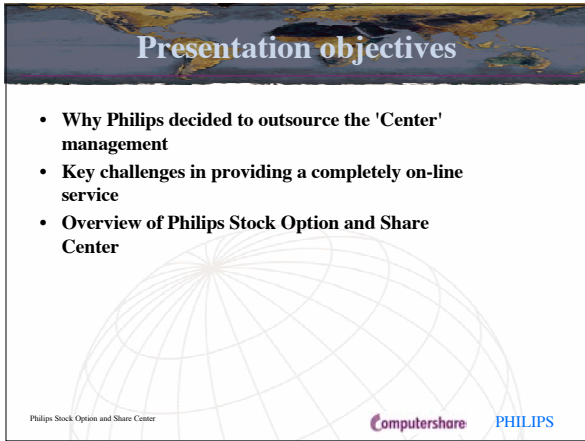




Philips Stock Option and Share Center

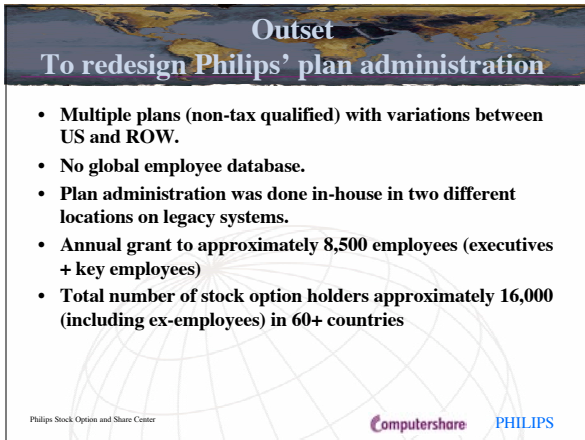
Philips	Computershare
Cynthia Albanese	Rashree Chhatrishia
Senior Compensation Consultant	Share Plans Consultant EMEA



Presentation objectives



- Why Philips decided to outsource the 'Center' management
- Key challenges in providing a completely on-line service
- Overview of Philips Stock Option and Share Center

Philips Stock Option and Share Center  



Outset
To redesign Philips' plan administration

- Multiple plans (non-tax qualified) with variations between US and ROW.
- No global employee database.
- Plan administration was done in-house in two different locations on legacy systems.
- Annual grant to approximately 8,500 employees (executives + key employees)
- Total number of stock option holders approximately 16,000 (including ex-employees) in 60+ countries

Philips Stock Option and Share Center  

Objectives
For new plan administration

- **Implement new global processes and systems to**
 - **support Philips participants and internal organizations to manage the stock options and restricted shares**
 - **enable straight-through processing including proper tax withholdings and T+3 settlement of sale proceeds**
 - **safeguard compliance with internal and external policies and regulations**

Philips Stock Option and Share Center  

Vendor Selection Process
For new plan administration

- **Benchmarking & Industry mapping in December 2001**
- **Definition of 'best practice', requirements & Request for Proposal**
- **Selection of long-list for outsourcing, in-house and build strategy.**
- **Selection of short-list on basis of proposals**
- **'Beauty contest'**
- **Selection of Computershare as preferred supplier in May 2002**
- **Contractual negotiations**
- **Go-Live in February 2003; on-line dealing live from April 2003**

Philips Stock Option and Share Center  

Philips' perspective on plan administration industry

- **Industry has many players with various back-grounds**
- **New mandates from multinationals force the industry to deliver global solutions which trigger consolidation and professionalism.**
- **Solutions are offered by**
 - **software companies - most packages require extensive customisation**
 - **brokers - US brokers are leading the pack although most lack a true global perspective and administrative capabilities**

Philips Stock Option and Share Center  

Philips' perspective on plan administration industry

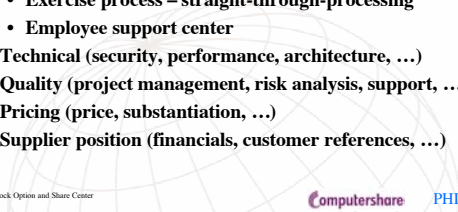
- share transfer agents - their natural business is share registry administration and plan administration is a logic extension of their business
- outsource partners - some (parts of) companies run complete solutions, although most tend to focus on the administration only



