

# PHILIPS

sense and simplicity

## Sustainability as value driver

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# Content

- Introduction
- Strategic, business and innovation side of Sustainability
- Risk and reputation management side of Sustainability
- Full integrated Annual report
- Shareholder value side of Sustainability
- Organizational and engagement side of Sustainability
- Some 2010 achievements
- Conclusions

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## A strong diversified industrial group leading in health and well-being

Founded in 1891

Headquartered in Amsterdam, the Netherlands

Sales over EUR 22.2 billion in 2010

Growth Markets

32% of sales generated in Growth Markets

Globally recognized brand (world top 50)

Our brand value doubled to \$8.7bn since 2004

117,000 employees

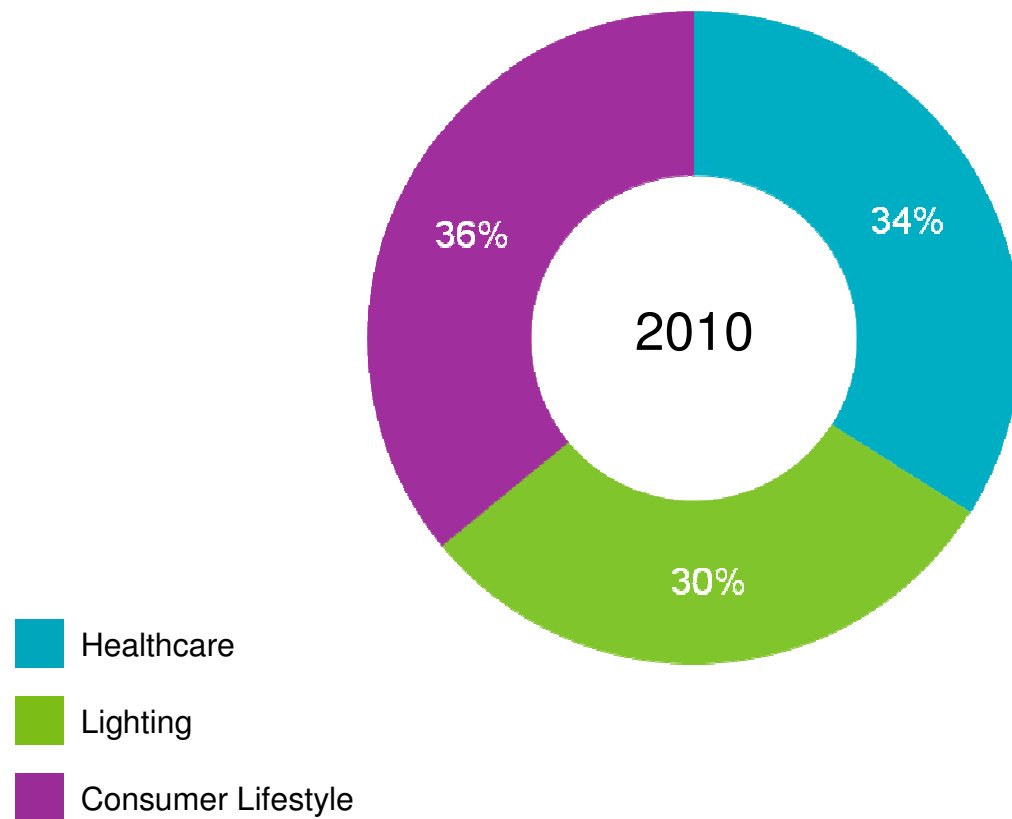
Sales and service outlets in over 100 countries

€1.5 billion investment in R&D, 7% of sales

Note - All figures from the year 2010 onwards exclude Television as it is treated as discontinued operation



# Our Health and Well-being offer is powered by 3 businesses



## Sustainability defined

- 1970 Report of Club of Rome: Limits to Growth
- 1987 Brundtland Report: Defining Sustainability

### **Sustainability**

“Meeting the needs of the present generation without compromising the ability of future generation to meet their own needs”

