TRAVEL ACCIDENT INSURANCE

Your business travel accident insurance

Why business travel accident insurance?

Any time you travel, you're subject to certain risks. When you travel on Company business, the Company insures you for those risks through the Business Travel Accident Insurance Plan. The Company pays the entire cost for this valuable protection.

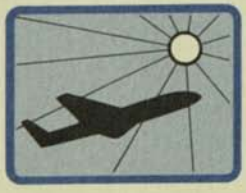
Eligibility

You're eligible for business travel accident coverage if you are an active, full-time employee under age 70. ("Full-time" means you are regulary scheduled to work at least 30 hours a week.)

Your spouse and dependent children are eligible when they accompany you on a business trip or relocation travel. (Sales people are also eligible.) You're ineligible if you are a part-time or temporary employee.

No enrollment

You don't enroll for this plan; your coverage automatically goes into effect on your first regular day of employment.



When you are covered

You are covered while you are on any authorized business trip for the Company, anywhere in the world. Your protection starts when you leave on the business trip from either your home or office, whichever you leave last. It ends when you return to your home or office, whichever you return to first.

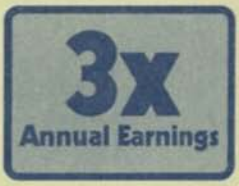
Except as specifically excluded on page 3, travel accident coverage is provided on an all-risk basis for accidental death or injury.

You are covered on any civilian aircraft which has a current and valid airworthiness certificate and is piloted by a properly-certified pilot who is authorized to pilot the air-

craft. (This includes any transport- type aircraft operated by the Military Airlift Command of the U.S. or similar authority.)

In addition, you are covered if you are injured:

- while leaving your place of work because of a bomb scare or bomb explosion
- in an assault during business hours by someone other than another employee or a member of your family
- as a result of a highjacking or skyjacking while you are on Company business (whether or not it is an act of war)



Your benefits

Benefit Amount

Your benefit under this plan is three times your annual earnings, with a minimum of $100,000 and a maximum of $1,000,000. Earnings refers to your rate of pay at the time of your death.

If you're a salesperson who earns commissions in addition to your salary, earnings means your base salary in effect on January 1 of the current year, plus your average annual commissions for the two prior calendar years. If you've only completed one prior year of service, earnings include your annual commissions for that year. If you have less than one prior year of service, earnings include your annualized average monthly commissions for your period of employment. For the calendar year in which you're hired, earnings include only your base salary.

Your spouse's benefit is $50,000; a $25,000 benefit applies to each dependent child.

When Benefits Are Paid

The full benefit is payable in the event of your or your dependent's accidental death within one year of the date of the accident, or the loss of any *two* of the following:

- hands
- feet
- eyes
- speech
- hearing

One-half the benefit is payable if you or a dependent loses *one* of the above. One-quarter of the benefit is payable for the loss of a thumb and index finger of the same hand. Only one benefit, the largest, will be paid for any one accident.

You must be eligible under the plan when the accident occurs, and the accident must directly cause your loss independent of any other causes.

Who Receives Benefits

In the event of your accidental death, payment will be made to the beneficiary you have designated under the Company's group life insurance plan, unless you have specifically designated a different beneficiary in writing for the business travel accident plan. If neither of these applies, the accidental death benefit will be paid to your estate. Payment for any other loss covered under the plan will be made directly to you.

Medical Benefits

If you are injured while on a business trip, you are covered for up to $5,000, *in excess of the amount paid or payable by Worker's Compensation,* for reasonable medical charges that you incur in connection with the accident.

What's not covered

The plan doesn't cover losses which result from the following:

- commuting — regular travel between home and work. However, you will be covered if you are directly affected by a transit strike or major breakdown of a public transportation system.
- travel during vacation time or leave of absence
- flying in any aircraft that is not used solely for the transportation of passengers.* (Corporate pilots are covered while flying on Company business.)
- suicide or self-inflicted injuries
- war or act of war within the U.S. or Canada
- service in the military, naval or air service of any country
- travel by truck drivers and their helpers while performing their normal duties

Benefit Limit

For any single aircraft accident which involves more than one insured person, the plan will pay up to a total of $10,000,000. If the total benefits payable exceed that amount, you will share the benefits in proportional amounts.

*Except for employees authorized to test equipment aboard an aircraft.

Plan administration

The plan administrator of the Business Travel Accident Insurance Plan is:

North American Philips Corporation
100 East 42nd Street
New York, N.Y. 10017
(212) 697-3600

Your local Personnel or Employee Relations Office handles plan administration on the local level; they should be your first source for answers to any questions you have about the plan.

Insurance Company

Your business travel accident benefits are fully insured by American Home Assurance Company, 102 Maiden Lane, New York, N.Y.

Agent for Legal Process

For disputes arising under the plan, the designated agent for service of legal process is CT Corporation System, 277 Park Avenue, New York, N.Y. 10017.

Legal process may also be served on the plan administrator.

Plan Year

The plan runs on a fiscal year: from June 30 through June 29 of the next year. All employee records which relate to the plan are maintained on a plan-year basis.

Employer and Plan Number

The Employer Identification Number (EIN) is 13-1895219 and the Plan Number is 541.

Effective Date

This guidebook section is a summary of Business Travel Accident Insurance Plan benefits in effect as of January 1, 1986.

Your rights under law

As a participant in the Business Travel Accident Insurance Plan, you are entitled to certain rights and protections under the Employee Retirement Income Security Act of 1974 (ERISA). ERISA provides that all plan participants are entitled to:

- Examine, without charge, at the plan administrator's office and at other locations (including worksites), all plan documents including copies of all documents filed by the plan with the U.S. Department of Labor, such as annual reports and plan descriptions.

Your rights under law (continued)

- Obtain copies of all plan documents and other plan information upon written request to the plan administrator. (The administrator may make a reasonable charge for the copies.)
- Receive a summary of the plan's annual financial report. The plan administrator is required by law to furnish each participant with a copy of this summary annual report.

In addition to creating rights for plan participants, ERISA imposes duties upon the people who are responsible for the operation of the plan. The people who operate your plan, called "fiduciaries," have a duty to do so prudently and in the interest of you and other plan participants and beneficiaries. No one may fire you or otherwise discriminate against you in any way to prevent you from obtaining a benefit or exercising your rights under ERISA.

If your claim for a benefit is denied, in whole or in part, you must receive a written explanation of the reason for the denial. You have the right to have the plan administrator review and reconsider your claim. Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request materials from the plan and do not receive them within 30 days, you may file suit in a federal court. In such a case, the court may require the plan administrator to provide the materials and pay you up to $100 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the administrator. If you have a claim for benefits which is denied or ignored, in whole or in part, you may file suit in a state or federal court. If it should happen that plan fiduciaries misuse the plan's money, or if you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees — for example, if it finds your claim is frivolous.

If you have any questions about your plan, you should contact the plan administrator. If you have any questions about this statement or about your rights under ERISA, you should contact the nearest Area Office of the U.S. Labor-Management Services Administration, Department of Labor.

The benefits description in this section does not constitute an express or implied contract of employment.

YOUR PENSION PLAN

PENSION

Your pension plan

REVISED

Your pension plan (continued)

Highlights

When am I eligible to participate?

You automatically join the plan on the first of the month after hire as a full-time salaried employee.

What does it cost me?

The pension plan does not take any employee contributions. You pay nothing to participate.

Any contributions you made before 1986 remain in the plan to provide a portion of your pension. A lump-sum refund of your contributions (with interest) may be available at death, retirement or termination of employment.

How much is my retirement benefit?

At your normal retirement date (the first of the month after your 65th birthday), your pension is calculated under Formula 1 and Formula 2. We then compare the pension each would provide and pay you the *higher* amount.

Formula 1:

Years of Benefit Service	X 1.7% X	Final Average Pay
	MINUS	
Years of Benefit Service	X 1.7% X	Estimated Primary Social Security Benefit

The maximum amount that can be used for the second part of Formula 1 is 50% of your estimated primary Social Security benefit.

Formula 2:

1.1%	X	Final Average Pay	X	Years of Benefit Service

Highlights

When am I eligible to participate?

You automatically join the plan on the first of the month after hire as a full-time salaried employee.

What does it cost me?

The pension plan does not take any employee contributions. You pay nothing to participate.

Any contributions you made before 1986 remain in the plan to provide a portion of your pension. A lump-sum refund of your contributions (with interest) may be available at death, retirement or termination of employment.

How much is my retirement benefit?

At your normal retirement date (the first of the month after your 65th birthday), your pension is calculated under Formula 1 and Formula 2. We then compare the pension each would provide and pay you the *higher* amount.

Formula 1:

Years of Benefit Service	X 1.7% X	Final Average Pay
	MINUS	
Years of Benefit Service	X 1.7% X	Estimated Primary Social Security Benefit

The maximum amount that can be used for the second part of Formula 1 is 50% of your estimated primary Social Security benefit.

Formula 2:

1.1%	X	Final Average Pay	X	Years of Benefit Service

Why a pension plan?

Retirement means different things to different people. For some, it means devoting time to a long neglected hobby. For others, buying a camper and traveling cross-country. Still others simply look forward to relaxing after years on the job.

If you're young, you probably haven't given retirement much thought. But as you get older, plans for retirement become more important. And you realize that a lot depends on your Company's pension plan. As you'll discover in the following pages, your Company plan provides substantial pension benefits. Not only does the pension plan build security for your future, but, through the Family Survivors' Benefit, you can assure your family a monthly income if you die before retirement.

This section describes your pension plan in two parts. The highlights provide you with a quick summary, and answer some of the questions you may have about the plan. The more detailed description follows the highlights. We urge you to read the entire section so you'll understand just how the plan works.

Even so, this section doesn't spell out the complete retirement plan. It's a summary. Like any summary, this one omits certain details. The actual plan is drawn up in legal language and always has the final say if any conflicts arise.

This guidebook section is a summary of pension plan provisions in effect as of January 1, 1986.

Can I retire earlier than 65?

Yes. You may retire anytime after you reach age 55 and complete five years of eligibility service. (If you were hired before January 1, 1984, you must be age 55 to qualify—there is no service requirement.)

If you elect to receive benefits before age 65, your pension usually is reduced by .3% times the number of months between the date payments start and your normal retirement date. However, if your age when you leave (55 or older) plus your years of eligibility service total 85 or more, there is no early payment reduction.

What happens to my pension if I leave the Company before retiring?

If you leave the Company before qualifying for normal or early retirement, you must be "vested" to receive any retirement benefits. Vested means that you are entitled to receive all or part of your Company pension when you reach retirement age. Vesting works like this:

If You Leave Before Age 55 and Your Eligibility Service Is...	Then...
Under 5 years	Your pension is not vested. Any pre-1986 pension contributions (plus interest) will be refunded.
5 – 9 years	Your pension is 50% vested.
10 years or more	Your pension is 100% vested.

Does the plan pay benefits to my survivors if I die before retirement?

Pre-Retirement Spouse Benefit. If you're married and die in active service after you qualify for a normal, early or vested pension, your spouse is automatically entitled to a Pre-Retirement Spouse Benefit. Payments to your spouse can begin the month after you would have reached age 55—or the month after death, if you were over 55.

Family Survivors' Benefit. To provide even greater pre-retirement survivor protection, you can elect the Family Survivors' Benefit described in the next section of this guidebook. To be eligible, you must be married or have at least one child under age 27.

Protection After Termination Of Employment. If you leave after qualifying for an early or vested pension and die before payments begin, your spouse will receive a benefit—unless you and your spouse agree to reject this protection.

What if I die after retiring?

If you're married at retirement, you have a choice of payment methods. For example, with your spouse's consent, you can elect full payments with no survivor benefits payable after your death. Or you can elect to reduce your pension in order to provide a lifetime income for your spouse after your death. If you make no payment election, your pension is automatically reduced so that your surviving spouse would receive one-half of your reduced benefit for as long as he or she lives.

If you're single at retirement, full payments are made for your lifetime only. But if you prefer, you can instead elect a payment option that provides limited survivor protection.

In detail...

From here on, we're going to concentrate on the details of the plan. Please read the section carefully. That way you'll learn how the plan can help assure your financial security when you retire from the Company.

Who is eligible?

All full-time salaried employees who are under age 65 are eligible to participate in the pension plan.

If you are hired as a part-time salaried employee (that is, you are expected to have less than 1,000 hours of service per year), participation can start if you are under age 65 and if you complete one year of service. For eligibility purposes, you have a year of service if you complete at least 1,000 hours of service during a 12-month period which begins on your date of hire or any January 1, thereafter. The term "hours of service" is defined on page 32.

You are considered a salaried employee if you are paid a regular annual salary, or if you are paid on a contractual commission basis.

Enrollment

If you are a full-time salaried employee, your pension plan participation automatically starts on the first day of the month following your date of hire.

If you are a part-time salaried employee, your pension plan participation automatically starts on the first day of the month following your completion of one year of service.

If you were a salaried employee before 1986 (when the pension plan was contributory), you may have elected *not* to be in the plan. If so, provided you meet the eligibility requirements to participate in the plan, you automatically became a plan participant on January 1, 1986 when the plan became non-contributory.

Who pays for the plan?

Plan Funding

Starting January 1, 1986, the pension plan does not take any employee contributions. You pay nothing to participate. The Company contributes an amount that—together with any past employee contributions—is expected to fund plan benefits on a long-range basis. An independent actuarial firm advises the Company on how much it should contribute.

The Trust

The plan's trustee is Banker's Trust Company, 280 Park Avenue, New York, New York 10022. Banker's Trust holds the Company's contributions, employee contributions made before 1986 and earnings on those contributions in a trust fund. Part of the trust is invested in annuity contracts with Connecticut General Life Insurance Company and Penn Mutual Life Insurance Company. Investment managers, who are appointed by the plan's Investment Committee, invest the balance.

How your service counts

Benefit service is used to figure the amount of your pension. *Eligibility service* is used to determine when you qualify for plan benefits. It's important, therefore, to understand what these terms mean.

Benefit Service

You receive one month of benefit service for each month of employment *as a plan participant.* You can earn up to 43 years of benefit service and can receive benefit service until age 65.

You also receive benefit service for periods of sick leave at less than full pay and periods of total disability on or after January 1, 1977—provided you were a plan member immediately before the start of your illness or disability. You will not receive benefit service for periods of layoff or leave other than certain approved leaves.

Eligibility Service

Eligibility service includes benefit service, as well as years and months of employment

- as an hourly employee of the Company, or
- as an employee of a non-participating division or affiliate of the Company.

If you were hired before 1986 (when there was an age and service requirement to join the plan), any employment between your hire date and the date you became eligible to join also counts as eligibility service.

Any portion of a month that you are employed counts as a whole month of eligibility service. An approved leave of absence, a layoff or similar absence of up to one year also counts as eligibility service.

If your employment with the Company ends, but you return within 12 months of your last day of active service, your period of absence counts as eligibility service. If your employment ends while you are on a leave or layoff, and you return within 12 months of the day your leave or layoff began, you receive eligibility service for the time between your termination date and return date as well as for the period of leave or layoff.

IMPORTANT: Before 1986 (when the pension plan was contributory), employees were allowed to reject plan membership. Any period of time while you were eligible to participate — but elected *not* to participate — WILL NOT COUNT AS ELIGIBILITY SERVICE OR BENEFIT SERVICE.

Please be sure to read page 31 for important rules on breaks in service and rehire provisions.

Normal retirement

Your normal retirement date is the first of the month that follows your 65th birthday. You can retire with a normal retirement pension on that date or on the first day of any month after that.

If you work past your normal retirement date, you do not earn any further pension benefits. In other words, working past age 65 will *not* increase your pension.

Calculating Your Pension Benefit

Your annual normal retirement benefit is figured under two formulas. Then we compare the amount each would provide and pay you the *higher* amount.

Formula 1:

Years of Benefit Service	X 1.7% X	Final Average Pay
	MINUS	
Years of Benefit Service	X 1.7% X	Estimated Primary Social Security Benefit

No more than 50% of your estimated primary Social Security benefit will ever be used as an offset to the first part of Formula 1.

Formula 2:

1.1%	X	Final Average Pay	X	Years of Benefit Service

You receive your annual pension in 12 equal monthly installments.

Be sure to read pages 25 through 29 on how payment methods can affect the amount you actually receive.

Some Formula Definitions

Final Average Pay. To figure final average pay, find your highest-paid five consecutive calendar years during your last 10 years of plan participation. Final average pay is your average annual "earnings" during those five years. (If you have less than a full year of benefit service in a calendar year, your earnings for that year will be converted to an annual amount.)

For example, assume your annual "earnings" during your highest-paid five consecutive calendar years out of your last 10 years of plan participation were $20,000, $21,700, $22,600, $24,000 and $25,700. Your final average pay, then, is $22,800 (your total "earnings" during those five years, divided by five).

If you participated in the plan for less than five years, final average pay means your average annual "earnings" for the years that you participated.

"Earnings" include your cash compensation paid in a calendar year during which you earn benefit service. Any tax-saver (401(k)) contributions you make to the Employee Savings Plan — or any before-tax dollars you contribute to any other Company-sponsored benefit program — are included as earnings for pension plan purposes. Earnings *exclude* bonuses which exceed 100% of your annual base salary in effect at the time the bonuses are paid. Nor do they include expense reimbursement, deferred compensation, lump sum severance payments, stock options, any distributions from the Long-Term Corporate Incentive Plan, or compensation after your 65th birthday.

Normal retirement (continued)

Estimated Primary Social Security Benefit. This is an estimate of the Social Security benefit that may be payable to you at age 65. It doesn't include any amount that your spouse may receive.

Your estimated Social Security benefit is based on your current earnings and *reasonable assumptions* of what your earnings might have been before. We also assume that you'll continue to work until age 65 at your latest salary level.

Our Social Security estimate usually comes close to the actual benefit payable from Social Security. But there is no guarantee that our estimate is accurate—particularly if you have an unusual earnings history (for example, if you have years with little or no earnings for Social Security purposes). For this reason, you may send your *actual Social Security earnings history* to the Pension Committee within four months after you have received your benefit calculation. This allows the Committee to make the most accurate estimate of your Social Security benefit. You can obtain your actual Social Security earnings history by writing to the Social Security Administration.

Normal Retirement Example

Here's an example of how a retirement benefit is figured. Steve retires at age 65 with 30 years of benefit service. His final average pay is $25,000 and his estimated primary Social Security benefit is $8,000.