Philips Stock Option and Share Center **Computershare** **PHILIPS**

Selection criteria
To select vendor and delivery model for new plan administration

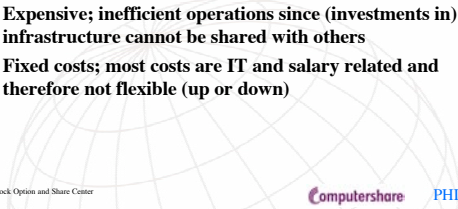
- **Functionality**
 - Data model
 - Reporting
 - Data importing processes
 - Exercise process – straight-through-processing
 - Employee support center
- Technical (security, performance, architecture, ...)
- Quality (project management, risk analysis, support, ...)
- Pricing (price, substantiation, ...)
- Supplier position (financials, customer references, ...)



Philips Stock Option and Share Center **Computershare** **PHILIPS**

Decision
Not to have an in-house operation for the new plan administration

- **High-risk; no in-house experience and expertise with developing / integrating stock option administration systems**
- **Limited functionality; many features do not come with the software and therefore require large customizations**
- **Expensive; inefficient operations since (investments in) infrastructure cannot be shared with others**
- **Fixed costs; most costs are IT and salary related and therefore not flexible (up or down)**



Philips Stock Option and Share Center **Computershare** **PHILIPS**

Decision
Not to contract a broker for the new plan administration

- Banks have limited administrative & reporting capabilities and do not support our compliance management requirements
- Procedures are efficient but very rigid
- Philips would become bank dependent for brokerage & custody processes
- Combinations with separate administrator are common but seem to be second-best solutions (brings complexity, inefficiencies and costs)

Philips Stock Option and Share Center Computershare PHILIPS

Decision
To outsource the new plan administration

- Cost effective because the global infrastructure (call centers, websites, IVR) is available with limited upfront investment and you are able to “pay as you go” for additional services
- Administrator is flexible in working with multiple financial institutions
- Secure expertise – plan administration is complex and non-core to Philips’ business
- Create flexibility – to handle plans in rapidly changing environment

Philips Stock Option and Share Center Computershare PHILIPS

Decision
To outsource the new plan administration

- Computershare outstanding on:
 - global understanding of share plans (US, Europe and Asia!)
 - global presence for 24 hr service (integrated call centers in US, UK & Aus.)
 - state-of-the-art technology and solid infrastructure
 - shared vision; willing and able to adopt Philips’ high standards
 - Project management and working as part of a global team

Philips Stock Option and Share Center Computershare PHILIPS



Key Challenges - Communication
In providing a global service to employees

- Communicating to 60+ countries in a consistent manner and the importance of country co-ordinators
- Provision of translation services through our contact centres
- Working as a team, Philips and Computershare
- Project Planning start to end
- Knowing the goals

Philips Stock Option and Share Center  



Key Challenges - Data
In providing a global service to employees

- Data protection and security issues
- Data accuracy and the need for consistent updates
- Global employee data
 - Ensuring everyone has a single and unique employee ID
 - Tracking of globally mobile employees
 - Data from ex-employees (Retirees and Divested)
 - Consistent use of data definitions
 - Interface to 100+ payrolls
 - Historic employee data for tax purposes

Philips Stock Option and Share Center  

Key Challenges - Technology
In providing a global service to employees

- Use of Web and IVR portals to manage Share and Option portfolios with Philips' look & feel
- Straight through and secure dealing via the Web and IVR using the FIX standard, "real time" exercise submission
- Advanced telecommunication systems to answer, monitor and direct calls across 3 time zones
- Link in to banking systems for payment distribution. For Philips using the Philips Payment Factory ("PPF")
- Transferring of information via SFTP/TPG
- Introducing E-mail communication
- Viewing PDF versions of correspondence over the Web.