### **Sustainable Development** (pathway to Sustainability)

“The simultaneous pursuit of economic prosperity, environmental quality and social equity”

### **Sustainable entrepreneurs**

Companies that use sustainability as a paradigm shift to enhance growth and innovation and secure their future

## What makes Philips different?

### Early start in Social Responsibility

- 1900
  - Various Health insurance Arrangements
- 1912
  - Profit sharing
- 1913
  - Pension Fund
- 1929
  - Philips Company School
- 1920–1931
  - First phase of housing Program
- 1950
  - Collective Labor Agreement
- 1961
  - 5-day working Week



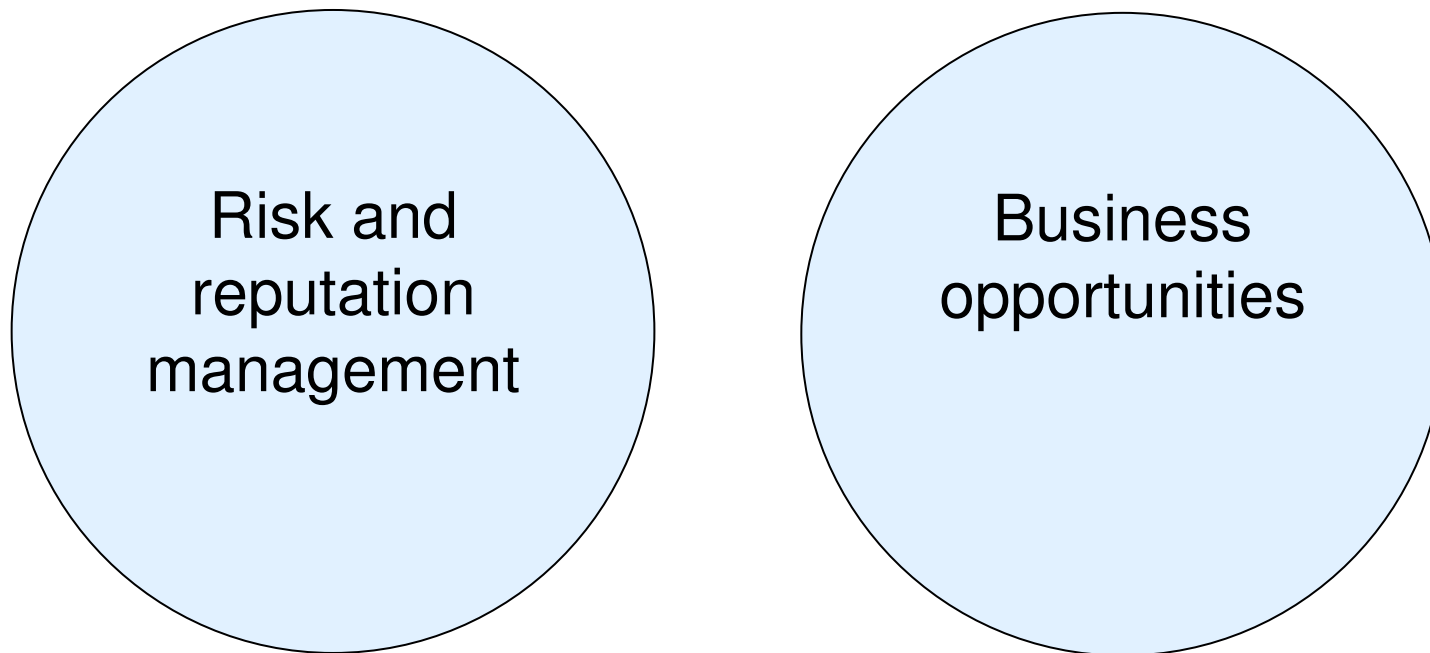
# What makes Philips different?