Formula 1:

30 years X 1.7% X $25,000		$12,750
30 years X 1.7% X $8,000	= $ 4,080	– 4,000*
	Annual Pension:	$ 8,750
		($729.17 a month)

*Because the Social Security offset comes to more than 50% of Steve's Social Security benefit ($4,080), we use only 50% ($4,000) as the offset.

Formula 2:

1.1%	X	$25,000	X	30 years	= $8,250 ($687.50 a month)

Steve's monthly benefit would be the higher of the two formula amounts: $729.17.

Please be sure to read pages 19 through 29 on reductions that would apply to provide survivor benefits for your spouse or other beneficiary.

Coordination With Social Security

While you're working, the Company matches your contributions to Social Security and also pays most of the pension plan costs. So when you retire, the part of your Social Security benefit based on Company contributions is considered as part of your retirement income from the Company.

The Social Security offset is not more than 50% of your Social Security benefit because the Company has paid 50% of the contributions to Social Security on your behalf. Any increase in your Social Security benefit after you retire will not affect your Company pension.

Refund Of Contributions

At normal retirement, you may request a refund of any contributions you made before 1986 (plus interest) together with any contributions you made for the pre-July 1974 spouse benefit. If you are married, your spouse must agree to this refund by co-signing your application. If you receive a refund, your pension will be reduced to account for your refund.

Early retirement

You may decide to retire as early as age 55, provided you have at least five years of eligibility service. (However, if you were hired before January 1, 1984, you can retire early at age 55 regardless of your service.) If you do, you may have pension payments begin immediately or you may defer payments to the first of any month up to your normal retirement date.

Calculating Early Retirement Benefits

Your early retirement benefit is calculated under two formulas and you receive the higher of the two formula amounts. One formula is exactly the same as Formula 2 on page 8. The other formula is a modified version of Formula 1 (shown on page 8).

Modified Formula 1:

Actual Years of Benefit Service X 1.7% X Final Average Pay

MINUS

Projected Benefit Service (not more than 50%) X 1.7% X Estimated Primary Social Security Benefit X Actual Benefit Service / Projected Benefit Service

"Projected benefit service" means the number of years of benefit service you would earn by working to age 65.

You may postpone receiving payments until age 65 and collect the full amount of the benefit that results from the above calculation. If you want your benefits to begin earlier, your annual pension will be reduced by .3% times the number of months between the date payments begin and your normal retirement date.

For example, say you retire the month after your 63rd birthday and elect to receive payments right away. In that case, your pension is reduced by 7.2% (.3% times the 24 months between ages 63 and 65).

In some cases, explained next, there is *no reduction* for early payment.

Early retirement (continued)

Special Full Payment Provision

If you retire at age 55 or older, and meet the special "Rule of 85," you will receive your full early pension. No early payment reduction will be made.

You Meet the Rule of 85 If:

Your age when you leave (55 or older) *plus* your years of eligibility service add up to 85 or more.

For example, these age/service combinations would qualify you for an unreduced early retirement benefit: 55/30, 58/27, 62/23 and so on.

Early Retirement Example

Laura's pension begins when she retires at age 60 with 20 years of benefit service. (Had Laura worked to age 65, she would have earned 25 years of benefit service.) Her final average pay is $30,000 and her estimated primary Social Security benefit is $8,928. Here's how Laura's early retirement benefit is figured under Modified Formula 1 — assuming that Formula 2 results in a lower pension than Modified Formula 1. (For simplicity's sake, amounts have been rounded to the nearest dollar.)

20 Actual Years	X 1.7% X $30,000	$10,200
	MINUS	
25 Projected Years	X 1.7% X $8,928 X $\frac{20}{25}$	−3,036
	Unreduced Annual Pension:	$7,164

Early retirement (continued)

Because Laura does not meet the Rule of 85 (her age plus service only add up to 80), her pension will be reduced if she wants payments to start right away. The reduced annual pension is figured like this:

.3% X 60 months between ages 60 and 65 = 18% reduction

18% X $7,164 = $1,290 reduction

$7,164 – $1,290 = $5,874 reduced early pension

Had Laura met the Rule of 85, she would have received her full annual pension with *no early payment reduction.*

Please be sure to read pages 19 through 29 on reductions that may apply relating to survivor benefits.

Refund Of Contributions

At early retirement, you may request a refund of any contributions you made before 1986 (plus interest) together with any contributions you made for the pre-July 1974 spouse benefit. If you are married, your spouse must agree to this refund by co-signing your application. If you receive a refund, your pension will be reduced to account for your refund.

If you become disabled

If you go on sick leave at less than full pay or become totally disabled while participating in the pension plan, you continue to build eligibility service and benefit service during your sick leave or disability. You can earn eligibility and benefit service up to your normal retirement date (the first of the month after your 65th birthday). Because of this provision, you can continue to participate in the plan and retire on your normal retirement date with a full pension.

However, if you meet the regular eligibility requirement for early retirement, you may decide to take an early retirement pension rather than remain in the plan as a participant. If you are receiving benefits from the Company's long-term disability plan, your pension payments may reduce your long-term disability benefits.

If you recover from your disability and return to work, your pension payments stop. When you retire, your pension is reduced to account for the payments you had already received.

To qualify for these disability provisions, you must provide medical evidence of total disability which satisfies the Pension Committee.

If you leave before retirement

If you leave the Company before qualifying for normal or early retirement, you must be "vested" to receive any retirement benefits. Vested means that you are entitled to receive all or part of your pension when you reach retirement age. Vested pensions are figured using the formulas explained under early retirement (page 12). The formulas give the amount payable at age 65. If you want payments to start before age 65, the formula amount is reduced, as described below.

Your vested rights depend on the number of years of eligibility service you have and your age when you leave the Company.

Here's how vesting works:

If You Leave Before Age 55 and Your Eligibility Service Is...	Then...
under 5 years	Your pension is not vested. Any pre-1986 pension contributions (plus interest) will be refunded.
5-9 years	Your pension is 50% vested.
10 years or more	Your pension is 100% vested.

When Vested Benefits Begin

You may have your pension payments begin at your normal retirement age (65), or on the first of any month after you reach age 55.

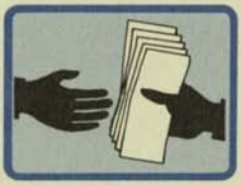
Whether or not your vested pension is reduced depends on your age when payments begin.

- If you postpone payments to age 65, there is no early payment reduction.
- If you elect to receive payments before age 65, your pension is reduced.

The reduction is 1/2% times the number of months from the date payments begin to the first of the month following your 65th birthday. For example, say you want payments to begin on the first of the month after you reach age 63. The early payment reduction would be 12% (1/2% x 24 months between the date payments begin and the first of the month after reaching age 65).

The plan guarantees that the pension you receive will never be less than the pension amount you had earned through December 31, 1985, using the early payment reduction provisions in effect at that time.

Please be sure to read pages 19 through 29 on reductions that may apply relating to survivor benefits.



Withdrawing Your Contributions

If you leave the Company after you're vested, you may leave your contributions in the plan or withdraw them (plus interest) — unless your benefit is paid in a lump sum (see page 18).

- If you leave your contributions in the plan, your pension will be based on your final average pay and benefit service at the time you left. You will receive your 50% or 100% vested benefit when you choose to have payments begin.
- If you withdraw your contributions, your pension will still be based on your benefit service and final average pay at the time you left. However, the pension equivalent of your cash refund will be deducted from your 50% or 100% vested benefit. This deduction will result in smaller monthly payments when you begin receiving your pension.

To withdraw your contributions, you must obtain a refund form from your Personnel or Employee Relations Office. If you are married, your spouse must agree to the refund by co-signing the form.

If you don't withdraw your contributions at the time you leave, you may do so when your payments begin.

Lump sum payments

The Pension Committee may decide to pay your entire benefit in one lump sum (instead of providing monthly payments) if the lump sum present value of your pension is $3,500 or less. The lump sum payment is made when you retire or leave the Company. If you receive a lump sum payment, no further benefits are payable to you or any beneficiary.

If you participated in the Investment Plan

From January 1, 1970 through June 30, 1974, North American Philips Corporation maintained an Investment Plan for Salaried Employees. When the plan was discontinued, all active participants became fully vested in their accounts.

If you participated in the Investment Plan, your pension may be reduced by the projected annuity value of your Investment Plan account balance as of June 30, 1974. This reduction does not apply if your benefit is paid under Formula 2.

Survivor protection before payments begin

This section explains how the pension plan can provide survivor protection if you should die *before* your pension payments begin. Ways to protect your survivors *after* payments begin are explained under "How Pensions Are Paid" on page 25.

Please Note: In reading about survivors' benefits, keep in mind that the term "spouse" means the person to whom you are legally married — and not divorced. If you are legally separated, any spouse's benefits *will* be paid to your spouse.

An Overview

While you are *in active service,* you can have survivor protection in one of two ways:

- If you are married and have qualified for a normal, early or vested pension, you will *automatically* have survivor protection through the **Pre-Retirement Spouse Benefit.** The Pre-Retirement Spouse Benefit is described in this section.
- Generally, the Pre-Retirement Spouse Benefit *does not* replace a significant portion of the income that's lost when a wage-earner dies. For this reason, many employees who want to provide greater income protection for their families elect the **Family Survivors' Benefit.** The Family Survivors' Benefit, together with any amount payable as the Pre-Retirement Spouse Benefit, provides an income for your spouse (or eligible children) equal to 25% of your pay at the time of death.

  You can elect the Family Survivors' Benefit if you are married or have at least one child under age 27. Details on this important benefit can be found behind the next guidebook tab marked "Family Survivors."

Survivor protection before payments begin (continued)

This table summarizes the main points to keep in mind when choosing between these two forms of survivor protection.

	Family Survivors' Benefit	Pre-Retirement Spouse Benefit
Eligibility	you must be an active participant in the salaried pension plan	you must be eligible for a normal, early or vested pension
Your Cost	from 1/2% to 1% of your earnings (depending on your age)	no cost while in active service
Benefit	25% of your pay to your spouse (or children under age 27).* This results in a *higher* monthly income than the Pre-Retirement Spouse Benefit alone would provide	one-half the pension you would have received under the 50% Spouse Annuity payment form. This results in a *lower* monthly income than the Family Survivors' Benefit would provide
When Payments Start	the month after death — regardless of age	no earlier than the date you would have reached age 55

*This *includes* any amount payable from the Pre-Retirement Spouse Benefit.

Spouse's protection is also provided *after termination of employment* if you leave after vesting — or after qualifying for early retirement having deferred payments to a later date.

There is a small charge for spouse's protection between the time you leave the Company and the time your payments begin. You may reject this coverage, with your spouse's notarized consent.

Pre-Retirement Spouse Benefit — While You're In Active Service

As soon as you qualify for a normal, early or vested pension, your husband or wife has Pre-Retirement Spouse Benefit protection *automatically*. The Company picks up the entire cost of providing this protection.

Survivor protection before payments begin (continued)

What Your Spouse Receives. If you die in active service after qualifying for a normal or early pension, your spouse is entitled to one-half the pension you would have received had you retired the day before your death with an immediate pension.

If you die in active service after qualifying for a vested pension, your spouse is entitled to one-half the pension you would have received had you terminated employment on the date of death and started receiving your vested pension at age 55.

The pension you would have received is figured under the 50% Spouse Annuity payment form (see page 26).

When Payments Start. If you die at age 55 or later, monthly payments to your spouse can start right away. If you die before age 55, payments can start the month after you would have reached age 55. Payments continue for as long as your spouse lives.

An Example. Let's assume Jim H. dies at age 53 after 25 years of eligibility and benefit service. Assume, too, that his full earned pension at the time of death is $700. Since Jim was vested, his spouse is entitled to a Pre-Retirement Spouse Benefit starting the month after Jim would have reached age 55. Here is how the benefit is figured.

1. Start with Jim's full benefit.	$700
2. Make the early payment reduction. (The reduction for early payment at age 55 is 60%; 60% x $700 = $420 reduction)	− 420
	$280
3. Make a reduction for the 50% Spouse Annuity payment form. (If we assume the age difference between Jim and his spouse is less than five years, this reduction is 5%; 5% x $280 = $14 reduction)	− 14
	$266
4. The Pre-Retirement Spouse Benefit is one-half the pension Jim would have received at age 55. ($266 ÷ 2 = $133)	$133 spouse's benefit

Survivor protection before payments begin (continued)

Assume, now, that Jim was enrolled in the Family Survivors' Benefit and that his "pay" (as defined on page 4/family survivors') at the time of death was $28,000. The Family Survivors' Benefit would be 25% of his pay. That comes to $7,000 a year — or $583.33 a month. In this case, Jim's spouse would have a lifetime income that *started earlier* and was *substantially higher* than the Pre-Retirement Spouse Benefit:

	Monthly Income With Family Survivors' Benefit	Monthly Income If No Family Survivors' Benefit
payable from time of Jim's death until he would have reached age 55	$583.33	Nothing
payable after Jim would have reached age 55	$583.33*	$133

*this *includes* the $133 that would have been paid as a Pre-Retirement Spouse Benefit

If Jim had no spouse at the time of death, the Family Survivors' Benefit would be paid to his child(ren) under age 27 at the time of his death.

Survivor protection before payments begin (continued)

Pre-Retirement Spouse Benefit — If You Leave The Company

If You Are Married. The Pre-Retirement Spouse Benefit protection just described will be in effect *automatically* if you are married and

- leave after you're vested, or
- leave after qualifying for early retirement but defer payments to a later date.

However, there will be a modest charge for any period of coverage between the time you leave and the time payments begin (or the time of death, if earlier). The charge is made through a reduction in the pension paid to you at retirement or to your spouse after your death.

For Any Period of Coverage	The Charge Is
up to January of the year you reach age 35	none
from January of the year you reach age 35 up to age 45	.0083% per month (.10% per year)
from age 45 to age 55	.0278% per month (.33⅓% per year)
from age 55 to age 65	.0417% per month (.5% per year)

For example, if you leave at age 35 and continue coverage until payments begin at age 65, your pension would be reduced by 9⅓% on account of this spouse's protection. That is $9.34 per $100 of your pension.

IF YOU DO NOT WANT COVERAGE AFTER TERMINATION OF EMPLOYMENT, YOU MUST REJECT IT ON A SPECIAL FORM AVAILABLE FROM YOUR PERSONNEL OR EMPLOYEE RELATIONS DEPARTMENT. YOUR SPOUSE MUST SIGN THE FORM INDICATING HIS OR HER CONSENT TO REJECTION OF COVERAGE, AND THE SIGNATURE MUST BE NOTARIZED.

Survivor protection before payments begin (continued)

You may discontinue or reinstate coverage at any time by contacting the Company and filing the required form. The charge will apply to any period of time that coverage was in effect.

If you reject or discontinue coverage and die before payments begin, *no plan benefits are payable* to your spouse or anyone else — other than a possible refund of contributions.

If You Are Single. What if you are single when you leave after vesting (or after deferred early retirement) and later marry? In that case, spouse's protection, and the charge, apply automatically to any period of marriage. If you don't want this protection along with the charge, you must reject coverage by contacting the Company for the appropriate form. Both you and your spouse must complete the form and have it notarized. Coverage (and the charge) will stop after your form is received by the Company.

Return Of Contributions

Your spouse may request to receive your "guaranteed contributions" in one lump sum at the time of your death. In that case, his or her Pre-Retirement Spouse Benefit would be reduced to account for the refund. (See page 30 for a definition of "guaranteed contributions.")

Lump Sum Payments

If the actuarial present value of the Pre-Retirement Spouse Benefit is $3,500 or less, the Pension Committee will immediately pay your spouse's entire benefit in one lump sum (unless your spouse is entitled to the Family Survivors' Benefit).

How pensions are paid

At retirement, you may choose a payment method which provides survivor benefits. Whichever method you select, you will receive monthly pension benefits for your lifetime.

The Plan's Payment Methods. The Pension Plan has six payment methods, explained in the table on the next page.

- If you are **married** when you retire, you can elect any one of the plan's payment methods. Note that if you choose payment method 2, 3, 4 or 5, survivor benefits are payable only to your spouse. You cannot name someone other than your spouse as beneficiary under those methods.

  A special rule applies if you are married and want to elect payment method 1 or 6 (methods that do not provide a lifetime income for your spouse after your death). In that case, your spouse must co-sign your payment election form, and the signature must be notarized.

  Please see page 19 for an explanation of who is considered your "spouse."

- If you are **single** at retirement, you can elect either the "Life Annuity" or the "10-Year Certain and Life Annuity."

PAYMENT METHODS*

Payment Method	During Your Lifetime, You Receive	After Your Death, The Plan Pays
1. Life Annuity	an **unreduced** monthly benefit	no further benefits
2. 50% Spouse Annuity	a **reduced** monthly benefit	**50%** of your reduced monthly amount to spouse
3. 66⅔% Spouse Annuity	a **reduced** monthly benefit	**66⅔%** of your reduced monthly amount to spouse
4. 75% Spouse Annuity	a **reduced** monthly benefit	**75%** of your reduced monthly amount to spouse
5. 100% Spouse Annuity	a **reduced** monthly benefit	**100%** of your reduced monthly amount to spouse
6. 10-Year Certain and Life Annuity	a **reduced** monthly benefit However, there's a **guaranteed payment period** of 10 years.	If you die within the 10-year guaranteed period, your spouse or other beneficiary receives your reduced amount until the end of that period**

* If you leave your pension contributions in the plan, all methods guarantee that the total pension benefits paid to you, your spouse, or other beneficiary will at least equal your pension contributions (plus interest), pre-July 1974 spouse benefit contributions and any Family Survivors' Benefit contributions.

** The guaranteed payment period starts when you receive your first pension check. If you die *after* receiving payments for the full 10-year guaranteed period, your beneficiary will not receive any benefits.

Once you begin receiving your pension, you cannot change your payment method — even if your spouse dies or your marital status changes. For example, say you are married and elect the 100% Spouse Annuity. If your spouse dies before you do, your pension will continue in the same reduced amount. You cannot name a new beneficiary even if you remarry.

If you get divorced after payments begin and then die, your former spouse will receive any survivor benefit that you had elected for him or her at retirement. If you had remarried, your new spouse would not be entitled to any benefit from the pension plan.

If you get divorced after payments begin and then die, your former spouse will receive any survivor benefit that you had elected for him or her at retirement. If you had remarried, your new spouse would not be entitled to any benefit from the pension plan.

There is one exception, however, if you elect the "10-Year Certain and Life Annuity." If your beneficiary dies within the 10-year guaranteed period, you can name a new beneficiary. The change will have no effect on the amount you receive.