Philips Stock Option and Share Center  

Key Challenges – Tax & Legal In providing a global service to employees

- Local compliance issues, classical dilemma on setting responsibilities: central (head quarter) versus local (country organization)
- Onus on local jurisdictions to comply with local securities and legal issues
- Compliance with insider trading rules
- Tax withholding processes – especially for globally mobile employees

Philips Stock Option and Share Center Computershare PHILIPS

Key Challenges – Exercising In providing a global service to employees

- Establishing automated electronic messaging with ABN Amro and Philips In-House Bank to facilitate real time trading and funds settlement across two exchanges and multiple currencies.

Computershare - Philips: Summary of US Exercise & Sell All Instruction

Philips Stock Option and Share Center Computershare PHILIPS

Key Challenges – Computershare Vision – Key Points In providing a global service to employees

- Global presence with local service
- Team approach - knowledge from around the world shared within Computershare and with clients
- Use of new technologies and services such as straight through dealing
- Strategic alliances with many third parties for banking and brokerage.

Philips Stock Option and Share Center Computershare PHILIPS

Restricted Share Plan Program

- **Computershare began administration of the Philips Restricted Plan in 2003.**
- **15 April 2004 sees the first release of shares.**
- **Key challenges**
 - **To ensure the necessary system functionality is in place to capture instruction from participants as part of the release**
 - **To ensure that a robust process for the RSP release is in place**
 - **To provide a mechanism to hold shares following the release**

Philips Stock Option and Share Center Computershare PHILIPS

Restricted Share Plan – Basic Facts

- **Restricted shares are awarded to employees mainly on an annual basis**
- **Shares will vest/ release in three equal tranches each year on the anniversary of the award date.**
- **If shares are kept for a further three years from the release date, a further 20% of the number of shares kept will be awarded to the employee**
- **Tax liability is crystallized upon shares vesting**
- **Able to withhold tax on the release of shares**
- **7,300 participants in 54 countries**

Philips Stock Option and Share Center Computershare PHILIPS

Restricted Share Plan – Release Process

- **An advanced exercise process will be in place to take instructions from employees.**
- **All instructions from employees will be made via the internet.**
- **Choices available to participants will be as follows;**
 - **Buy all shares**
 - **Sell enough shares to cover tax and retain remaining**
 - **Sell all shares**

Philips Stock Option and Share Center Computershare PHILIPS

Overview of the Stock Option and Share Center

- Philips Stock Option and Share Center is the global service center for all Philips Stock Options and Restricted Shares
- Aim is to provide participants with world-class services and systems to manage the Stock Options and Restricted Shares
- Enables straight-through processing including proper tax withholdings
- Ensures compliance with Philips' corporate policies and multi-jurisdictional market regulations


Philips Stock Option and Share Center



Overview of the Stock Option and Share Center

- The Center offers a number of services that can be accessed via the Stock Option and Share Center website
- In addition, an Infodesk is available 24 hours a day during business days to support participants with all telephone inquiries (English spoken including a translation service)
- Provision of an interactive voice response telephone system (IVR)

Philips Stock Option and Share Center



The Website



The screenshot shows the website's navigation menu on the left with categories like 'WELCOME', 'GETTING STARTED', 'MANAGING SHARES', 'SECURITY', 'DOCUMENTATION', 'SUPPORT', and 'ABOUT US'. The main content area features a 'Stock Option and Share Center' header, a 'Welcome to the Stock Option and Share Center' message, and an 'EMPLOYEE LOGIN' section with fields for 'Logintje' and 'PIN', along with 'Participant #PIN' and 'Logintje' buttons.

Philips Stock Option and Share Center



Plan Communication

Stock Option and Share Center
Participants guide



PHILIPS

Philips Stock Option and Share Center

Stock Option and Share Center
Managers guide
on stock option and
share procedures



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Thank you for your time