## Long history of Environmental Policy

- |             |  |
|-------------|--|
| 1970        | • Participation in 'Club of Rome'                            |
| 1974        | • Corporate Environmental Function                           |
| 1980        | • Energy and emission reduction Programs                     |
| 1987        | • First Global Policy  |
| 1991        | • Second Global Policy                                       |
| 1994        | • Environmental Opportunity, first structured 4-year Program |
| 1998 - 2010 | • EcoVision1, 2, 3, 4, 5                                     |

Sustainability

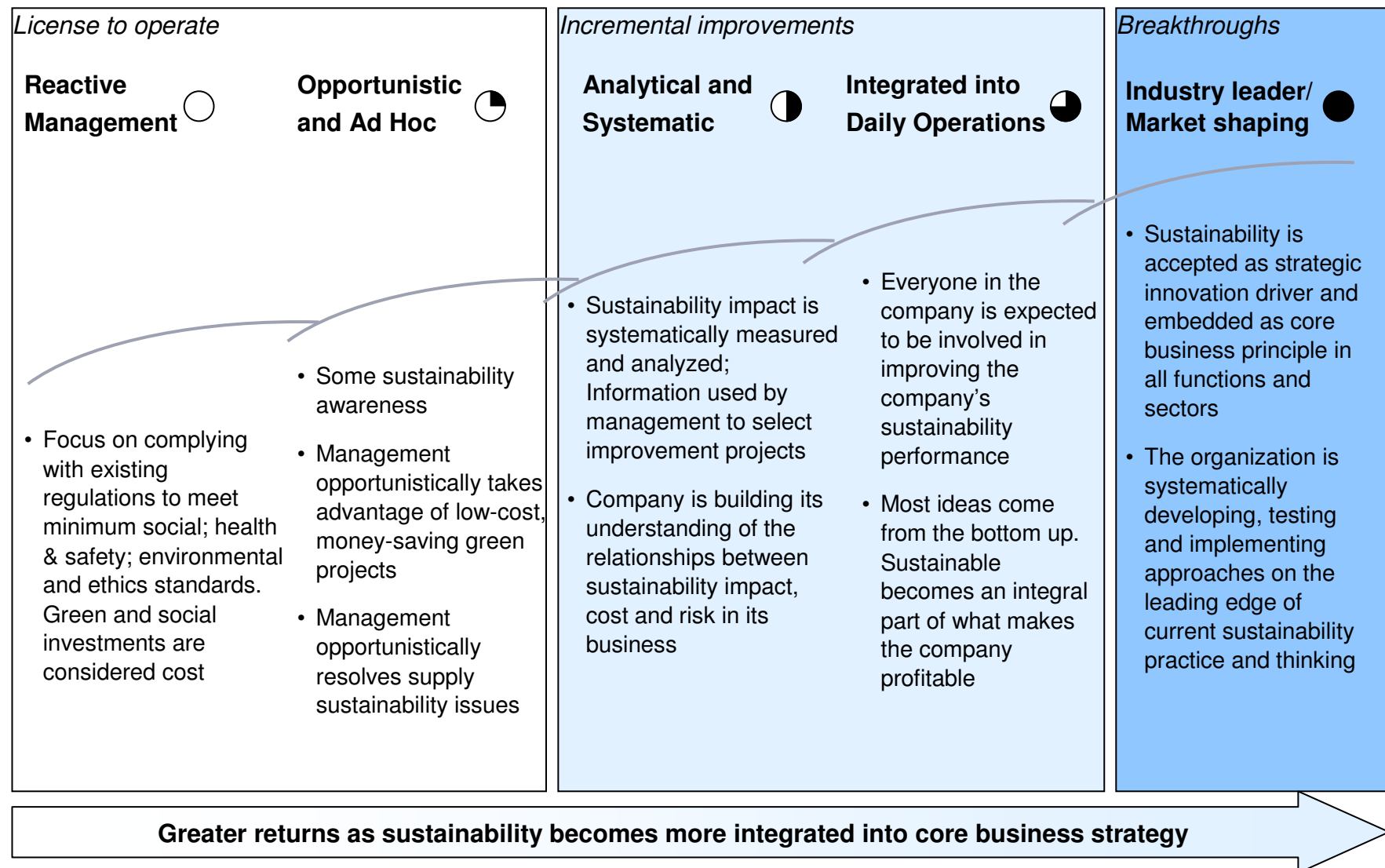
The two sided coin for companies





# Positioning of companies

○ Early stage  
● Fully embedded



# A New Era of Sustainability

UN Global Compact-Accenture CEO Study 2010

- 96% of CEOs believe that sustainability issues should be fully integrated into the strategy and operations of a company (up from 72% in 2007).
- 93% of CEOs believe that sustainability issues will be critical to the future success of their business.