IMPORTANT: If you fail to choose a payment method before you retire, the plan is required to pay your pension under your "automatic payment form."

If you're *single,* your automatic payment form is the "Life Annuity." If you're *married,* your automatic payment form is the "50% Spouse Annuity."

IF YOU DON'T WANT YOUR AUTOMATIC PAYMENT FORM, YOU MUST ELECT AN ALTERNATE PAYMENT FORM IN WRITING BEFORE YOUR PAYMENTS BEGIN. Be sure to notify the Company at least two months before you want payments to start. If you don't make this election, your pension will be paid under the automatic form. And you can't change to a different form after your payments have started.

How Your Pension Is Reduced. As you've seen, unless you elect to receive payments for your lifetime only, your pension is *reduced.* In exchange for the reduction, you provide survivor protection for your spouse (or other beneficiary under the "10-Year Certain and Life Annuity").

Note that the reduction does *not* decrease the value of your pension. It simply covers the greater probability that payments to two people (you and your spouse or other beneficiary) will last *longer* than payments to you alone.

Here is how the reduction is figured if you are married and decide on the "50% Spouse Annuity." If the age difference between you and your spouse is *five years or less,* your benefit is reduced by 5% to provide the 50% survivor benefit for your spouse. However, if

- your spouse is more than five years *older* than you, the reduction will be *less;*
- your spouse is more than five years *younger* than you, the reduction will be *greater.*

Of course, if you want your spouse to receive a *higher* benefit after your death (under the 66⅔%, 75% or 100% Spouse Annuity), the reduction will be *larger* than under the 50% Spouse Annuity.

Payment Method Example. Here's an example that will give you a general idea of how electing the various payment methods would affect your pension.

Say Steve Jones retires at age 65 having earned a $500 monthly pension. Here is what Steve and his wife would each receive under the different options. (In this example, we've assumed the age difference between Steve and his wife is less than five years. If that were not the case, a different reduction would apply. For simplicity's sake, we have rounded up to the nearest dollar.)

	Payment Method	During His Lifetime, Steve Receives	After Steve's Death, His Spouse Receives
1.	Life Annuity	$500	Nothing*
2.	50% Spouse Annuity	$475	$238
3.	66⅔% Spouse Annuity	$460	$307
4.	75% Spouse Annuity	$450	$338
5.	100% Spouse Annuity	$430	$430
6.	10-Year Certain and Life Annuity	$488	$488**

* However, if Steve left his contributions in the plan and died before receiving payments equal to those contributions (plus interest), any pre-July 1974 spouse benefit contributions and any Family Survivors' Benefit contributions, the balance will go to his spouse.

** Paid only if Steve dies before receiving 120 payments (10 years). Payments continue only until the end of the guaranteed payment period.

When To Choose A Payment Method

Usually, employees prefer to wait until they are close to retirement before selecting a payment method. If you are nearing retirement, contact your Personnel or Employee Relations Office for a more detailed explanation of these methods.

Your actual election of a payment method cannot be made more than 90 days before the date you want payments to begin. However, you should make your election about *two months* before retirement. If you don't allow about two months, your first pension check may be delayed.

Keep in mind that the payment method you elect will have a permanent effect on your retirement income — and on your spouse's income, if you should die first. So please be sure to discuss your retirement finances and payment method with your husband or wife.

Return of contributions

The plan guarantees that benefits paid on your behalf (to you, your spouse or other beneficiary) will always equal or exceed your "guaranteed contributions." "Guaranteed contributions" means any pension contributions required before 1986 (plus interest at the ERISA rate), and any voluntary contributions for the pre-July 1974 spouse benefit.

Normally, your guaranteed contributions are returned as part of the pension or survivor benefit paid to you, your spouse or other beneficiary. However, if you should die and no benefit is payable other than a return of any remaining guaranteed contributions, those contributions go to your beneficiary in one lump sum.

If you are married, your beneficiary for a return of contributions is automatically your spouse — unless your spouse agreed to another beneficiary by co-signing your beneficiary designation. If you are single, you can name anyone you wish as your beneficiary and you can change your beneficiary at any time.

If you don't name a beneficiary, or if your beneficiary dies before you do, the Pension Committee may name any of the following as your beneficiary:

- your spouse (If you are married, your spouse will automatically be considered your beneficiary.)
- your surviving children (an equal share to each)
- your executor or administrator
- your spouse's executor or administrator
- your former beneficiary's executor or administrator.

IMPORTANT: If you are married, your spouse is automatically considered your beneficiary for a refund of contributions. If you wish to name someone other than your spouse for the refund, your spouse must co-sign the form on which you designate your beneficiary and the form must be notarized.

Breaks in service and reemployment

Breaks In Service

You have a "break in service" if your employment with the Company ends. However, if you return within a year, your break is erased and your period of absence is included for determining *eligibility service.* It's not included in your *benefit service.* In addition, up to one year of a layoff, an approved leave of absence or maternity or paternity leave is not considered a break in service.

If You Are Reemployed

If you are rehired after a break in service, you automatically rejoin the plan immediately. (However, if you're rehired as a part-time salaried employee, you must meet the one year service requirement.)

Your pre-break eligibility service and benefit service are restored if

- you were at least 50% vested before you had a break, or
- your break lasted less than five years*

Under any other circumstances, you start out as a new employee (i.e., get no credit for pre-break service) when you rejoin the Company.

If you return to work with any North American Philips company after pension payments have started, your payments will be suspended until you retire again (unless you work less than 40 hours a month). When you retire again, your pension will be adjusted to account for any additional benefit service and for any lump sum or monthly payments you had already received.

Please note: The above rules took effect on January 1, 1985. Any pre-break service lost under plan rules in effect before 1985 will not be restored.

*Your break in service begins on the date you leave the Company and ends on the date you're reemployed.

Hours of service

As explained on page 5, part-time salaried employees must complete one year of service before joining the pension plan. For eligibility purposes, a year of service is a 12-month period in which a part-time employee completes at least 1,000 "hours of service." (The 12-month period can be measured either from date of hire or any later January 1.)

"Hours of service" include hours for which the Company pays you for:

— working as either a salaried or hourly employee

— absences like vacations or those due to illness or disability. But you will not be credited with more than 501 hours for any single period of absence.

You are credited with hours of service even if you work for a division or affiliate which doesn't participate in the plan. If you return to work after a period of military duty, and your reemployment rights are covered by law, your military service also counts as hours of service.

Domestic relations orders

Generally, your pension benefits are payable to you only — or to your spouse or other beneficiary — under the circumstances described in this guidebook section. For example, the plan would not pay any part of your benefit to someone you owe money to. There is only one exception: If a spouse, former spouse, child or other dependent obtains a "qualified domestic relations order" from a court, the plan is required to pay benefits in accordance with the court order — but never before the date you qualify for early retirement. This could happen, for example, in case of non-payment of alimony or child support.

How to apply for benefits

About three to six months before you wish to retire, you should contact your Personnel or Employee Relations Office for specific information about the benefits you can expect to receive. Your actual retirement application (including an election of a payment form) cannot be submitted more than 90 days before the date you want payments to begin. However, you should submit your application at least 60 days before that date. If you don't, there may be a delay in the start of your pension.

If you leave the Company before retirement age, and have vested benefits, you will receive a statement of your vested rights shortly after you leave. Keep Personnel or Employee Relations informed of your address. They will send you a pension application from three to six months before your 65th birthday. If you want your pension to begin earlier than 65, you must contact the Company.

In most cases, your pension application is processed and the Pension Committee informs you of the amount of your pension and confirms the date on which your payments will begin.

If your benefits claim is denied for any reason, you or your beneficiary will receive a written notice from the Personnel or Employee Relations Office within 90 days. The notice will explain the reason for the denial, refer to the part of the plan on which the denial is based, and review the claims appeal procedure. If you have made an error in the claim, the notice will list ways in which it can be corrected. If special circumstances exist, you may not receive a notice for up to 180 days. However, you'll know within 90 days that there will be a delay.

You are entitled to appeal a claim that is denied, and you will receive a full and fair review. You may review any documents that relate to your claim. Within 90 days of the date you receive the denial, submit your appeal, in writing, to the Pension Committee. Be sure to state why you believe the claim shouldn't be denied, and submit any data, questions or comments you think are appropriate.

You will receive a written decision on your appeal within 60 days of the time the Pension Committee receives your request. If special circumstances exist, such as the need to hold a hearing, you'll receive a notice within 60 days that a decision may take up to 120 days.

If you transfer

Here is what happens if you transfer to a non-participating division or affiliate, or to hourly or other ineligible status.

You will no longer receive benefit service. However, you will continue to receive eligibility service. You may not withdraw your plan contributions. At retirement age, you will be eligible to receive benefits based on your benefit service and final average pay at the time of your transfer.

Future of the pension plan

Federal regulations require that all pension plan summaries include a description of participants' rights in case of plan termination.

North American Philips Corporation has the right to terminate the plan at any time, in whole or in part, by resolution of its Board of Directors. If that should happen, any participating employers would have no further obligation to make contributions to the plan. Your interests would be protected at plan termination as follows:

The rights of all affected employees to benefits earned to the date of termination — to the extent then funded — will become fully vested (non-forfeitable).

The trust fund's assets will be used first to cover plan termination costs and then to satisfy the plan's liabilities to participants, spouses or other beneficiaries. To the extent funds are available, plan assets will be allocated among participants, spouses and beneficiaries in the order of priority set by the Employee Retirement Income Security Act of 1974 (ERISA). The rules governing these priorities are very complex. But very generally, top priority is given to payment of the portion of any benefit attributable to employee contributions and, then, to benefits that were vested at the time of plan termination. Benefits would ordinarily be paid as an annuity. But a lump sum cash-out can be made for small pensions.

If the plan is able to satisfy all its liabilities under the law and if any assets still remain in the trust fund, any remaining amount will revert to the Company.

If the trust fund's assets are not sufficient to satisfy all plan liabilities, additional amounts may become payable by the Pension Benefit Guaranty Corporation (a government corporation set up under ERISA), as explained below. Note, though, that the PBGC protection is limited to certain types of benefits and that there is a ceiling on the dollar amount of all pensions. In addition, the PBGC does not cover any benefits that became vested solely as a result of plan termination. So in the event of plan termination, it is possible that you, your spouse or other beneficiary would receive less than the full expected amount.

Pension Benefit Guaranty Corporation

Benefits under this plan are insured by the Pension Benefit Guaranty Corporation (PBGC) if the plan terminates. Generally, the PBGC guarantees most normal retirement benefits, early retirement benefits, vested retirement benefits, and certain disability and survivors' pensions. However, the PBGC does not guarantee all types of benefits under covered plans, and the amount of benefit protection is subject to certain limitations. For example, the PBGC does not guarantee benefits for employees who were not vested immediately before the date of termination.

The PBGC guarantees benefits which are vested immediately before termination at the level then in effect. However, if benefits have been increased within the five years before plan termination, the whole amount of the plan's vested benefits or the benefit increase may not be guaranteed. In addition, there is a ceiling on the amount of monthly benefit that the PBGC guarantees, which is adjusted periodically.

For more information on the PBGC insurance protection and its limitations, ask your plan administrator or the PBGC. Inquiries to the PBGC should be addressed to the Office of Communications, PBGC, 2020 K Street, N.W., Washington, D.C. 20006. The PBGC Office of Communications may also be reached by calling (202) 254-4817.

Key Employee Provision

Under an IRS rule, the plan may have to provide faster vesting than described in this guidebook section if a disproportionate percentage of plan benefits has been accrued by "key employees" (as defined by the IRS). ERISA regulations require us to mention this special vesting rule, even though it is virtually impossible that it would ever apply to this plan.

Plan administration

The North American Philips Corporation Pension Plan for Salaried Employees is a defined benefit plan. A plan administrator is responsible for providing participants with information on their benefits and handling other functions necessary for the plan's operation. The plan administrator is:

North American Philips Corporation
100 East 42nd Street
New York, N.Y. 10017
(212) 697-3600

Plan administration is handled by a Pension Committee appointed by North American Philips Corporation's Board of Directors. On the local level, your Personnel or Employee Relations Office takes care of plan administration; they should be your first source for any questions you have about the plan.

Agent For Service Of Legal Process

For any legal proceedings, the plan's agent is:

CT Corporation System
277 Park Avenue
New York, N.Y. 10017

Legal process may also be served on the plan trustee or plan administrator.

Plan Year

The plan year for record-keeping purposes runs from January 1 through December 31. All employee records which relate to the plan are maintained on a plan-year basis.

Plan Documents

The preceding description summarizes the major features of the pension plan; it is intended to meet the requirement for a summary plan description under the Employee Retirement Income Security Act of 1974 (ERISA). **Your local Personnel or Employee Relations Office has a copy of the plan document which details each plan provision and governs your rights if it differs from this summary.**

Employer And Plan Number

For reporting pension plan information to the U.S. Department of Labor and the Internal Revenue Service, the Company's Employer Identification Number (EIN) is 13-1895219 and the Plan Number (PN) is 001.

Your rights under law

As a participant in the North American Philips Corporation Pension Plan for Salaried Employees, you are entitled to certain rights and protections under the Employee Retirement Income Security Act of 1974 (ERISA). ERISA provides that all plan participants are entitled to:

- Examine, without charge, at the plan administrator's office and at other locations (including worksites), all plan documents including copies of all documents filed by the plan with the U.S. Department of Labor, such as annual reports and plan descriptions.
- Obtain copies of all plan documents and other plan information upon written request to the plan administrator. (The administrator may make a reasonable charge for the copies.)
- Receive a summary of the plan's annual financial report. The plan administrator is required by law to furnish each participant with a copy of this summary annual report.
- Obtain a statement telling you whether you have a right to a pension at normal retirement age (age 65) and if so, what your benefits would be at normal retirement age if you stop working under the plan now. If you do not have a right to a pension, the statement will tell you how many more years you have to work to get a right to a pension. This statement must be requested in writing and is not required to be given more than once a year. The plan must provide the statement free of charge.

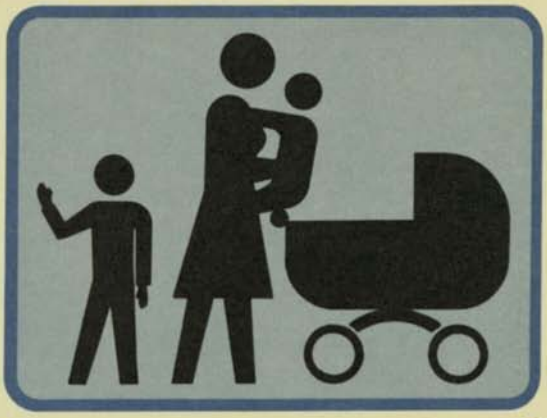
In addition to creating rights for plan participants, ERISA imposes duties upon the people who are responsible for the operation of the plan. The people who operate your plan, called "fiduciaries," have a duty to do so prudently and in the interest of you and other plan participants and beneficiaries. No one may fire you or otherwise discriminate against you in any way to prevent you from obtaining a benefit or exercising your rights under ERISA.

If your claim for a pension benefit is denied, in whole or in part, you must receive a written explanation of the reason for the denial. You have the right to have the plan administrator review and reconsider your claim. Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request materials from the plan and do not receive them within 30 days, you may file suit in a federal court. In such a case, the court may require the plan administrator to provide the materials and pay you up to $100 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the administrator. If you have a claim for benefits which is denied or ignored, in whole or in part, you may file suit in a state or federal court. If it should happen that plan fiduciaries misuse the plan's money, or if you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees — for example, if it finds your claim is frivolous.

If you have any questions about your plan, you should contact the plan administrator. If you have any questions about this statement or about your rights under ERISA, you should contact the nearest Area Office of the U.S. Labor-Management Services Administration, Department of Labor.

This section is only a representative summary of your pension plan. Should any questions or conflicts arise, they will be resolved based on official policies or plan documents. Neither this summary nor any detailed guidebook or employment policy constitutes either an express or implied contract of employment.

FAMILY SURVIVORS' BENEFIT



Family survivors' benefit

Why a family survivors' benefit?

When the head of a family dies, the resulting loss of income could prove disastrous. For a minimal cost, the Family Survivors' Benefit offers you a way to protect your family from such a hardship. If you die before retirement, this benefit assures your spouse or children under age 27 a substantial monthly income — 25% of your pay before death.

The Family Survivors' Benefit *includes* any amount payable under the Pre-Retirement Spouse Benefit feature of the pension plan (see page 20 of the pension section).

The Family Survivors' Benefit supplements any life insurance coverage you may have.

Who is eligible?

The Family Survivors' Benefit is part of the pension plan. As a pension plan participant, you can elect the Family Survivors' Benefit if you're married or have at least one child under age 27.

On page 9 you'll find an explanation of who is considered a "spouse" or "child" for purposes of the Family Survivors' Benefit.

Enrollment

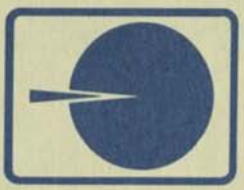
You can enroll for the Family Survivors' Benefit as soon as you join the Company.

Coverage takes effect at the same time that you join the pension plan — that is, on the first of the month after hire. (However, if you are a part-time salaried employee, you must complete one year of service to enroll.)

If you aren't married and/or don't have a child under age 27 when you join the pension plan, you may enroll in the Family Survivors' Benefit as soon as you marry or have a child. Coverage takes effect on the first day of the month after you file an enrollment form.

Enrollment forms are available from your Personnel or Employee Relations Office.

If you don't enroll when you are first eligible, you must submit evidence of good health to the Pension Committee and receive their approval before you can participate in the benefit. You may never be allowed to enroll if you are unable to provide satisfactory evidence of good health.



What it costs

You contribute a small percentage of your earnings for each month that you are covered by the benefit.

How much you contribute depends on your "earnings," as follows:

If Your Age on January 1 of the Current Year Is	Then You Contribute
Under 40	1/2% of earnings
40-54	3/4% of earnings
55 or older	1% of earnings

"Earnings" is defined on page 9 of the pension plan section of this guidebook.

As mentioned in the table, your contribution rate is based on your age as of January 1 of each year in which you participate. For example, assume you are hired in July 1986 at age 40 and you decide to enroll for the Family Survivors' Benefit. Your birthday was in May. Throughout 1986, you would contribute at the 1/2% rate since you were only age 39 on January 1, 1986. Then on January 1, 1987, you would start contributing at the 3/4% rate.

