ambassador Program to use Philips products that will be made available to you at your home.

## **11. Insurances**

- Accident insurance  
You will be covered by a 24-hours accident insurance policy. The maximum sum insured is three times your gross annual salary as mentioned under paragraph 3. We refer you to the chapter benefits on the attached CD-rom.
- Directors and Officers Liability Insurance  
You will be covered by a Directors and Officers liability insurance with regard to “wrongful acts”. As of the date hereof, under the terms of the policy, “wrongful acts” include any actual or alleged breach of trust, breach of duty, neglect, error, misstatement, misleading statement, omission or other act wrongfully committed by the Assured or any matter claimed against them solely by reason of their being an “Officer”.

## **12. Industrial disability**

For a maximum period of three years from the start of disablement, but at the very latest up to the end of the Contract, the balance between your annual salary, as stated in paragraph 3, at the start of the total disability and the aggregate amount of any statutory allowance distributed because of your total disablement, will - subject to your compliance with the Company’s directives - be paid by the Company.

The Company shall not be bound by the aforesaid obligation if you have a claim against third parties in respect of your disablement. Upon surrender to the Company of such claim - in so far as it relates to loss of salary - an amount equal to the aforesaid balance shall - but for no longer than the period stated in the foregoing paragraph - be paid by the Company in advance.

However, should this policy change, the new policy will apply in full to you. No concessions will be made if the new policy is less favorable than the present policy.

## **13. Holidays**

The holiday entitlement for members of the Board of Management is 25 working days per calendar year.

## **14. General Terms of Employment of Philips**

The chapter contractual rules of conduct on the attached CD-rom contains the General Terms of Employment of the Philips Group, which also apply to you.

As evidence of your approval of the contents of the General Terms of Employment, a hard copy of these terms will be signed by you.

## **15. Philips rules about corporate governance and corporate citizenship**

Underpinning Philips’ commitment to responsible corporate citizenship, integrity and transparency, the following terms and principles have been set.

- General Business Principles and General Business Principles Directives
- Financial Code of Ethics
- Purchasing Code of Ethics
- Rules of Conduct with respect to Inside Information
- Rules governing Internal and External directorships.

They apply equally to corporate actions and to the behavior of members of the Board of Management in conducting Philips' business. By signing the contract, you declare to act according to the rules mentioned above. The Company may alter the rules unilaterally. For more information on the terms and principles, we refer you to the current Philips rules as mentioned above on the enclosed CD-rom. Any changes will be available on the corporate website.

The Compliance Officer with respect to Inside Information will contact you, as you are designated as "Qualified Insider".

## **16. Personnel Registration**

Your data will be recorded in one or more personnel registration systems.

## **17. Applicable law**

All terms of the employment and this Contract are governed by the laws of the Netherlands.

Parties agree that all the above compensation elements are subject to the corporate governance framework applicable to the Chairman of the Board of Management and can be changed, abolished or replaced by other elements at any time at the sole discretion of the Supervisory Board of the Company.

If you agree to these proposals, you are requested to sign both the enclosed copy of this letter and the General Terms of Employment of Philips and return them to the Secretary of the Remuneration Committee, Royal Philips Electronics, P.O. Box 77900, 1070 MX Amsterdam, the Netherlands.

Needless to say, you may contact the Secretary of the Remuneration Committee if you require further information about these arrangements.

Looking forward to receiving your reply, I remain

With kind regards,

J-M Hessels  
Chairman Supervisory Board

*Agreed and signed:*

F.A. van Houten

*Annexes:*

- CD-rom
  - *General Terms of Employment of Philips*
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