- 91% of CEOs report that their company will employ new technologies (e.g., renewable energy, energy efficiency, information and communication technologies) to address sustainability issues over the next five years.

## Four global trends that drives the Philips strategy are becoming increasingly relevant



Aging population



The rise of  
emerging markets and  
the urbanization



Increased consumer  
empowerment and  
sustainable lifestyles



Climate change and  
sustainable development

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## Philips' Vision 2015 outlines four key priorities

- Expand leadership positions while benefiting from markets growing faster than GDP
- Be the preferred brand in the majority of our chosen markets
- Lead in sustainability
- Be seen by all stakeholders as making a positive difference in people's lives



## Driving 'Lead in Sustainability'

### Subjects on Sustainability Management Agenda 2011

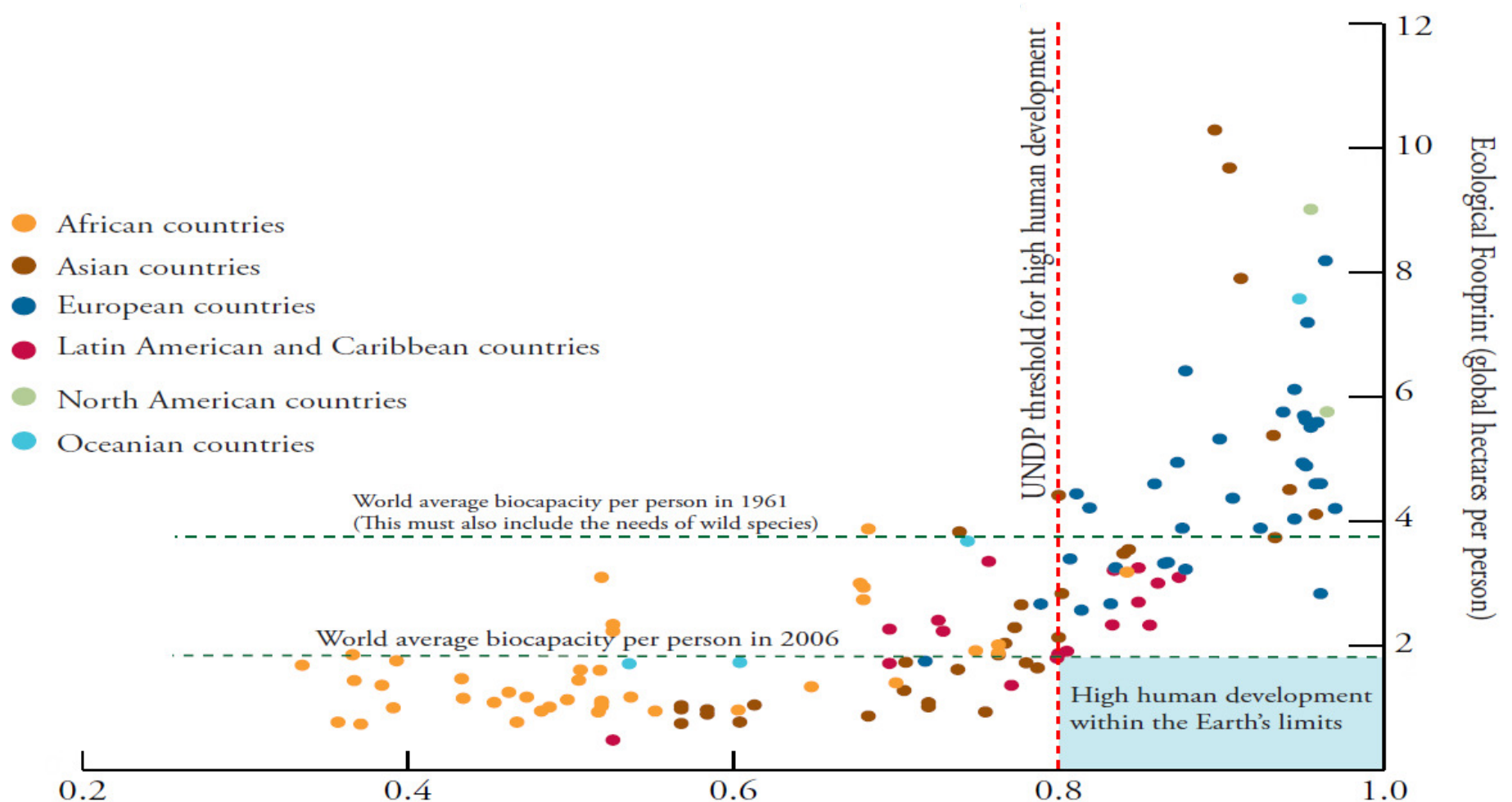
- Leading Key Performance Indicators (3)
- Other Key Performance Indicators (10)