Family Survivors' Benefit contributions are deducted from your paycheck.

Your Family Survivors' Benefit contributions provide you with current protection, rather than help you build up a cash reserve. Therefore, unlike pension plan contributions, Family Survivors' Benefit contributions are not refunded if you leave the Company.

The Family Survivors' Benefit

The annual Family Survivors' Benefit, payable upon your death in active service before age 65, is 25% of your "pay."

In most cases, "pay" means your annual salary rate immediately before your death, as well as the average annual amount of any other cash compensation paid during the previous three calendar years that counted as earnings under the pension plan. Please see page 9 for a more detailed definition of "pay."

The Family Survivors' Benefit is paid in monthly installments, starting on the first of the month following your death. Payments go to your surviving spouse or to your children who are under age 27, as explained in the next two sections.

25% of pay

Benefits for your spouse

If you are married at the time of death, your surviving spouse receives the full 25% Family Survivors' Benefit. Any amount payable to your spouse under the Pre-Retirement Spouse Benefit feature of the pension plan (described on page 20 of the pension section) is *included* as part of the Family Survivors' Benefit.

The Family Survivors' Benefit is paid as long as your spouse lives, even if he or she remarries.

If your spouse dies survived by one or more of your children under age 27, payments continue until each child reaches age 27. You'll find details about how such payments are made under "Benefits For Your Children."

Benefits for your children

Any eligible child (or children) under age 27 receives a Family Survivors' Benefit if

- you have no spouse at the time of death, or
- your spouse dies after you, whether or not your spouse had remarried.

Payments begin on the first day of the month following your (or your spouse's) death.

If You Have No Spouse At The Time Of Death

These provisions apply if you have no spouse at the time of your death:

One Child. If you have one child under age 27, he or she receives the 25% Family Survivors' Benefit until age 27.

More Than One Child. If you have more than one child under age 27, the Family Survivors' Benefit is divided equally among those children at your death. Then, when each child reaches age 27, his or her share of the benefit stops. (Note that if a child dies — or stops receiving payments at age 27 — payments to any other children still entitled to benefits will not increase.)

No payments will be made to any child who has reached age 27 at the time of your death.

An Example. Assume Linda H. dies in active service before age 65 leaving no spouse. She does, however, have three children ages 8, 12 and 15. Linda's "pay" at the time of death was $36,000. The annual Family Survivors' Benefit, therefore, is $9,000 (25% of $36,000).

Since all her children are under age 27, the Family Survivors' Benefit is divided equally among all three children:

$9,000 ÷ 3 = $3,000 a year ($250 a month) for each child

Benefits for your children (continued)

Monthly payments start the month after Linda's death. Each child's payments continue until he or she reaches age 27. In summary . . .

The Child Who Is	Receives	For	Giving An Individual Benefit Of
Age 8	$3,000 a year	19 years	$ 57,000
Age 12	$3,000 a year	15 years	$ 45,000
Age 15	$3,000 a year	12 years	$ 36,000

(For simplicity's sake, these amounts have been figured as if each child had just reached the age shown.)

If Your Spouse Dies

These provisions apply if your spouse starts receiving a Family Survivors' Benefit and then dies before all your children have reached age 27:

One Child. If you have one child under age 27 when your spouse dies, your child receives the 25% Family Survivors' Benefit until he or she reaches age 27.

Your child is entitled to this benefit whether or not your spouse had remarried.

More Than One Child. If your spouse dies and more than one of your children are still under age 27, the Family Survivors' Benefit is divided equally among those children. Then, when each child reaches age 27, his or her share of the benefit stops. (Note that if a child dies — or stops receiving payments at age 27 — payments to any other children still entitled to benefits will not increase.) Your children are entitled to this benefit whether or not your spouse had remarried.

No payments will be made to any child who has reached age 27 at the time of your spouse's death.

An Example. Assume Robert M. dies in active service before age 65 leaving his spouse, Ann, and three children. Robert's "pay" at the time of death was $28,000. The annual Family Survivors' Benefit, therefore, is $7,000 (25% of $28,000).

Benefits for your children (continued)

The Family Survivors' Benefit is paid to Robert's spouse. Monthly payments of $583.33 start the month after Robert's death and continue for as long as Ann lives — even if she remarries.

Assume now that Ann dies after receiving payments for a number of years. At the time of her death, the children are ages 18, 23 and 28. In this case, monthly payments continue to the two children who are under age 27 at the time of Ann's death. Each child receives an equal share of the Family Survivors' Benefit:

$7,000 ÷ 2 = $3,500 a year ($291.67 a month) for each child under age 27

Payments start the month after Ann's death. Each child's benefit continues until he or she reaches age 27. In summary . . .

The Child Who Is	Receives	For	Giving An Individual Benefit Of
Age 18	$3,500 a year	9 years	$ 31,500
Age 23	$3,500 a year	4 years	$ 14,000
Age 28	—	—	—

(For simplicity's sake, these amounts have been figured as if each child had just reached the age shown.)

Pension contributions refund

In addition to the payments that your spouse or children receive from the Family Survivors' Benefit, your beneficiary receives a refund of any pension plan contributions with interest. (Please see page 30 of the pension plan section for rules on naming a beneficiary for a refund of contributions.) Any reduction in the Pre-Retirement Spouse Benefit, due to a refund of pension contributions with interest, will not reduce the Family Survivors' Benefit.

Disability

If you go on sick leave at less than full pay or become totally disabled while participating in the Family Survivors' Benefit:

- you make no Family Survivors' Benefit contributions, and
- your Family Survivors' Benefit coverage continues in effect during your sick leave or disability.

You will be considered totally disabled for purposes of the Family Survivors' Benefit if the Pension Committee approves you for the disability provisions of the pension plan.

Some definitions

Spouse
In this summary of the Family Survivors' Benefit, the term "spouse" means the person to whom you are legally married — and not divorced. If you are legally separated, you are still considered married.

Eligible Children
For purposes of the Family Survivors' Benefit, children eligible to receive payments include your natural or adopted children who have not reached age 27. They can be single or married, and they need not be your dependents. If you have a child born out of wedlock, he or she will be entitled to benefits only if you had acknowledged parentage during your lifetime.

Any children of your spouse who are not your natural or adopted children are *not* eligible for Family Survivors' Benefit payments.

Pay
"Pay," for purposes of the Family Survivors' Benefit, includes only those earnings that are included as "earnings" under the pension plan. ("Earnings" are defined on page 9/pension.)

Pay is the sum of 1 and 2, as follows:

1. The *greater* of
   A. your annual rate of salary immediately prior to death (or immediately prior to a period of disability or sick leave, if benefit service was granted under the pension plan)

   or

   B. your average annual salary for the three calendar years prior to the year of death during which benefit service was granted under the pension plan

   PLUS

2. your average annual amount of any bonuses, commissions or other cash compensation includable as earnings under the pension plan during the most recent three full calendar years of active employment (or the total number of years, if less) prior to the year of your death

In no event will your pay be less than your "final average pay" under the pension plan. "Final average pay" is defined on page 9/pension.

When coverage ends

Your Family Survivors' Benefit coverage ends when you:

- are no longer married and your children are age 27 or older
- stop making contributions (unless you are on sick leave at less than full pay or are totally disabled)
- are laid off or go on leave other than sick leave or total disability
- transfer to ineligible status (e.g., hourly employment)
- leave the Company
- retire or reach age 65

If your marriage ends and you no longer have children under 27, obtain the appropriate form for stopping contributions from your Personnel or Employee Relations Office.

Claiming Family Survivors' Benefits

Should you die, your Personnel or Employee Relations Office will contact your surviving spouse or children to arrange for payment of the benefit.

Plan administration

Since the Family Survivors' Benefit is part of the North American Philips Corporation Pension Plan for Salaried Employees, the following parts of the pension plan section also apply:

- How to Apply for Benefits, page 33/pension
- Future of the Pension Plan, page 34/pension
- Plan Administration, page 36/pension
- Your Rights Under Law, page 37/pension

EMPLOYEE SAVINGS PLAN

ESP

Employee savings plan

Section Page

Why a savings plan?

The Employee Savings Plan (or ESP) offers you the opportunity to invest for your future through convenient, regular savings to supplement your pension benefit, buy a new home, pay for your children's education or meet other long-term financial needs.

After you read all about ESP, we think you'll agree that its combination of convenience, growth potential and tax advantages just can't be beat.

Convenience. You save through convenient payroll deductions—the best way to see your security grow month after month.

Growth Potential. The Company helps your savings grow even faster. On your first 5% of earnings, the Company contributes 50¢ for each $1.00 you save.

Plus, your contributions and Company contributions made on your behalf are invested in a guaranteed income fund or equity fund—as you direct. Investment earnings can add even more to the value of your ESP account.

Tax Advantages. Another attractive feature of your plan allows you to shelter part of your earnings from federal income taxes. As a result, you can pay *less* in current taxes —and have *more* in spendable income. Also, you postpone taxes on Company contributions and investment earnings until you actually receive them.

This section describes your savings plan in two parts. The highlights provide you with a quick summary, and answer some of the questions you may have about the plan. The more detailed description follows the highlights. We urge you to read the entire section so you'll understand just how the plan works.

Even so, this section doesn't spell out the complete Employee Savings Plan. It's a summary. Like any summary, this one omits certain details. The actual plan is drawn up in legal language and always has the final say if any conflicts arise.

This guidebook section is a summary of Employee Savings Plan provisions in effect as of January 1, 1986.

ESP highlights

When can I join?

You can enroll in ESP on the first of any month after you complete six months of employment.

What do I contribute?

You can contribute up to 15% of your earnings. The first 10% of your contributions can be special "tax-saver contributions."

Tax-saver contributions actually *reduce* the amount of earnings you have to pay taxes on! It works like this: Say you earn $20,000 a year and decide to save 5% of earnings as tax-saver contributions. That comes to $1,000 a year. As far as the IRS is concerned, your earnings for federal income tax purposes have been "reduced" to $19,000 ($20,000 less $1,000 saved).

To your benefit, you pay federal income taxes only on $19,000—not your full $20,000.

"Regular" contributions do not reduce your current taxes.

How much does the Company add?

The first 5% of earnings you save is eligible for a 50% Company match. In other words, for each $1.00 you save, the Company adds another 50¢ to your account.

What happens to that money?

All contributions—yours and the Company's—are invested in one or both of these funds:

- The *guaranteed income fund* guarantees safety of principal and a fixed rate of return.
- The *equity fund*, a portfolio of common stocks, will increase or decrease in value depending on stock market results.

You tell the Company how you want your account to be invested.

Can I make withdrawals?

Subject to plan rules, you can withdraw your regular contributions, Company contributions that have gone through a three-year maturing cycle (see page 12) and earnings on these amounts. However, in most cases, a withdrawal results in a six-month suspension of Company contributions.

Access to tax-saver contributions is more limited due to federal government regulations. You can withdraw those contributions (and earnings) *only* in case of serious financial need.

What do I receive when I leave?

If you leave after qualifying for normal or early retirement—or after 10 years of service—you are 100% vested. This means you get *all* the money in your ESP account.

Otherwise, you receive the full value of your tax-saver and regular contributions plus the *vested portion* of your Company contributions. The vested portion is all Company contributions (and earnings) that have gone through the full three-year maturing cycle.

All payouts are made in one lump-sum.

What happens in case of death or disability?

If you die, your beneficiary receives the full value of your ESP account. That includes your regular and tax-saver contributions, and all Company contributions (adjusted, of course, for investment earnings or losses).

In case of disability, you receive the full value of your ESP account 2½ years after your last day of work.

When do I pay taxes?

One of the main advantages of ESP is that you pay no taxes on any money while it remains in the plan. You will owe taxes, however, if you take a withdrawal or receive a payout over and above your regular contributions. At that time, you may qualify for special tax treatment, as explained on page 19.

6 months of service

Eligibility

Full-time salaried employees are eligible to participate in ESP after six months of employment.

If you're hired as a part-time salaried employee (that is, you are expected to complete less than 1,000 hours of service a year), you will be eligible to participate if you complete one year of service. For eligibility purposes, you have a year of service if you complete at least 1,000 hours of service during a 12-month period which begins on your hire date or any January 1.

Enrollment

You may enroll in the plan on the first of any month following the date you become eligible. You'll receive an enrollment application from your Personnel or Employee Relations Department shortly before your eligibility date. Personnel or Employee Relations must receive your application at least 30 days before you want your participation to begin.

You must complete and return the form whether you choose to participate or not. If you don't join the plan when you first become eligible, you may enroll on the first of any following month by completing an enrollment application at least 30 days in advance.

1-15%
of
annual earnings

What you contribute

You may contribute from 1% to 15% of your annual earnings in whole percent steps.

- Your contributions of *up to 5% of earnings* are eligible for the 50% Company match (explained on page 10).
- Contributions *from 6% to 15% of your earnings* are not matched by the Company.

You have a choice as to how you contribute the first 10% of your earnings. You can make *tax-saver contributions, regular contributions* —or a combination of the two. Each type of contribution has its own unique advantages, as explained next.

Tax-Saver Contributions

If you elect to make tax-saver contributions, the amount you contribute is not counted as income for federal income tax purposes. (And, usually, that amount is not counted as income for state or local taxes either.) This results in *lower current taxes* each time you make a tax-saver contribution.

Here's an example of how this works. Say you earn $20,000 a year and decide to put 5% into ESP through tax-saver contributions.

5% X $20,000 = $1,000 contribution

This results in an immediate tax advantage:

- Your income for federal income tax purposes is only $19,000 (not your full $20,000 in earnings).
- If you were in the 20% federal income tax bracket, you could save $200 in taxes over the year.

That $200 is yours to pocket—or to use to increase your ESP savings!

You must remember, though, that making tax-saver contributions is a way to *postpone* taxes—not a way to avoid them forever. When you take tax-saver contributions out of the plan, you will have to pay taxes. But by that time, you may be in a lower tax bracket, or you may qualify for some very favorable tax rules.

But, in return for your tax advantages, the federal government requires us to limit access to your tax-saver contributions while you're working.

Please be sure to read pages 12 through 16 on withdrawal restrictions and page 19 on taxes.

What you contribute (continued)

Regular Contributions

Regular contributions do not decrease your current taxes. Instead, your savings come out of earnings that have already been taxed.

For example, say you earn $20,000 and want to save 4% a year—or $800. Assume, too, that your total tax bite (federal , state, FICA etc.) is 20%.

First, take your earnings.	$20,000
Subtract $4,000 in taxes (20% of $20,000)	− 4,000
	$16,000
Now make your regular contribution	− 800
Take-home pay	$15,200

As you can see, regular contributions did not reduce your taxes.

Regular contributions have their advantages, too. Because they come out of earnings that have already been taxed, you owe no further taxes on regular contributions when they are paid out. Also, it is easier to withdraw your regular contributions while you're working.

Tax-Saver versus Regular Contributions: Some Examples

Here are two examples. They will give you an idea of how making tax-saver contributions as opposed to regular contributions can affect your federal income taxes and your take-home pay based on 1985 tax tables.

Example 1. Here we've assumed you are single and earn $20,000 a year. You don't itemize on your tax return, but claim one exemption. You decide to contribute 5% of earnings ($1,000) to ESP.

	If You Make Tax-Saver Contributions	If You Make Regular Contributions
Gross earnings	$20,000	$20,000
5% tax-saver contribs.	−1,000	—
Taxable income (federal)	$19,000	$20,000
Tax owed (federal)	−2,632	−2,864
5% regular contribs.	—	−1,000
Take-home pay	$16,368	$16,136
	($232 more)	

What you contribute (continued)

Example 2. Assume now that you're married and earn $40,000 a year. You file a joint tax return, do not itemize deductions and claim four exemptions. You decide to contribute 5% of earnings ($2,000) to ESP.

	If You Make Tax-Saver Contributions	If You Make Regular Contributions
Gross earnings	$40,000	$40,000
5% tax-saver contribs.	−2,000	—
Taxable income (federal)	$38,000	$40,000
Tax owed (federal)	−5,792	−6,352
5% regular contribs.	—	−2,000
Take-home pay	$32,208 ($560 more)	$31,648

As you can see, the amount you save ($1,000 in Example 1; $2,000 in Example 2) is the same whether you make tax-saver or regular contributions. However, *your take-home pay goes up* when you use tax-saver contributions in place of regular contributions. That's because of the tax savings.

Making Your Choice

Only you can decide whether tax-saver or regular contributions are best for you. Many employees will want to make *both* types of contributions...

- some tax-saver contributions—for long-term saving with maximum tax advantages

AND

- some regular contributions—for savings that can be withdrawn more easily.

All Your Savings From 11% to 15% of Earnings Must Be Made With Regular Contributions.

Government Limitations

The federal government sets certain guidelines to make sure that a reasonable cross-section of employees take advantage of ESP's tax-saver contributions. If these government guidelines aren't met, employees may be required to cut back on their tax-saver contributions.

A second government regulation puts a dollar limit on the amount that can be contributed to an employee's account (by the employee and the Company, in total) dur-

ing a calendar year. This dollar limit, which is adjusted periodically, applies only to the highest-paid employees and may result in a cutback in the amount that can be contributed.

Definition of earnings

For ESP, earnings include base salary and other compensation, commissions, overtime payments and shift differential up to $500,000 per year. Any before-tax dollars you contribute to a Company-sponsored benefit program also count as earnings for ESP purposes. Earnings **exclude:**

- deferred compensation and stock options
- expense reimbursement
- pension or other benefit plan payments
- bonus amounts that exceed your base salary
- other amounts which receive special tax treatment.

As mentioned earlier, any tax-saver contributions you make are not counted as earnings for federal income tax purposes (nor for state and local taxes, in most states). However, your earnings are *not* reduced for other purposes—such as figuring Social Security (FICA) taxes and benefits, or pay-related Company benefits. For example, when figuring your Company life insurance, pension benefit etc., your tax-saver contributions are always considered part of your earnings.

Payroll deductions

All contributions will be deducted from your paycheck. Deductions begin with the first paycheck you receive on or after your enrollment date.

You cannot make direct cash contributions to ESP.

Making changes

Changing Your Contribution Amount

At some time, you may wish to increase or decrease the percentage of earnings you contribute—or change the balance between tax-saver contributions and regular contributions.

After you first enroll, you may make either kind of change (or both together) at any time. But after that, you cannot make another change for six months.

To make a change, submit a contribution change application to the Personnel or Employee Relations Department. The new rate will be reflected in your first paycheck in the month following 30 days from the date Personnel or Employee Relations receives your application.

For example, suppose you hand in a contribution change application on September 7. Thirty days later is October 7. Your new contribution rate will be effective in the first paycheck you receive in November. The next time you'll be able to change your contribution rate will be six months later, or May of the following year.

Stopping Contributions

You may stop making contributions at any time by submitting a contribution change application to the Personnel or Employee Relations Department. Contributions will stop with the first paycheck you receive in the month following 30 days from the date Personnel or Employee Relations receives your application.

While you're not contributing, the Company won't be making any matching contributions on your behalf.

Resuming Contributions

After you stop contributing, you can't begin contributing again for at least six months. Once the six months are up, you can start contributing again by submitting a contribution change application. Contributions will resume in the month following the 30-day waiting period.

Since a resumption of contributions is considered a change in contribution rate, you can't increase or decrease you contribution rate for six months after contributions resume. But you can still suspend your contributions, if you wish.

Company contributions

Each month that you participate in ESP, the Company will contribute 50% of your tax-saver or regular contributions between 1% and 5% of your earnings. In other words, the Company will match $.50 on every $1.00 you contribute up to 5% of your earnings. (Company contributions may be suspended after you make a withdrawal. See page 15.)

For example, say your annual earnings are $20,000. You decide to contribute 5%, or $1,000 a year. Because of the 50% match, the Company adds $500—for a grand total of $1,500 in savings for the year.

Contributions are credited to your account on a monthly basis. They are made from the Company's current or accumulated profits.

Investing contributions

As one of ESP's many advantages, all contributions are professionally invested in a guaranteed income fund or an equity fund. You have the flexibility to divide your account between the funds in these three ways:

Guaranteed Income Fund	Equity Fund
100%	0
75%	25%
50%	50%

The investment choice that you make applies to your contributions and Company contributions made on your behalf. All earnings from each fund are automatically reinvested in the same fund.

The Guaranteed Income Fund

This fund guarantees safety of principal (the money you put in) *plus* a fixed rate of return. In other words, the value of your guaranteed income fund account can only go up.

The fund's guaranteed interest rate changes from time to time. We'll always announce the current rate so you can make a well-informed decision on how to invest.

Investing contributions (continued)

The Equity Fund

Money in the equity fund is invested in an "index fund" managed by Bankers Trust Company. The fund provides investment results which closely approximate the overall performance of the common stocks in the Standard & Poor's 500 Composite Stock Index. The S&P Index consists of the common stocks of 500 companies which represent a cross-section of industries. If you wish to keep track of how the equity fund is performing, you can get a general idea by checking Standard & Poor's results in the financial section of your newspaper.

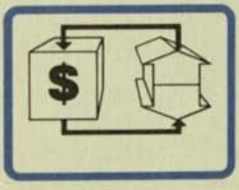
Because the equity fund reacts to the ups and downs of the stock market, neither your principal nor earnings can be guaranteed. You could earn more money than is possible with the guaranteed income fund; on the other hand, the value of your account could decrease.

The 50% limit on investments in the equity fund lessens the risks you are taking with your money. If you invested all of your money in the equity fund, poor stock market performance might actually decrease the value of your contributions. With at least 50% of your account in the guaranteed fund, the guaranteed interest rate partially compensates for possible losses in the equity fund.

Changing Investment of Future Contributions

Once in any six-month period, you may change the way you want future contributions divided between the funds. The change will take effect with the first pay date of the month. You must submit your investment change application at least two weeks before the end of the month.

For example, suppose you request an investment change on April 4. In that case, the contributions taken out of your first paycheck in May would be invested according to your new investment instructions.



Reallocation of Account Balances

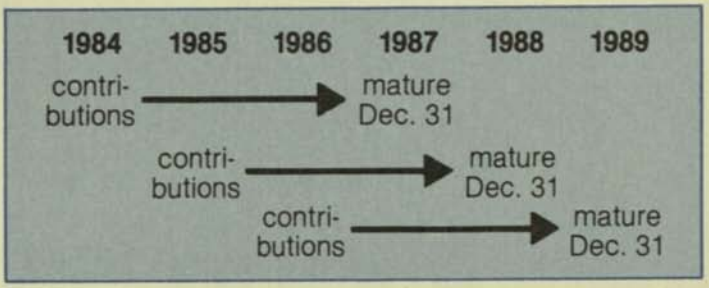
You may also take money that's already in your account and transfer it between the funds, in accordance with one of the three investment combinations. This kind of change can only be made once every six months. It won't have any effect on the way future contributions are invested.

Reallocations take effect on the last day of a month. Please be sure to submit your change form at least two weeks in advance. For example, if you requested a reallocation on April 4, it would take effect on April 30.

Maturing of Company contributions

Company contributions (and earnings) become matured three years after the end of the calendar year in which the contributions were made. So, to mature, all Company contributions made during a given calendar year must remain in the plan for the next three full calendar years. On December 31 of the third year, those contributions become matured.

For example: Company contributions made from January 1 through December 31, 1984 must stay in the plan for three full calendar years—1985, 1986 and 1987. Then all 1984 Company contributions (adjusted for investment earnings or losses) mature on December 31, 1987. Here are some more examples:



After Company contributions have completed this three-year maturing cycle, you have the right to withdraw them.

Withdrawals

While the plan's main goal is to help you save for retirement, you can still use ESP to save for buying a house, paying for college or other major expenses while you're working.

However, in keeping with our long-term savings goal and certain government regulations, these restrictions apply to ESP withdrawals:

- You can only make a withdrawal once in any six-month period.
- A six-month suspension of Company contributions applies to all types of withdrawals—except a withdrawal of your unmatched regular contributions.
- Access to tax-saver contributions is strictly limited.

Withdrawals (continued)

- There is no provision for an immediate withdrawal. It will usually take three months between the time you request a withdrawal and receipt of your check.

Note, too, that you will have to pay taxes on any amount you withdraw that's over and above your regular contributions.

There are four types of withdrawals, summarized as follows:

Under This Option . . .	You Can Withdraw . . .
Option 1	unmatched regular contributions (These are regular contributions that were not matched by the Company.)
Option 2	unmatched regular contributions *plus* matched regular contributions (These are your regular contributions that did receive the Company match.)
Option 3	unmatched and matched regular contributions *plus* • any investment earnings on those contributions • any Company contributions that have gone through the three-year maturing cycle (adjusted for investment earnings or losses)
Option 4	all of the above amounts *plus* any tax-saver contributions (adjusted for investment earnings or losses) IMPORTANT: An option 4 withdrawal is allowed only if you can prove serious and pressing financial need that cannot be met through other resources available to you.

Withdrawals (continued)

As you can see, each succeeding type of withdrawal gives you access to a larger amount of money. The type of withdrawal you make is the one that covers your financial need.

Here are more details. . .

Option 1

When you choose option 1, you are requesting a withdrawal from your *unmatched* regular contribution account. The amount available for withdrawal is the actual amount you have contributed less any losses from poor equity fund performance. It doesn't include any earnings on your regular contributions.

You may request a specific dollar amount or 100% of the amount available under this option. If you request a dollar amount that exceeds the maximum available, you'll receive the maximum.

There's no penalty for withdrawing from this portion of your account.

Option 2

If option 1 doesn't provide you with all the money you need, you may want to choose option 2. An option 2 withdrawal includes your *unmatched* and *matched* regular contributions less any losses from the equity fund. No earnings are included. As under option 1, you may request a specific dollar amount or 100% of the amount available under option 2. If your dollar amount is more than the maximum available, you'll receive the maximum.

When you select option 2, your withdrawal is first taken from your unmatched regular contributions and then from your matched regular contributions (only if necessary). This would be important if you needed a specific dollar amount. Suppose you wanted to withdraw $600, but you weren't sure you had that much in your unmatched account. You could choose option 2; the money would only be taken from your matched account if you didn't have the $600 in unmatched funds.

When your withdrawal includes any money from your matched regular contribution account, Company contributions on your behalf are suspended for six months.

Withdrawals (continued)

Option 3

If you need more money than option 2 provides, you may select option 3. An option 3 withdrawal would give you all the money under options 1 and 2 *plus*:

- any investment earnings on your unmatched and matched regular contributions
- any Company contributions (with earnings) which have matured through the 3-year maturing cycle.

Matching Company contributions will be suspended for *six months* from the effective date of an option 3 withdrawal.

Option 4

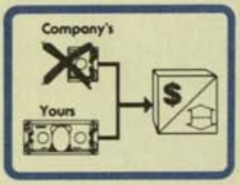
An option 4 withdrawal includes all the money available under all three prior options *plus* any tax-saver contributions you've made (adjusted for investment gains or losses.)

This option is available only if you can prove financial hardship. This means you have a serious and pressing financial need and that the amount you need is not reasonably available from other sources. Under current plan rules, which have been approved by the IRS, financial hardship includes

- medical expenses for a participant, dependent or family member which are not covered by insurance
- educational expenses for a participant, dependent or family member which are not reimbursed by the Company
- severe curtailment of a participant's income
- substantial expenditures required in connection with a participant's primary residence
- sudden and unexpected losses, not covered by insurance, through casualty, theft or a judgement against a participant, dependent or family member

Limitation of withdrawals of tax-saver contributions is required by the federal government in return for the special tax advantages available through tax-saver contributions. Should government regulations change, the plan may have to change the circumstances under which tax-saver contributions may be withdrawn.

The only Company contributions available for withdrawal under options 3 and 4 are those that have gone through the 3-year maturing cycle.



During the Suspension Period

You may continue to make tax-saver and regular contributions even though all Company contributions are suspended for six months. ***All tax-saver and regular contributions you make during the suspension period are considered unmatched contributions.*** Your contributions continue to take advantage of the investment funds and tax deferral.

You never lose any Company contributions that have already been credited to your account. These contributions continue to share in ESP's investment results. Contributions will still mature over three years.

Withdrawal Procedures

To make a withdrawal, you must submit a withdrawal application to your Personnel or Employee Relations Department. If you're not sure how much money you can withdraw, see your Personnel or Employee Relations Department for information about your account.

Your withdrawal will be valued on the last day of the month. Be sure Personnel or Employee Relations receives you application at least two weeks in advance. You'll receive a payment within 60 days of the valuation date. For example:

- Application to Personnel — April 6
- Account valued — April 30
- Payment made by — June 30

All withdrawals will be taken proportionately from the two investment funds. For example, if you have 75% of your account in the guaranteed fund and 25% in the equity fund, 75% of your withdrawal will come out of guaranteed and 25% out of equity.

You may not re-contribute any amounts that you withdraw.

Option 4 Withdrawal. Before you can apply for an option 4 withdrawal, you must first submit proof of financial hardship satisfactory to the Pension Committee. After you receive the Committee's written approval, you can proceed with the usual withdrawal procedure.

Your Personnel or Employee Relations Department can explain all the requirements in detail and give you the form you'll need.

Payout of ESP account when you leave

If you leave the Company

- after qualifying for normal or early retirement, OR
- after completing 10 years of service

you can receive the *full value* of your ESP account. This means *all* tax-saver contributions, regular contributions and Company contributions (adjusted, of course, for investment earnings or losses).

If you *do not* qualify for retirement and have less than 10 years of service, you can still receive the *vested portion* of your ESP account. The vested portion is:

- all your tax-saver and regular contributions
- all Company contributions that have gone through the full three-year maturing cycle as of your termination date (see page 12), and
- investment earnings (or losses) on the above.

Payment is always made in one lump sum.

If you do not collect your benefit at the time you leave, you must wait until you are age 65 to receive it. Your monies will automatically be invested in the Guaranteed Income Fund in the interim.

If you are rehired within five years, you can repay within two years after rehire any amount you received at termination of employment to make your account status the same as it was as of the date you left. If you don't, your ESP accounts will be set up as if you were a new employee.

If you become disabled

In case of disability, your entire account becomes 100% vested and payable to you 2½ years after your last day of work. (Of course, you may make withdrawals in accordance with the withdrawal provisions before that date.)

For this plan, disability means that your active service has ended because a physical or mental condition makes you unable to perform your regular job in a satisfactory manner.

About two months before you have been disabled for 2½ years, you'll receive a distribution upon termination form. You must submit this form along with evidence of your

continuing disability. Acceptable evidence would be confirmation that you are receiving Social Security disability payments or are continuing to receive payments from the Company's long term disability plan. The Pension Committee will determine whether to accept your request for payment.

If you die

If you die in active service, your entire account becomes 100% vested and payable to your beneficiary. If you die after leaving the Company but before your entire account balance has been paid out, any undistributed amount you were entitled to will go to your beneficiary. Your beneficiary will be asked to submit a certified copy of the death certificate along with the distribution upon termination form.

Your Beneficiary

If you are married, your beneficiary is automatically your spouse — unless your spouse agreed to another beneficiary by co-signing your beneficiary designation. If you are single, you can name anyone you wish as your beneficiary and you can change your beneficiary at any time.

If you don't name a beneficiary, or your beneficiary dies before you do, the Pension Committee may name any of the following as your beneficiary:

- your spouse (if you are married, your spouse will automatically be considered your beneficiary)
- your surviving children (equally)
- your, your spouse's or your beneficiary's executor or administrator.

Claiming your benefit

You (or your beneficiary) will receive your ESP payment as soon as possible after a request is filed. To receive your ESP benefit, you or your beneficiary should file a distribution upon termination form with the Personnel or Employee Relations Department. The value of your account is determined on the "valuation date" that falls on or immediately follows the date Personnel or Employee Relations receives the distribution upon termination form. (The last day of each month is a valuation date.) Payment is made within 60 days of your valuation date.

All payments will be made in one lump sum. Consult your tax counsel for any special tax treatment that may apply.

Statement of account

The value of your account is determined on the last day of each month. This is known as the valuation date. You will receive a personal statement twice a year that shows you the current value of your account.

Taxes on your ESP account

One of the best things about ESP is that you pay no taxes whatsoever on money in your account while it remains in the plan. However, when you *do* receive plan money (either as a withdrawal or payout when you leave), you will be taxed.

Your Regular Contributions

You have already paid taxes on your regular contributions. Therefore, you owe no further taxes on that amount, whether you take a withdrawal or receive your final payout.

Other Contributions and Earnings

Money that has never been taxed before will be taxed when you receive it. This includes:

- investment earnings on your regular contributions
- your tax-saver contributions, plus their earnings
- Company contributions made on your behalf, plus their earnings.

If you receive any of these contributions or earnings through a *withdrawal,* they are treated as ordinary income. In other words, the amount you withdraw is simply added to your other income for the year.

If you receive a payout upon *termination of employment*, the amount you receive is generally treated as ordinary income. However, you may be able to take advantage of some special tax provisions, as follows.

10-Year Income Averaging. If you receive a payout after participating in ESP five calendar years or more, you may be eligible for 10-year income averaging. If you take advantage of this special 10-year averaging, the taxable amount you receive from ESP is *not* added to your other earnings as ordinary income. Instead, that money is taxed separately in the year received at a rate determined as if it were your only income and you received it over a 10-year period. For taxable distributions under $70,000, an even lower rate may apply.

Don't underestimate the value of 10-year income averaging. If you use it in place of the ordinary income method, it may reduce the taxes you owe by hundreds—or thousands—of dollars.

IRA Rollover. This is another tax saving possibility you should consider (especially if you don't qualify for 10-year averaging).

When you receive a payout due to termination of employment or retirement, you can still postpone paying taxes by transferring—or "rolling over"—all taxable amounts into an Individual Retirement Account (IRA). There is *no dollar limit* on how much you can roll over—regardless of the usual $2,000 per year restriction. You can arrange to open an IRA at a bank, insurance company or other financial institution.

Note, though, that you must make an IRA rollover within 60 days of the date on your ESP check. And you can't withdraw your IRA money before age 59½ without paying a penalty. Furthermore, when you collect your IRA money, you will not be eligible for 10-year averaging.

The above comments are only general guidelines covering some, but not all, situations. They are based on the tax rules as they exist today. Of course, when you actually terminate or retire these rules may be different. It is recommended that questions regarding your specific tax situation be discussed with a qualified tax advisor.

Changes in status

If you transfer to hourly status or to an NAPC division that doesn't participate in ESP, you become ineligible to contribute to ESP or receive Company contributions. However, your contributions remain in the plan and continue to share in investment results. Also, Company contributions already in your account continue to mature (see page 12). You may also withdraw money from your account (subject to the usual plan rules) and reallocate your account balance.

If you later return to salaried status or a participating division, you'll be eligible to resume contributions immediately.

Leaves of absence

Unpaid Leave

An unpaid leave of up to one year is handled in the same way as a change in status. While you're on an unpaid leave, you can't contribute to the plan or receive Company contributions. You leave your money in the plan. Your contributions remain in the plan and continue to share in investment results. Company contributions continue to mature. You can also withdraw money and reallocate your account balance in the usual manner. You may begin contributing again as soon as you return from leave.

Paid Leave

If you're on a paid leave of absence (like sick leave), you continue to make plan contributions for as long as you receive a paycheck.

An IRS rule

PLEASE NOTE: The special tax advantages gained through tax-saver contributions are made possible by Section 401(k) of the Internal Revenue Code. For this reason, plans like ours that allow tax-saver contributions have come to be known as "401(k) plans."

There's an important technical point you should understand about 401(k) plans. From the IRS's standpoint, the tax-saver contributions that come out of your earnings are considered *"employer (Company) contributions."* In effect, the Company is making those contributions into ESP on your behalf. Calling tax-saver contributions "employer contributions" allows you to take the reduction in current taxes and use favorable tax rules when you receive a payout.

However, since tax-saver contributions come from *your* earnings, we've chosen to call them "*your* contributions" in this guidebook. For example, when we say your contributions are always 100% vested—we mean both regular *and* tax-saver contributions are 100% vested.

Future of the plan

The Company intends to continue the Employee Savings Plan indefinitely, but reserves the right to change, suspend or terminate the plan at any time. If the plan terminates, you'll become fully vested in the entire value of your account. The plan is not covered by the Pension Benefit Guaranty Corporation.

Plan administration

The North American Philips Salaried Employees' Savings Plan (known as the Employee Savings Plan, or ESP) is a defined contribution plan. A plan administrator is responsible for providing participants with information on their benefits and handling other functions necessary for the plan's operation. The plan administrator is:

North American Philips Corporation
100 E. 42nd Street
New York, N.Y. 10017
(212) 697-3600

Plan administration is handled by the Pension and Investment Committees appointed by NAPC's Board of Directors. On the local level, your Personnel or Employee Relations Department takes care of day-to-day plan administration. They should be your first source for any questions you have about the plan.