### Subjects of Green Manufacturing 2015\*

- Performance Indicators (16)

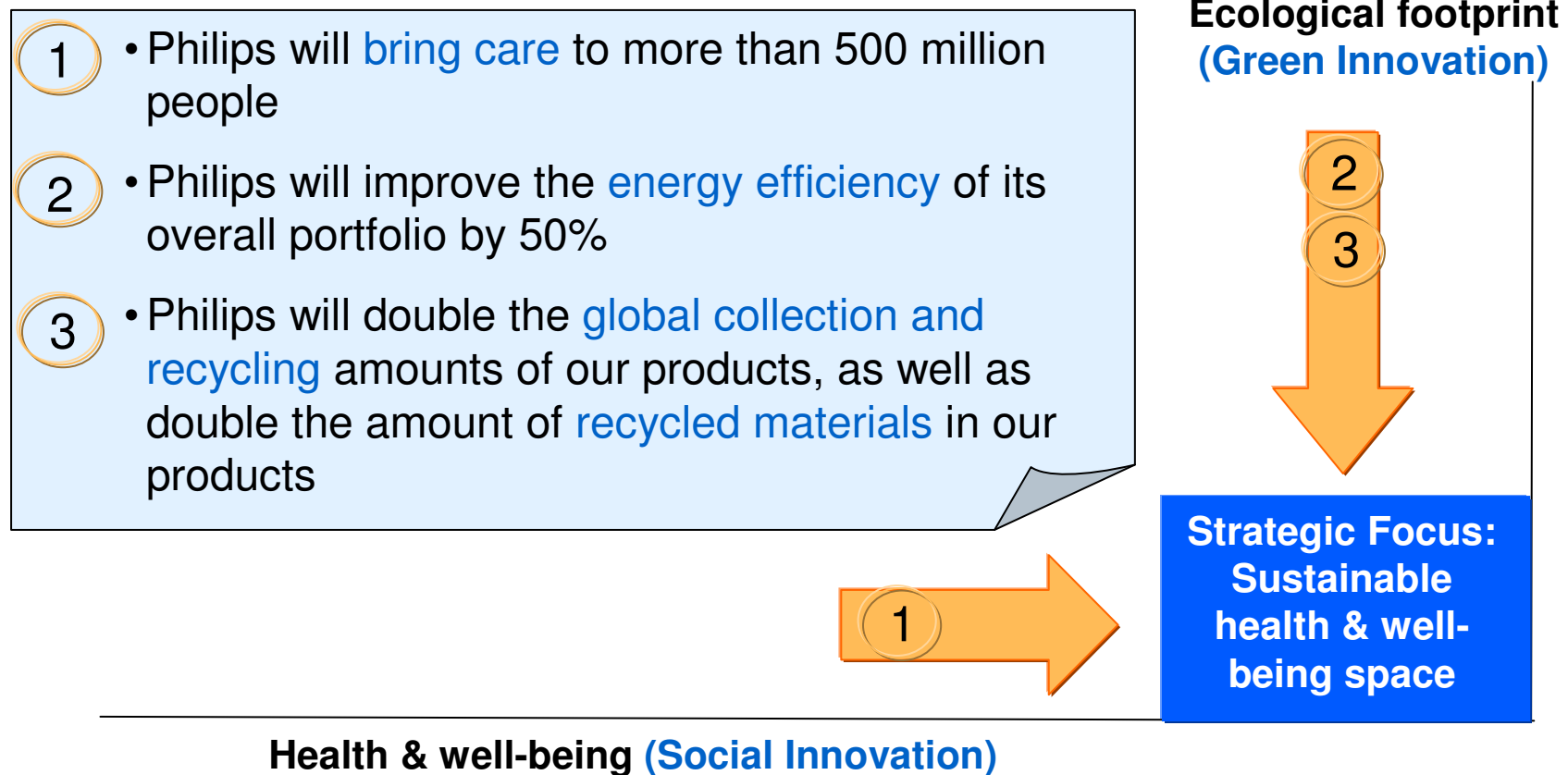
\* Including Chemicals Management and Health & Safety