Trustee

The plan trustee is Banker's Trust Company, 280 Park Avenue, New York, N.Y. 10022. Banker's Trust holds your contributions, the Company's contributions and earnings on those contributions in a trust fund. They distribute the plan's funds in accordance with the provisions of the trust agreement and legal plan document.

Agent for Service of Legal Process

For any legal proceedings, the plan's agent is:

CT Corporation System
277 Park Avenue
New York, N.Y. 10017

Legal process may also be served on the plan trustee or plan administrator.

Plan administration (continued)

Appealing Denial of Your Claim

If your benefits claim is denied for any reason, you or your beneficiary will receive a written notice from the Plan Administrator within 90 days. The notice will explain the reason for the denial, refer to the part of the plan on which the denial is based, and review the claims appeal procedure. If you have made an error in the claim, the notice will list ways in which it can be corrected. If special circumstances exist, you may not receive a notice for up to 180 days. However, you'll know within 90 days if there will be a delay.

You are entitled to appeal a claim that is denied, and you will receive a full and fair review. You may review any documents that relate to your claim. Within 90 days of the date you receive the denial, submit your appeal, in writing, to the Pension Committee. Be sure to state why you believe the claim shouldn't be denied, and submit any data, questions or comments you think are appropriate.

You will receive a written decision on your appeal within 60 days of the time the Pension Committee receives your request. If special circumstances exist, such as the need to hold a hearing, you'll receive a notice within 60 days that a decision may take up to 120 days.

Plan Year

The plan year runs from January 1 through December 31. All records which relate to the plan are maintained on a plan year basis.

Plan Documents

The preceding description summarizes the major features of the Employee Savings Plan; it is intended to meet the requirement for a summary plan description under the Employee Retirement Income Security Act of 1974 (ERISA). Your local Personnel or Employee Relations Department has a copy of the plan document which details each plan provision and governs your rights if it differs from this summary.

Employer and Plan Number

For reporting plan information to the U.S. Department of Labor and the Internal Revenue Service, the Company's Employer Identification Number (EIN) is 13-1895219 and the Plan Number (PN) is 004.

Your rights under law

As a participant in the North American Philips Corporation Employee Savings Plan, you are entitled to certain rights and protections under the Employee Retirement Income Security Act of 1974 (ERISA). ERISA provides that all plan participants are entitled to:

- Examine, without charge, at the plan administrator's office and at other locations (including worksites), all plan documents including copies of all documents filed by the plan with the U.S. Department of Labor, such as annual reports and plan descriptions.
- Obtain copies of all plan documents and other plan information upon written request to the plan administrator. (The administrator may make a reasonable charge for the copies.)
- Receive a summary of the plan's annual financial report. The plan administrator is required by law to furnish each participant with a copy of this summary annual report.

In addition to creating rights for plan participants, ERISA imposes duties upon the people who are responsible for the operation of the plan. The people who operate your plan, called "fiduciaries," have a duty to do so prudently and in the interest of you and other plan participants and beneficiaries. No one may fire you or otherwise discriminate against you in any way to prevent you from obtaining a benefit or exercising your rights under ERISA.

If your claim for a benefit is denied, in whole or in part, you must receive a written explanation of the reason for the denial. You have the right to have the plan administrator review and reconsider your claim. Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request materials from the plan and do not receive them within 30 days, you may file suit in a federal court. In such a case, the court may require the plan administrator to provide the materials and pay you up to $100 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the administrator. If you have a claim for benefits which is denied or ignored, in whole or in part, you may file suit in a state or federal court. If it should happen that plan fiduciaries misuse the plan's money, or if you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you

lose, the court may order you to pay these costs and fees — for example, if it finds your claim is frivolous.

If you have any questions about your plan, you should contact the plan administrator. If you have any questions about this statement or about your rights under ERISA, you should contact the nearest Area Office of the U.S. Labor-Management Services Administration, Department of Labor.

This section is only a representative summary of the Employee Savings Plan. Should any questions or conflicts arise, they will be resolved based on official policies or plan documents. Neither this summary nor this guidebook constitutes an express or implied contract of employment.

DENTAL ASSISTANCE PLAN

Your dental assistance plan

Why dental assistance?

Many things contribute to your physical well-being. One of those things is sound teeth. Your Dental Assistance Plan can help you—and your paycheck—when it comes time to pay for dental care. The plan pays a portion of your expenses for a broad range of services.

Who is eligible?

If you are an active, full-time, salaried employee, you are eligible for dental assistance insurance after you have been with the Company for one month. ("Full-time" means you are regularly scheduled to work at least 30 hours per week.) You may also cover your "dependents" — that is, your husband or wife (unless legally separated or divorced) and unmarried children from birth up to their 19th birthday.

- **Children**—Children eligible for coverage include . . .

  —your own children,

  —stepchildren,

  —adopted children, or

  —any children permanently residing in your household in a parent-child relationship

  . . . provided that they are primarily dependent upon you for support.

- **Students**—Coverage will be continued for your unmarried children up to their 25th birthday while they are attending school as full-time students and are primarily dependent upon you for support.

- **Handicapped Child**—If you have a mentally retarded or physically handicapped child, his or her benefits may continue for as long as he or she remains handicapped and dependent upon you. To have benefits continued, you must provide satisfactory evidence of the handicap to the insurance company. See your Employee Relations or Personnel Office at least 31 days before your handicapped child's normal benefit termination date.

If your husband or wife is also an employee of the Company, you may both enroll for individual coverage, or you may include each other as a dependent under family coverage. Both of you may cover your children. However, the coordination of benefits provision explained on pages 11 to 12 will apply.

Enrollment

Employees

If you enroll when you first join the Company, your dental assistance insurance goes into effect after you have been employed for one month. If you enroll within 31 days after the end of your first month, your coverage begins on the date you enroll. If you fail to enroll within that time, your coverage takes effect one year from the date you enroll.

Dependents

Your dependent coverage will begin on the same date as your coverage.

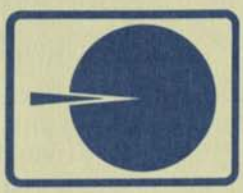
If you don't have any dependents on the date your coverage begins, and you later gain an eligible dependent (for example, get married), you may enroll for dependent coverage. If you enroll within 31 days, your dependent is covered on the later of:

- the date the person becomes your dependent, or
- the date you enroll for dependent insurance.

If you don't enroll your dependents within 31 days of the date they become eligible, they will not be covered until one year from the date you enroll them.

If you are absent from work because of injury or illness on the day your insurance would otherwise take effect, the effective date of coverage for you and your family will be postponed until the date you return to work. If a member of your family is in the hospital on the date your family coverage is to become effective, coverage will be postponed until the date he or she is discharged from the hospital.

While you are eligible to participate in the Dental Assistance Plan, you can only cancel coverage on any December 31.



Cost

Your cost is minimal because the Company picks up the major portion of the expenses. For employee-only coverage, you pay just $2.00 per month. To cover yourself and your family, the cost is $8.00 per month.

Before-Tax Contributions

By signing up for the Dental Assistance Plan, you agree to make contributions through a reduction in your salary *before taxes are taken out.* As a result, the actual bite out of your take-home pay will be *less* than $2.00 a month (or $8.00 a month for family coverage).

Here's a quick way to estimate how much you might save by making contributions in before-tax dollars. Figure what you pay in taxes — as a percentage of your salary — and multiply that percentage by your contributions. For example, say your taxes come to 40% of your salary and you contribute $8.00 a month for family coverage. You could save about $3.20 a month by making before-tax contributions (40% x $8.00 = $3.20 savings). So even though you contribute $8.00 a month, your take-home pay is only reduced by about $4.80 ($8.00 less $3.20 saved).

Here are some other important points about before-tax contributions:

- "Taxes" mean federal income tax, most states' income tax and Social Security (FICA) tax. Because your before-tax contributions reduce your earnings for Social Security purposes, making such contributions may slightly decrease your Social Security benefit. Any pay-related benefits (such as life insurance or the pension plan) are not affected by the reduction in your salary.
- Before-tax contributions for dental insurance are allowed under current tax law. Should the tax law change, you will have to contribute in after-tax dollars, without the special savings just described.

Your benefits

You are covered for the following types of dental procedures, provided that they are necessary and are performed or prescribed by a dentist (Doctor of Dental Surgery or Doctor of Medical Dentistry) or legally qualified physician.

- diagnostic
- preventive
- restorative
- extractions
- oral surgery
- endodontics
- periodontics
- space maintainers
- crowns
- orthodontics (for children only)

The benefits payable for various procedures are listed under "Covered Dental Expenses" on pages 5 to 10. Each covered person can receive up to $750 for covered dental expenses in a calendar year. With the exception of orthodontic treatment, there is no lifetime maximum on dental expenses.

The deductible

In any calendar year, you pay the first $50 in covered expenses for each covered person—except for preventive and diagnostic (Type A) services (see page 5) and orthodontic treatment for your eligible children (see page 10). Each covered person can begin to receive benefits after this $50 deductible has been met.

When three or more members of your family incur a total of $150 in covered dental expenses (but not counting more than $50 for any individual), your family has satisfied the maximum $150 family deductible. The entire family then becomes eligible for dental benefits for the rest of the calendar year.

The Carry-Over Deductible

A special provision, called the carry-over deductible, allows you to count expenses that you pay near the end of a calendar year toward the deductible for the next year. In other words, if you satisfy all or part of the deductible in October, November or December, that amount also counts toward all or part of your deductible for the next calendar year.

Covered dental expenses

The following pages tell you exactly how much the Dental Assistance Plan pays for specific services in each category of covered expenses. If you have any questions about coverage of a procedure that you must undergo, ask your Personnel or Employee Relations Office to find out how much the plan pays.

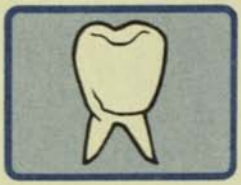
PREVENTIVE AND DIAGNOSTIC SERVICES (TYPE A)

This category includes methods for detecting and determining the extent of tooth decay and the health of gums and associated structures of the mouth. It covers measures taken to avoid premature loss of teeth and soft tissue breakdown. **The deductible does not apply to these preventive and diagnostic services.**

	Scheduled Payment Limit
Preventive Treatment	
Prophylaxis (cleaning) for children under age 14 (limited to two treatments every year)	$18
Prophylaxis (cleaning) for individuals age 14 or over: treatments to include scaling and polishing (limited to two treatments every year)	24
Topical application of fluoride, including prophylaxis (limited to one course of treatment per year and to children under age 18)	34
Emergency palliative treatment (for relief of symptoms) per visit	20
Visits and Examinations	
Office visit during regular office hours for oral examination (limited to two visits every year)	18
Professional visits after hours (payment will be made on the basis of services rendered or visit, whichever is greater)	14
Special consultation by a specialist for case presentation when diagnostic procedures have been performed by a general dentist	30
X-rays and Pathology	
Bitewing X-rays (not more than twice every year)	
2 films	11
4 films	15

Covered dental expenses (continued)

Complete series consisting of a minimum of 10 periapical films, plus two bitewing films (limited to once every three years)	$38
Panoramic survey: maxillary and mandibular, single film, plus at least two bitewings	38
Single film	9
Two films	11
Intra-oral, occlusal view, maxillary or mandibular, each	13
Upper or lower jaw, extra-oral, first film	30
Upper or lower jaw, extra-oral, each add. film	30
Study models, diagnostic	31
Microscopic examination	20



BASIC SERVICES (TYPE B)

Basic Services (Type B) include dental oral surgery, periodontics, endodontics and minor repair of teeth (such as fillings and repair of dentures). **The deductible applies to all Type B services.**

Oral Surgery. Includes operative procedures performed on the teeth, jaws and associated tissues. Fees for local anesthesia and routine post-operative care are included in the benefit for the operative or surgical procedure.

	Scheduled Payment Limit
Extractions-Permanent Teeth	
Uncomplicated (single)	$30
Each additional tooth	30
Surgical removal of erupted tooth	50
Extractions-Primary Teeth	
Uncomplicated (single)	22
Each additional tooth	22
Impacted Teeth	
Removal of tooth (soft tissue)	50
Removal of tooth (partially bony)	65
Removal of tooth (completely bony)	75
Alveolar or Gingival Reconstructions	
Alveoplasty per quadrant in conjunction with extractions	28
Removal of exostosis	52
Excision of pericoronal gingiva	17

Covered dental expenses (continued)

Cysts and Neoplasms

Incision and drainage of abscess	$13
Removal of cyst or tumor up to 1.25 cm	52
Removal of cyst or tumor larger than 1.25 cm	82

Other Surgical Procedures

Removal of foreign body from bone (independent procedure)	24
Maxillary sinusotomy for removal of tooth fragment or foreign body	29
Closure of oral fistula of maxillary sinus	64
Sequestrectomy for osteomyelitis or bone abscess superficial	23
Crown exposure to aid eruption	27
Removal of foreign body from soft tissue	12
Anesthesia—general, only when provided in conjunction with a covered oral surgical procedure	$19

Periodontics. This relates to the prevention and treatment of diseases of the bone and soft tissues surrounding the teeth.

One quadrant of curettage or one quadrant of scaling and root planing, limited to treatment of four quadrants per year	$ 16
Gingivectomy (including post-surgical visits) per quadrant	75
Osseous surgery (including post-surgical visits) per quadrant	125

NOTE: Certain other oral surgical procedures may be covered under the health plan. If you have any questions about whether a certain procedure is covered, contact your Personnel or Employee Relations Office. They will verify coverage and let you know if a claim should be submitted under the dental plan or health plan.

Covered dental expenses (continued)

Endodontics. This means the treatment of teeth with diseased pulpal involvement. Unless otherwise indicated, the limit shown is for one tooth.

Pulp capping	$ 8
Vital pulpotomy	16

Root canals including necessary X-rays and cultures, but excluding final restoration.

	Traditional Method
Single root canal therapy	$100
Birooted canal therapy	125
Trirooted canal therapy	160
Apicoectomy (including filling of root canal)	140
Apicoectomy (separate procedure)	90

Restorative Dentistry. This includes the minor repair of natural teeth, crowns or dentures. Excludes inlays, crowns (other than stainless steel) and bridges. (Multiple restorations on one surface will be considered as a single restoration.)

Amalgam Restorations—Primary Teeth

Cavities involving one surface	$21
Cavities involving two surfaces	33
Cavities involving three or more surfaces	41

Amalgam Restorations—Permanent Teeth

Cavities involving one surface	28
Cavities involving two surfaces	40
Cavities involving three or more surfaces	50

Synthetic Restorations

Composite filling involving one surface	30
Composite filling involving two surfaces	30
Composite filling involving three or more surfaces	55

Crowns

Stainless steel (when tooth cannot be restored with a filling material)	29

Full and Partial Denture Repairs

Broken dentures, no teeth involved	21
Partial denture repairs (metal)	*
Replacing missing or broken teeth, each tooth	8

*Determined by extent of damage.

Covered dental expenses (continued)

Adding teeth to partial denture to replace extracted natural teeth.

First tooth	$23
First tooth with clasp	36
Each additional tooth and clasp	22

Recementation

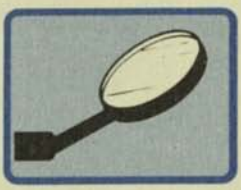
Inlay or crown	10
Bridge	12

Repair of Crowns and Bridges

Repairs	*

Space Maintainers. This category includes all adjustments within six months after installation.

Fixed space maintainers (with band)	$42
Removable acrylic with round wire rest only	56



MAJOR SERVICES (TYPE C)

Major Services (Type C) include major repair or replacement of teeth such as crowns, bridges and dentures. **The deductible applies to Type C services.**

Restorative. Restorative services involve the major repair, reconstruction or replacement of natural teeth. Gold restorations and crowns are covered only when teeth cannot be restored with a filling material.

	Scheduled Payment Limit
Inlays	
One surface	$ 56
Two surfaces	102
Three or more surfaces	125
Onlay, in addition to inlay allowances	20
Crowns	
Plastic (acrylic)	71
Plastic processed to gold	155
Plastic processed to non-precious metal	139
Porcelain	160
Porcelain fused to gold	178
Porcelain fused to non-precious metal	150
Non-precious metal (full cast)	116
Gold (full cast)	146
Gold (3/4 cast)	146
Gold dowel pin	50

*Determined by extent of damage

Covered dental expenses (continued)

Prosthodontics. This means procedures for the construction, placement, insertion and repair of natural teeth by artificial devices.

Bridge Abutments (See Inlays and Crowns)
Pontics

Cast gold (sanitary)	$146
Cast non-precious metal	116
Porcelain fused to gold	178
Porcelain fused to non-precious metal	150
Plastic processed to gold	155
Plastic processed to non-precious metal	139

Dentures and Partials. (Fees for dentures and partial dentures, including relining and adjustments within six months after installation. Specialized techniques and characterizations are not covered.)

Complete upper denture	$191
Complete lower denture	191
Partial acrylic upper or lower with gold or chrome cobalt alloy clasps, base, all teeth and 2 clasps	216
Each additional clasp	8
Simple stress breakers, extra	31
Office reline, coldcure, acrylic	27
Laboratory reline	51
Adjustment to denture more than six months after installation	8

$750 Maximum

ORTHODONTICS

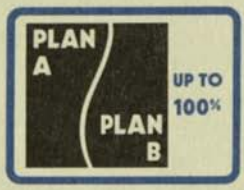
Orthodontic treatment is only covered for your enrolled dependent children. The plan will pay 50% of the reasonable and customary charges for straightening teeth—up to a lifetime maximum of $750 per eligible dependent. **The deductible doesn't apply to orthodontic expenses.**

If the orthodontic process began before your dental coverage took effect, the plan won't pay for services prior to the effective date. It will, however, pay benefits for services provided as part of the process after the effective date. It won't pay for services after your coverage ends, even if the treatment began while coverage was in effect.

Pre-treatment estimate

When your dentist estimates that your dental treatment will cost $200 or more, you must file a claim form with this estimate before your treatment begins. In this way, you, your dentist and the insurance company can review the proposed course of treatment and estimated fees in advance. The insurance company will inform you what expenses are covered and what your benefits will be.

The insurance company reserves the right to determine what benefits are payable, taking into account alternate procedures, services or courses of treatment, based on accepted standards of dental practice. To the extent that they cannot reasonably verify covered dental expenses, the insurance company may reduce the amount payable. In some cases, X-rays, and study models will be needed to evaluate the proposed course of treatment. Your dentist will be informed when those items are required.



Coordination of benefits

Since many companies make dental benefits available to their employees, some of you may now be covered by more than one group plan. This situation arises when both you and your spouse are employed, and both of you are covered under your employer's group plan. As a result, you could receive payments in excess of your actual expenses.

To avoid such duplicate payments, our plan contains what is known as a "coordination of benefits" (COB) provision. If you or one of your family members is covered by other group insurance or similar coverage, the Dental Assistance Plan will coordinate its benefit payments with your other coverage — including no-fault motor vehicle coverage — so that you will receive no more than 100% payment for the allowable dental charges.

Here is how COB works. If you or a dependent is covered under more than one group plan, you should determine which plan pays benefits first (this is called the "primary" plan). Claims should be submitted to the primary plan first. After the primary plan has paid benefits within its limits, a claim can be submitted to the other plan. The other plan will then determine what remaining charges it will cover.

Coordination of benefits (continued)

Here are the general rules used by most insurance companies to determine which plan is primary.

If you are covered by another plan that doesn't have a coordination of benefits provision, the other plan has the primary responsibility for paying claims. If both plans under which you're covered have a coordination of benefits provision, the following factors determine which plan pays first:

- a plan which insures the person as an employee pays before a plan which insures the person as a dependent
- for children, the plan which insures the father pays first
- a plan which insures the person as an active employee pays before a plan which insures the person as a retiree

If a person has two coverages through two jobs, the plan which has insured the person for a longer period of time pays first.

If you're divorced or legally separated, other factors are considered. The plan of the parent who has custody of the children pays first, a step-parent's plan pays second and the plan of a natural parent who doesn't have custody pays third. If a court decision has established financial responsibility for the children, the plan of the parent with financial responsibility pays first, the step-parent's plan pays second and the other natural parent's plan pays third.

No-fault motor vehicle coverage will be the primary payor of benefits regardless of the above guidelines — except in those states which require otherwise.

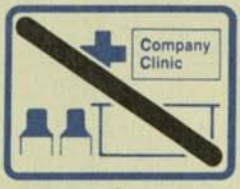
These coordination of benefits provisions do not apply to any *individual* policy you may have.

If you or a dependent has dual coverage, the person who handles medical claims at your location can help you determine which plan is primary. This will help speed up processing of your claim.

What the plan does not cover

Your Dental Assistance Plan does not cover any of the following:

- Cosmetic services or supplies, including charges for personalization or characterization of dentures
- Replacement of a lost, missing or stolen prosthetic device
- Replacement or repair of an orthodontic appliance
- Services which are covered by any workers' compensation laws or employer's liability laws, or which the Company is required by law to furnish
- The replacement of a tooth or teeth which were missing before your coverage began



- Services rendered through a Company medical department, clinic or similar facility
- Services or supplies which you are not legally obligated to pay, or for which no charge would be made if you didn't have dental coverage
- Services, supplies or treatment not recognized as generally accepted in dental care practice as necessary for the diagnosis or treatment of the patient, even if ordered by a dentist (D.D.S. or D.M.D.) or legally qualified physician
- Services or supplies which do not meet accepted standards of dental practice
- Care or treatment provided through a government program
- Any duplicate prosthetic device or other appliance
- Sealants, oral hygiene and dietary instruction
- A plaque control program
- Periodontal splinting
- Myofunctional therapy, or correction of harmful habits
- Implantology
- Services or supplies received as a result of dental disease
- Charges for the unnecessary repetition of tests, even if ordered by a dentist (D.D.S. or D.M.D.) or legally qualified physician

What the plan does not cover (continued)

Limitations

In addition to the above expenses which are specifically excluded, certain limitations apply to covered expenses. These limitations are:

Restorative. If a tooth can be restored with a material such as amalgam, payment of the charge for that procedure will be made toward the charge for another type of restoration which you and your dentist may select. When cast, baked porcelain restorations, crowns, pontics or jackets are used, the following limitations apply:

- Porcelain fused to cast crowns or pontics will be limited to the six upper anterior teeth and six lower anterior teeth. Wherever porcelain fused to cast crowns or pontics are used, posterior to the cuspid teeth, a benefit equal to any acrylic veneer crown or pontics will be allowed up to and including the second bicuspid. The balance will not be payable.
- Acrylic veneer crowns or pontics will be acceptable for the upper and lower anterior teeth and for all the bicuspids (eight).
- Full cast crowns or pontics will be permitted for molar teeth. Wherever acrylic veneer or porcelain fused to cast crowns or pontics are used, posterior to the second bicuspid tooth in all quadrants, a benefit equal to a full cast crown or pontic will be allowed. The balance will not be payable.
- Replacement of crowns or inlays will be covered only if at least five years have elapsed since the date of the initial installation of that appliance.

Reconstruction. Payment will be made toward the cost of procedures necessary to eliminate oral disease and to replace missing teeth. Appliances or restorations necessary to alter vertical dimension or to restore occlusion are considered optional and their cost is not payable.

Prosthodontics.

- Partial dentures: If a cast chrome or acrylic partial denture will restore the dental arch satisfactorily, only the amount for such denture will be allowed toward a more elaborate or precision appliance that you and your dentist may choose to use.

What the plan does not cover (continued)

- Dentures: If, in the provision of denture services, you and your dentist decide on personalized restorations or specialized techniques rather than standard procedures, only the amount payable for the standard denture service will be allowed.
- Replacement of existing dentures or fixed bridgework: Replacement of an existing denture or fixed bridgework will be covered only if the existing denture or fixed bridgework is unserviceable and cannot be made serviceable. Replacement of prosthodontic appliances will be covered only if at least five years have elapsed since the date of the initial installation of that appliance.

How to file a claim

Claim forms are available in your Personnel or Employee Relations Office.

If your estimated charges are *under $200,* you simply complete the employee's portion of the form, have your dentist complete his or her portion and send it to the insurance company for payment.

If your estimated charges are *$200 or more,* you complete the employee's portion, have your dentist complete his or her portion and send the form to the insurance company before treatment begins. You'll receive a statement from the insurance company showing the amount payable. After the dentist completes your treatment, he or she should indicate the following on the statement: specific services performed, date performed and actual charges. You then submit the statement to the insurance company.

You may arrange for payments to be made to you or directly to your dentist. In either case, you'll receive a statement of benefits paid.

Procedure For Appealing Claims

If your claim is denied, in whole or in part, the insurance company will provide you with a written notice within 90 days from the date they received your claim (or 180 days if they notified you that there would be a delay). The notice will explain the reason(s) for the denial, point out the part of the plan on which the denial is based, and outline the steps you must take to appeal the denial. If you've made an error in your claim, the notice will list ways you can correct it.

You are entitled to appeal a claim that is denied within 65 days of the date you received the denial notice. To do so, write to the person who sent you the denial notice. Be sure to state why you believe the claim should not have been denied, and submit any additional information you feel may be relevant.

You will receive a written decision on your appeal within 60 days of the time the insurance company received your request. Under special circumstances (e.g., to hold a hearing), it may take longer than 60 days to reach a decision. In that case, you'll receive written notification of the delay within 60 days.

If you become disabled

Your dental assistance insurance will continue up to the end of the third month following the month you became totally disabled. You do not have to contribute for this extended coverage unless you are receiving full pay under a Company salary continuance plan. This provision applies if you were enrolled in the Dental Assistance Plan at the time you became totally disabled.

Layoffs or leaves of absence

Your dental coverage will continue up to the end of the third month following the month that you left active service, provided that you pay the full premium for coverage. For example, if you began a leave of absence during the month of February, your coverage would continue up to the last day in May, provided you paid the full premium.

When your coverage ends

If you decide to cancel your dental assistance insurance, your coverage ends on the last day of the period for which you've made contributions. Otherwise, your insurance ends when you leave the Company, when you retire, become ineligible or the group policy terminates, whichever happens first. Your dependents' coverage ends when yours does or when a dependent is no longer eligible.

If you cancel your dental coverage and later decide to re-enroll, your coverage won't become effective until one year from the date you re-enroll.

You will not have the option to convert your coverage to an individual policy when your coverage ends.

Plan administration

Plan Administrator

A plan administrator is responsible for providing participants with information about their benefits, processing payments, implementing plan changes and handling any other functions necessary for the plan's operation. The plan administrator of your Dental Assistance Plan is: North American Philips Corporation, 100 East 42nd Street, New York, New York 10017, (212) 697-3600.

Your Personnel or Employee Relations Office handles plan administration on the local level; they should be your first source for answers to any questions you have about the plan.

Insurance Company

Your benefits are insured by The Equitable Life Assurance Society of the United States, 1285 Avenue of the Americas, New York, New York 10019.

Agent For Legal Process

For all legal procedures, the designated agent for service of process is: CT Corporation System, 277 Park Avenue, New York, New York 10017.

Legal process may also be served on the plan administrator.

Plan Year

Records for the plan are kept on a calendar-year basis ending each December 31.

Employer And Plan Number

The Employer Identification Number (EIN) is 13-1895219 and the plan number is 517.

Effective Date

This guidebook section describes Dental Assistance Plan benefits in effect as of January 1, 1986.

Your rights under law

As a participant in the Dental Assistance Plan, you are entitled to certain rights and protections under the Employee Retirement Income Security Act of 1974 (ERISA). ERISA provides that all plan participants are entitled to:

- Examine, without charge, at the plan administrator's office and at other locations (including worksites), all plan documents including copies of all documents filed by the plan with the U.S. Department of Labor, such as annual reports and plan descriptions.
- Obtain copies of all plan documents and other plan information upon written request to the plan administrator. (The administrator may make a reasonable charge for the copies.)
- Receive a summary of the plan's annual financial report. The plan administrator is required by law to furnish each participant with a copy of this summary annual report.

In addition to creating rights for plan participants, ERISA imposes duties upon the people who are responsible for the operation of the plan. The people who operate your plan, called "fiduciaries," have a duty to do so prudently and in the interest of you and other plan participants and beneficiaries. No one may fire you or otherwise discriminate against you in any way to prevent you from obtaining a benefit or exercising your rights under ERISA.

If your claim for a benefit is denied, in whole or in part, you must receive a written explanation of the reason for the denial. You have the right to have the plan administrator review and reconsider your claim. Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request materials from the plan and do not receive them within 30 days, you may file suit in a federal court. In such a case, the court may require the plan administrator to provide the materials and pay you up to $100 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the administrator. If you have a claim for benefits which is denied or ignored, in whole or in part, you may file suit in a state or federal court. If it should happen that plan fiduciaries misuse the plan's money, or if you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in federal court.

Your rights under law (continued)

The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees — for example, if it finds your claim is frivolous.

If you have any questions about your plan, you should contact the plan administrator. If you have any questions about this statement or about your rights under ERISA, you should contact the nearest Area Office of the U.S. Labor-Management Services Administration, Department of Labor.

The benefits description in this guidebook section does not constitute an express or implied contract of employment.

1/86

The Equitable Life Assurance Society of the United States
NEW YORK, NEW YORK

CERTIFICATE OF INSURANCE

This is to certify that, subject to the terms of Group Policy(ies) combined for dividends with Group Policy No. 63601,D,H,M,DE, the salaried employees of the Policyholder named below, are insured for the benefits described in Benefits, below.

NORTH AMERICAN PHILIPS CORPORATION

BENEFITS

The Equitable benefits for which you are insured are set forth in the plan booklet. Insurance takes effect only if you are eligible for it, you elect it and you make contribution for it, as required.

Benefits payable under your dental expense insurance for covered services may be assigned by you to the provider who performed the service.

The Policyholder and the Equitable have agreed to share in the responsibility for the payment of the dental expense insurance as they are set forth in the plan booklet.

This certificate takes the place of any prior one issued to you covering this insurance. It is not the insurance contract; each policy and the Policyholder's application for it are the contract. This certificate is evidence of insurance under the policy(ies). This insurance takes effect only for persons who become and stay insured under each such policy.

THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES

PF26003(1.2)

21/dental

DENTAL INSURANCE

On receipt of due proof of claim, Dental benefits are payable to you. If the policy provides daily benefits you will be paid at the end of each two weeks during the period for which benefits are payable. If there is any balance still due at the end of such period, it will be paid upon receipt of due proof.

Notice of Claim. Written notice of the event on which claim is based must be given to the Equitable at its Regional Benefits Office within 20 days after the loss for which claim is made. Late notice will be accepted only if it is furnished as soon as is reasonably possible.

On receipt of such notice, you will be given forms for filing proof of claim. If you have not been given such forms within fifteen days after the receipt of notice, you can fulfill the terms of the policy as to proof of claim by giving written proof of: (i) the occurrence of the loss; (ii) the nature of the loss; and (iii) the extent of the loss.

Such proof must be given within the time stated in "Proof of Claim" below.

Proof of Claim. Written proof of claim must be given to the Equitable at its Home Office on the Equitable's forms within 90 days after the date of loss for which claim is made. Late proof will be accepted only if it is furnished as soon as is reasonably possible. Itemized bills may be required as part of proof of claim.

Examinations. The Equitable at its own expense has the right to have a doctor examine any person when it deems it reasonably necessary while there is a claim pending under the policy.

Legal Actions. No one may sue for payment of claim less than sixty days after due proof of claim is furnished or more than 2 years after the date proof of claim is required by the policy.

PF26003(3.1)(Amended by PF18505)

EMPLOYEE ASSISTANCE PROGRAM

Your Employee Assistance Program

Why an Employee Assistance Program?

No one's life is completely problem free. Fortunately, most problems are not so big or complicated that we can't handle them ourselves. Yet at some point, we may run into a problem that is just too difficult to handle alone. It could be a problem like alcoholism or drug abuse. Or it could be a personal or family conflict that needs to be resolved.

Whatever the cause, you owe it to yourself to resolve the problem *before* it takes its toll on your personal life or starts affecting your job performance. The Employee Assistance Program (EAP) stands ready to give you the help you need to achieve a healthier, more productive life — at home and on the job. This help comes in the form of *counseling* by professionals affiliated with Family Service Association of America (FSAA).

If you have any questions about this program, please feel free to contact your EAP coordinator.

Your EAP coordinator is:

Dick Feeney at Head Office (212) 850-5349

OR

Penny Kaufman, R.N. at Head Office (212) 850-5353

If you wish, you can use EAP without talking about it to anyone at the Company. Just call the program's counseling service directly to set up an appointment.

Your local Family Service Association of America affiliate is:

Employee Counseling Programs
120 West 57th St., New York, N.Y. 10019
(212) 245-8178. Ask for Dr. Barbara Brooks or Pat Abelson.

If you wish, feel free to contact FSAA's main office in New York City for more information or names of other affiliates in your area. Their phone number is (212) 674-6100. Ask for Virginia Abu Bakr.

Any EAP-related contacts — with anyone within the Company or at FSAA — are your business and your business alone. No one need know that you are using EAP. **Confidentiality Is Guaranteed.**

Eligibility

You may participate in EAP anytime after you join the Company. At the same time, your husband or wife and unmarried children under age 19 will also be covered under EAP.

- **Children** — Children can be your own, adopted children, step-children, or foster children, provided that they are dependent upon you for support.
- **Students** — Coverage will be continued until age 25 for your unmarried children while they are attending school as full-time students and are primarily dependent upon you for support.
- **Handicapped Child** — If you have a mentally retarded or physically handicapped child, his or her eligibility may continue for as long as he or she remains handicapped and dependent upon you.

Cost

The Company pays 100% of the cost for up to two counseling visits each year with a Family Service Association of America affiliate.

After that, if you and your counselor decide on follow-up treatments, the Company's health plan may pick up a good part of the cost (for example, if you seek medical care for alcoholism or drug abuse).

Otherwise, your counselor may suggest treatment that's free or based on your ability to pay. But in any event, it's part of your counselor's job to help you find out about any follow-up costs in advance.

Family Service Association of America

Family Service Association of America (FSAA) is one of the oldest, most respected diagnostic counseling organizations in the U.S. The Company contracted FSAA to assist in the job of helping you and your family cope with problems that threaten your physical or emotional health. At FSAA, you are assured that counseling will be carried out in a *dignified, professional* and *confidential* manner.

A psychologist, social worker or other trained, highly-skilled professional will

- listen to and assess your problem,
- help you work out a solution that fits your needs, and
- if more help is necessary, guide you toward outside resources such as further counseling, psychiatric therapy, a hospital or community group like Alcoholics Anonymous.

How EAP works

Self-Referral

Your participation in EAP can start in one of two ways. When you or one of your family members contacts a local affiliate of FSAA on your own, it's called a *self-referral.* No one else gets involved in a self-referral unless it's at your request.

Supervisory-Referral

Our hope is that EAP will help you clear up any problems *before* they start affecting your job performance. If not, you may use EAP through a *supervisory-referral.* This happens when your supervisor recommends that you participate because of unsatisfactory job performance.

Your supervisor is expected to monitor job performance. If your supervisor notices a pattern of decreasing performance (such as excessive absences or lateness, drop in productivity or conflicts with others) he or she can recommend that you see your local affiliate of FSAA.

If this happens, it's entirely up to you to decide whether or not to follow through. You are not obligated to go. And if you do go, your visits will be confidential. However, if your performance does *not* improve, your supervisor is free to take the normal course of action.

Remember: It is not your supervisor's job to figure out if poor job performance is being caused by a personal problem, or what the problem might be. **Job Performance Is All That Counts.**

How EAP works (continued)

However, a supervisor's recommendation should be seen as a clear signal that job performance has become a matter of concern, and as a constructive effort to clarify and eliminate the cause of declining performance.

Problems Covered

EAP will help you work out any problem that is troubling you. This includes medical problems — such as alcoholism or drug abuse, or emotional, financial, marital/interpersonal issues.

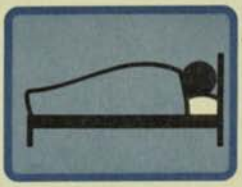
In short, there is no problem too big, too small, or too unusual for EAP. If it is hurting you — physically or emotionally — you owe it to yourself to get help.

Going For Assistance

When you call an FSAA affiliate, they will make an appointment for you to see one of their counselors. You can either go alone or with one or more other family members. Your counselor will meet with you, diagnose your problem and recommend a course of action.

For maximum confidentiality, you may wish to go outside of normal work hours. Or you can handle it just like a medical or dental visit. If your supervisor is involved, he or she will make it as easy for you to receive treatment as Company rules allow.