# Sustainability simplified



UN Human Development Index = life expectancy + education level + purchasing power

## EcoVision5: A holistic approach to Sustainability to seed mid- and long-term value creation (2015)





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# EcoVision5: Bringing care to people

## Our commitment

By 2015, we will bring care to 500 million people

## What do we measure

The number of people per year that benefit from our care products. Product categories involved

- All Healthcare products
- Water and air purification
- Oral care
- Anti bacterial UV lights
- Light therapy

## How do we achieve our target

- Increased patient throughput of MRI and CT scanners
- Nominal sales growth in the care categories >6%
- Increase of care products in portfolio mix





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## EcoVision5: Improving Energy Efficiency

### Our commitment

By 2015, we will improve the energy efficiency of our overall product portfolio by 50%

### What do we measure

Examples: Lighting – lumen/Watt; TV – energy consumption per square inch

### How do we achieve our target

- Structurally embedding in technology roadmaps of the most contributing businesses
- Lighting contributes to total energy consumption of Philips product portfolio during use phase 89%, Consumer Lifestyle 10%, Healthcare 1%
- Lighting technology roadmaps on average light output in period 2010 – 2015 shows an improvement of 58% particularly because of the growth of the LED market



# EcoVision5: Closing the Material Loop

## Our commitment

By 2015, we will double the global collection and recycling amounts of our products, as well as double the amount of recycled materials in our products

## What do we measure

- Measure recycled materials used in products (in kg/year) with a focus on metals and plastics
- Measure collected products for recycling (in kg/year) in collective and non collective systems

## How do we achieve our target

- Determine the baselines in 2010
- Structural embedding in technology roadmaps of the contributing businesses such as TV and DA
- Focus on value recovery and cost savings when applying recycled materials in bill of materials



## EcoVision products

### Green products characterized by Philips Green Focal Areas

Life cycle approach to determine a product's overall environmental improvement

One or more of our Green Focal Areas must be

- Significantly better (at least 10%) than the reference product\*
- Resulting in a lower total environmental impact