As mentioned earlier, if you are referred for further counseling or other treatment, your counselor will consider which services are covered under the Company's health insurance plan, or may recommend treatment that's free or based on your ability to pay. In any event, your counselor will help you determine what your out-of-pocket expenses will be.



Coordination with your health plan

Sometimes a visit or two with a professional FSAA counselor will be enough to get you back on the right track. At other times, follow-up treatment may be recommended.

Some follow-up treatment, such as

- inpatient or outpatient care for alcoholism or drug abuse
- professional psychiatric visits out of the hospital to a legally qualified physician or licensed clinical psychologist

may be covered under the regular provisions of your health plan.

Be sure to check the "Health" section of this guidebook to see what follow-up treatment may be covered under your group insurance.

IMPORTANT NOTE: Ordinarily, specialized treatment for alcoholism or drug abuse in an approved inpatient institution is covered for you only — and not your dependents. However, since the Company has set up EAP, coverage for such treatment will be extended to your eligible dependents.

If you have any questions as to what is or is not covered under the health plan, please be sure to check with the personnel department. If you prefer, you can keep your questions completely anonymous by asking your FSAA counselor to check for you. We want to be sure you don't incur any unexpected expenses.

Confidentiality

You are guaranteed that all information related to your participation in EAP will be kept strictly *confidential.* This means that your contacts with any Family Service affiliate will remain absolutely *private.* If you go on your own, through self-referral, no one at the Company need know. And, if your supervisor refers you, there's no obligation to report whether or not you go or how you are progressing.

Plus, FSAA affiliates will *never* release names of the people they see — unless an employee gives express written permission. FSAA only gives the Company the *number* of people they see, so we can pay the bills.

Your Right to Privacy

You right to privacy is fully protected by law and by Company policy. Any reference to alcoholism, drug abuse or emotional problems in your personnel record is strictly forbidden. Participation will not jeopardize your job or chance for promotions.

When coverage ends

Coverage for you and your family ends on the date your employment with the Company ends.

FLEX

Your FLEX accounts

FLEX

Why flexible spending accounts?

Your health insurance is designed to protect you against financial hardship that may result from illness or injury. However, chances are your plan, like most health insurance in effect today, may not cover all your expenses. For example, while your plan pays a certain percentage of your health care costs, you may still pay a deductible and, under most circumstances, co-insurance. Many expenses, such as routine medical examinations and vision care, may not be covered by your insurance. Up to now, you had to pay for these expenses from your paycheck after taxes were taken out.

Now, through a new benefit called FLEX (short for "flexible spending account"), you can pay for these expenses in **before-tax** dollars and receive substantial tax savings. Plus FLEX lets you save tax dollars on another expense that more and more two-income families have these days — child care.

FLEX gives you

- the power to reduce your taxable income
- the strength to increase spendable dollars
- the flexibility to spend money in a way most appropriate to your needs.

In short, FLEX is not like any other benefit that's ever been available to you before. So please read this brochure carefully; it describes FLEX in detail. That way, you won't miss out on any of the special advantages FLEX can provide.

The FLEX Advantage

Through FLEX, you can set aside part of your pre-tax income (your gross income before federal, most state and Social Security taxes are withheld) to pay for eligible medical and child care expenses. In other words, money that you would otherwise pay in taxes stays in your pocket. You can then open FLEX accounts and put these tax savings away to help pay part of certain health and child care costs.

Technically, the way you set aside pre-tax dollars is by "reducing" your gross salary. (This works the same way as "tax-saver," or 401(k), contributions in the Employee Savings Plan.)

For example, assume you and your spouse together earn $50,000 a year. You have $5,000 in eligible child care and health expenses, such as the costs of vision care,

orthodontia and day care. Ordinarily, without FLEX, you would have to pay taxes on $50,000 and then pay for these expenses with the money remaining after taxes. But through this new benefit, you can put $5,000 in FLEX and "reduce" your taxable earnings. You pay taxes on $45,000 of income and are reimbursed through FLEX for the $5,000 you spend on health and child care.

Here is what this means in dollars and cents:

	With FLEX	Without FLEX
Gross Income	$ 50,000	$ 50,000
Contribution to FLEX Health Care Account	– 2,000	—
Contribution to FLEX Child Care Account	– 3,000	—
Taxable Income (Federal)	$ 45,000	$ 50,000
Tax Owed (Federal)	– 7,310	– 8,960
After-Tax Health and Child Care Expenses	—	– 5,000
Take-Home Pay	$37,690	$36,040
	$ 1,650 MORE	

Note: This example is based on reasonable assumptions of what your tax bracket and deductions might be at this salary level. Actual tax savings could be even higher since all states (except New Jersey, Pennsylvania and Alabama) permit reductions in state and local taxes for FLEX accounts. Also, if your earnings are below the Social Security taxable wage base ($42,000 in 1986), you will save on Social Security tax, but your Social Security benefit may be slightly reduced when you retire or become disabled. The amount of any reduction depends on the length of time between your FLEX allocation and your expected retirement date. But generally, unless you're close to retirement, there should be little or no effect on your Social Security benefit.

This may look too good to be true. It's not . . . but there is one catch, required by the federal government. **ANY MONEY IN YOUR FLEX ACCOUNTS THAT IS NOT USED FOR EXPENSES DURING THE YEAR WILL BE FORFEITED.** So you must be very careful to estimate your eligible health and child care costs conservatively. That way, you can enjoy the FLEX advantage and not risk a forfeit.

Who is Eligible?

You are eligible to open FLEX accounts for any calendar year if you are a full-time salaried employee with the Company as of November 30 of the prior year. If you are hired as a salaried employee during the year or are transferred from hourly to salaried status, you must wait until the following January 1 to use FLEX.

Enrollment

You may open one or two FLEX accounts . . .

- one for health care expenses

  and/or

- one for child care costs

You may put a maximum of $5,000 **total** in your FLEX accounts each calendar year. Equal deductions will be made from each of your paychecks. You are later reimbursed from your FLEX accounts for health and child care expenses.

Funds will be allocated to your accounts as you direct. For example, you might decide to put $5,000 in a FLEX child care account and nothing in a health care account. Or, you might set aside $3,000 for health care and $2,000 for child care. However, health and child care expenses must always be kept separate; funds can never be transferred from one account to the other.

The FLEX health care account

Your FLEX health care account is used for your own and your dependents' medical expenses which are not covered by other group insurance (whether yours or a dependent's). Generally, an eligible health care expense is any expense which the IRS allows as a medical tax deduction on your federal income tax return. This covers such things as:

- the health plan's deductible
- the health plan's co-insurance
- routine physical examinations
- pediatric well-care

- vision care, including examinations, eyeglasses and contact lenses
- hearing care, including examinations, tests and hearing aids
- dental expenses not covered by a dental plan (such as expenses above the schedule amount, orthodontia above the maximum amount, or orthodontia for adults)

IRS publication 502, available from your local IRS office, describes some of the expenses eligible for FLEX account reimbursement.

The FLEX child care account

With the large number of two-income and single-parent households, child care is becoming an essential service to families today. Many expenses relating to the care of dependent children under age 15 are eligible for FLEX account reimbursement. If you're married, both you and your spouse must work or your spouse must be a full-time student for you to be eligible to open a FLEX child care account. Eligible expenses include the cost of:

- a babysitter
- a licensed day care center (Transportation costs to and from day care are **not** eligible.)
- schooling for children below first grade

You cannot hire one of your own children or another dependent to provide child care in or outside your home. However, you can employ non-dependent relatives to provide child care.

If you are divorced or separated, you must have custody of the child to open a FLEX child care account.

Funding FLEX accounts

Before deciding how much to put into your FLEX accounts, you should first determine what your annual out-of-pocket medical and child care expenses will be for the coming year. It is extremely important that you estimate these amounts carefully and conservatively. **IN ORDER TO PRESERVE FLEX'S QUALIFIED TAX STATUS WITH THE IRS, ANY MONEY THAT YOU HAVE NOT USED FOR EXPENSES BY THE END OF THE CALENDAR YEAR MUST BE FORFEITED.** Funds cannot be returned to you. Each year you will be asked the amount you want to contribute to each account.

An Example

Robert L. is opening two FLEX accounts to help pay for his family's medical and child care expenses. In deciding how much of his salary to allocate to his FLEX accounts, Robert must first estimate his expenses during the coming calendar year. He will figure health and child care expenses **separately,** since funds cannot be transferred from one account to the other.

Robert's FLEX Health Care Account

Robert's health plan has a $200 deductible. Robert knows that, during the coming year, his wife Janet will need a physical examination and a pair of eyeglasses — expenses which are not included in his family coverage. (Janet is employed, but does not have group health insurance.) His daughter Susan will need orthodontia; this expense will exceed the limit covered by his insurance. Robert estimates these costs carefully, planning to cover them with money he sets aside in his FLEX account.

Robert will undergo elective surgery sometime next year. He knows that his health plan will pay a portion of the reasonable and customary charge for surgery, semi-private hospital room and prescription drugs. He must pay the remaining amount for these expenses. Robert decides to put money in his FLEX account to cover the costs of the deductible and co-insurance.

Funding FLEX accounts (continued)

Here is an estimate of Robert, Janet and Susan's medical expenses:

	Robert's Medical Expenses		Janet's Medical Expenses
Deductible	$ 200*	Physical exam	$ 150
Co-insurance for:		Vision exam and	
Lab tests		eyeglasses	250
Surgery	1,800*		
Semi-private room		Total	400
Prescription drugs			
Total	$2,000		
			Susan's Medical Expenses
		Orthodontia	$1,200
		Total	$1,200

Total allocated to FLEX health care account: $3,600.

*If Janet had a health plan with family coverage, these expenses would be paid by coordinating benefits between Janet's and Robert's plans. In that case, Robert should not have to put money into his FLEX account for costs that would be covered under Janet's plan. **REMEMBER:** You cannot use expenses that are reimbursed under any insurance, yours or your spouse's, as eligible FLEX account expenses.

Robert's FLEX Child Care Account

Susan, age eight, is cared for by a babysitter after school until her parents come home. Robert estimates that expenses for this service will run about $1,000 for the coming year. So he puts that amount into his FLEX child care account.

Note: You may not allocate more than the lower-paid spouse's income to the FLEX child care account. If your spouse is a full-time student, he or she is assumed to earn a certain amount of income each month: $200 if there is one child, or $400 if there is more than one.

Summary

Robert has allocated a total of $4,600 between his two FLEX accounts — $3,600 to health care and $1,000 to child care. If the actual annual expenses for each account are less than the allocated amount, the unused money that remains in Robert's accounts at the end of the year **MUST BE FORFEITED.** (You cannot move money from one account to another to get around this IRS rule.)

Other plan facts

Changing Allocations

Once the calendar year begins, **you are not permitted to change the amount of your FLEX account allocations or stop contributions,** with one exception: You are allowed to stop contributions to a FLEX account if there is a "change in family status." As defined by the IRS, this covers marriage, divorce, death or commencement/termination of a spouse's employment. These are the **only** circumstances when you are permitted to stop contributions to your FLEX accounts.

Child Care: FLEX vs. The Federal Tax Credit

If you are thinking of opening a FLEX child care account, you should know about the federal income tax credit for dependent care expenses. Your child care costs may be reimbursed from your FLEX account OR you may use these same expenses to apply for a tax credit when filing your federal income tax return. (The criteria used to determine eligible FLEX account expenses are the same as those used by the IRS for the tax credit.) Although the law permits you to use both methods, you cannot apply **the same expenses** to FLEX account reimbursement and the federal tax credit.

To decide how to use these options best, you should consider several factors. First, look at the total amount of your expenses. Under the federal tax credit, no more than $2,400 for one dependent (or $4,800 for more than one) is eligible for credit in any one year. Under FLEX, there is a $5,000 limit — even if you only have one dependent.

Since child care can be costly, you may have expenses large enough to take advantage of both FLEX and the tax credit. In this case, you must determine whether you should use the maximum available to you under your FLEX account and then apply the excess to the tax credit or vice versa. Much depends on the tax credit's structure. The amount the IRS allows as a federal tax credit varies according to family income. Families with an adjusted gross income under $10,000 can claim 30% of eligible child care expenses (up to the $2,400 or $4,800 maximum). Those with income over $28,000 can claim only 20% of eligible expenses up to the $4,800 maximum.

In general, people in a high income tax bracket would benefit most by using FLEX account reimbursement first, then apply the excess to the tax credit. This usually yields greater tax savings. For lower income families, it is probably best to do the reverse.

Note: These are just general guidelines and may not apply to your particular situation. Since family circumstances vary, consult your tax advisor for advice regarding the most advantageous tax treatment for child care expenses.

How to submit a claim

FLEX account reimbursement is handled by an independent administrator. The Company pays for all administrative costs.

Before submitting medical claims for reimbursement from your FLEX account, you must first collect any benefit payments available from all group insurance plans that cover you or your dependents. Once you have received payment from all other plans, you must submit evidence of this payment — the Explanation of Benefits Statement issued by the insurance company — along with your completed FLEX claim form. (Evidence should be submitted even if the group insurance claim was denied and no benefits collected.) If benefits are not payable from any other plan, complete your FLEX claim form and attach original bills showing the amount and type of expense incurred, the provider of the service and the date each service was performed. Send the claim **directly to the administrator;** the address is on the claim form. Keep a copy of all bills, statements and other documentation for your personal records.

Reimbursement from any FLEX account is made only for claims totaling $50 or more; therefore, you should collect all small bills until they total at least $50 before you submit a claim. Payments are made at the end of each month.

You may submit claims for expenses incurred during a calendar year until March 31 of the following year. Your year-end claims will be processed even if they do not add up to $50. Should funds remain in your accounts after these claims have been processed, the money will be forfeited.

If there is not enough money in your FLEX accounts to cover incurred expenses, reimbursement will be made to the extent dollars are available. The remaining amount will be paid to you when 1) sufficient funds are credited to your account through payroll deductions, and 2) you have submitted additional claims adding up to at least $50. Of course, year-end claims are reimbursed even if they are less than $50.

Questions

Q. When must I decide how much money to put in my FLEX accounts?

A. You must submit the enrollment form specifying your FLEX account allocations before December 15.

Questions (continued)

Q. What if my health or child care expenses change during the year?

A. After January 1, you may not change the amount of your allocation, except for a change in family status. (See **Changing Allocations** above.)

Q. How long does it take for my FLEX accounts to be credited through payroll deductions?

A. Your payroll deductions will be credited to your FLEX accounts 60 days after the end of the month in which they were made.

Q. What happens to my FLEX accounts if my employment ends?

A. If your employment is terminated, you make no further contributions. Nor do you receive a refund of any money already in your FLEX accounts. However, you may submit claims for reimbursement for the remainder of the calendar year. Of course, you will be reimbursed only as long as there are sufficient funds in your accounts.

Q. Does the "reduction" in my salary for FLEX affect any other Company benefits?

A. No. All other company benefits, such as pension, life insurance, long-term disability and the Employee Savings Plan, are not affected in any way by your FLEX account allocations. They are based on your gross income, **before** any reduction for FLEX.

Q. What happens to FLEX account money that must be forfeited?

A. All forfeited money is donated to Family Service America, to the extent permissible by law. Family Service America is a nonprofit organization which offers individual and family counseling, educational activities and other programs to protect and advance the interests of families in all walks of life. **The Company never receives any forfeited amounts.**

Q. Do I earn interest on my FLEX accounts?

A. No. FLEX accounts are not interest-earning accounts.

Q. How do I know how much money is in my FLEX accounts?

A. You will receive a quarterly statement which details the status of your accounts.

Q. What happens to my FLEX accounts if the tax law changes?

A. **FLEX accounts are permitted under current tax laws and regulations. Given the recent emphasis on reducing the deficit, there is a possibility that**

FLEX-type plans will be disallowed. Even so, the Company wants you to be able to use the FLEX tax advantage as long as it's available. You will be notified by the Company in the event of any changes in the law.

Now you see how FLEX can help you get in better shape when it comes to paying for child care and medical expenses not covered by your insurance. FLEX is unique. You get the power of pre-tax dollars working for you plus the opportunity to exercise your spending power as you best see fit for your personal situation. No other benefit offers you this.

Plan administration

Plan Administrator

A plan administrator is responsible for providing participants with information about their benefits and handling any other functions necessary for the plan's operation. The plan administrator is:

North American Philips Corporation
100 East 42nd Street
New York, N.Y. 10017
(212) 697-3600

Your Personnel or Employee Relations Office handles plan administration on the local level; they should be your first source for answers to any questions you have about the plan.

Agent For Legal Process

For all legal procedures, the designated agent for service of process is:

CT Corporation System
277 Park Avenue
New York, N.Y. 10017

Legal process may also be served on the plan administrator.

Plan Year

Records for the plan are kept on a calendar year basis ending each December 31.

Employer And Plan Number

The Employer Identification Number (EIN) is 13-1895219 and the plan number is 513.

Effective Date

This guidebook section summarizes life insurance benefits in effect as of January 1, 1986.

Your rights under law

As a participant in FLEX, you are entitled to certain rights and protections under the Employee Retirement Income Security Act of 1974 (ERISA). ERISA provides that all plan participants are entitled to:

- Examine, without charge, at the plan administrator's office and at other locations (including worksites), all plan documents including copies of all documents filed by the plan with the U.S. Department of Labor, such as annual reports and plan descriptions.
- Obtain copies of all plan documents and other plan information upon written request to the plan administrator. (The administrator may make a reasonable charge for the copies.)

In addition to creating rights for plan participants, ERISA imposes duties upon the people who are responsible for the operation of the plan. The people who operate your plan, called "fiduciaries," have a duty to do so prudently and in the interest of you and other plan participants and beneficiaries. No one may fire you or otherwise discriminate against you in any way to prevent you from obtaining a benefit or exercising your rights under ERISA.

If your claim for a benefit is denied, in whole or in part, you must receive a written explanation of the reason for the denial. You have the right to have the plan administrator review and reconsider your claim. Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request materials from the plan and do not receive them within 30 days, you may file suit in a federal court. In such a case, the court may require the plan administrator to provide the materials and pay you up to $100 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the administrator. If you have a claim for benefits which is denied or ignored, in whole or in part, you may file suit in a state or federal court. If it should happen that plan fiduciaries misuse the plan's money, or if you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees — for example, if it finds your claim is frivolous.

If you have any questions about your plan, you should contact the plan administrator. If you have any questions about this statement or about your rights under ERISA,

you should contact the nearest Area Office of the U.S. Labor-Management Services Administration, Department of Labor.

The benefits description in this guidebook section does not constitute an express or implied contract of employment.