\* reference product: Philips predecessor or closest commercial competitors

## Example Lighting - Master LED glow 7W

75% energy reduction compared  
to incandescent lamp

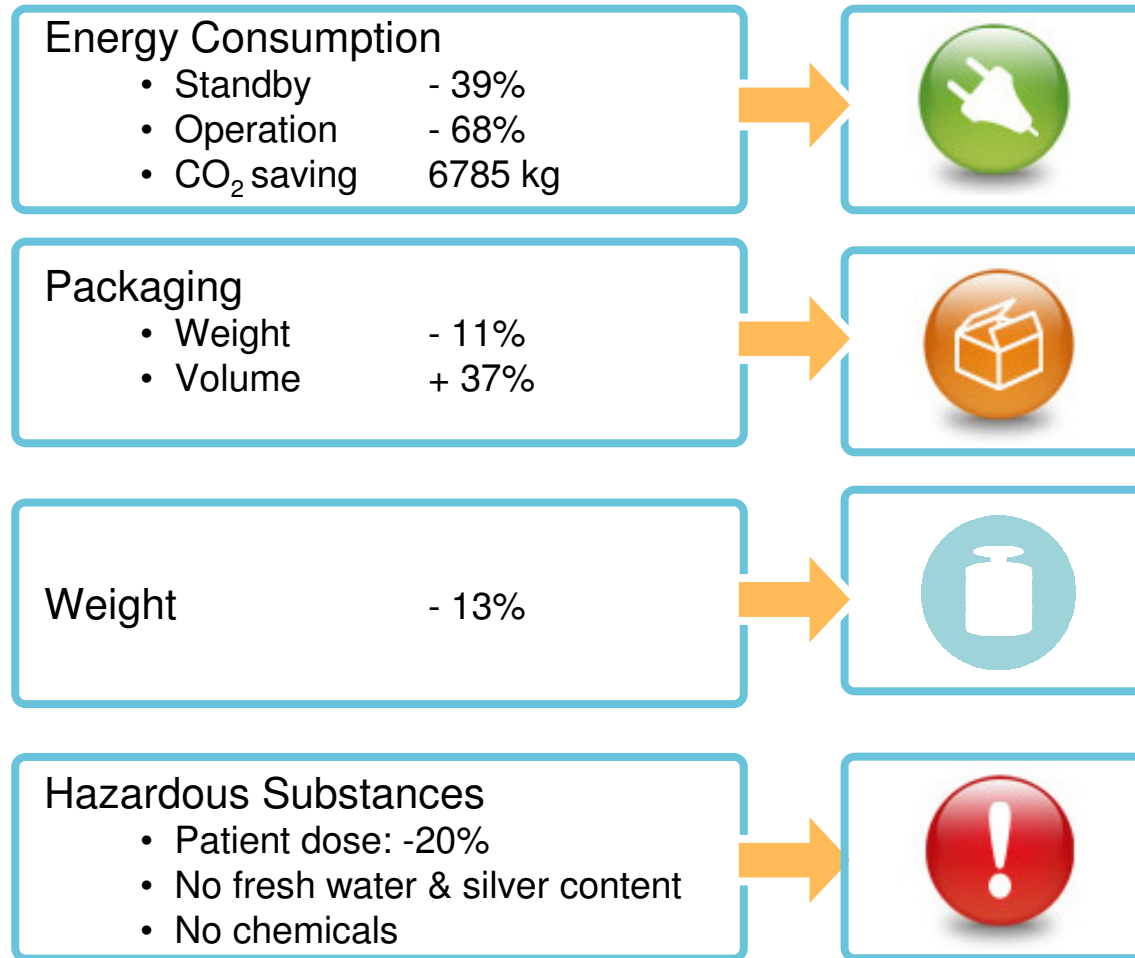


25 times longer lifetime than  
comparable incandescent lamp



[asimpleswitch.com](http://asimpleswitch.com)

# Example Healthcare - MammoDiagnost DR





# Example Consumer Lifestyle - Performer EnergyCare

- New High Density (HD) motor to save energy
- Up to 35% more efficient than other 'green' models in the market



- Packaging: >90% recycled material
- DFU/Leaflets: 100% recycled material



- Partly made of bio-based and recycled material materials
- Reducing demand for virgin materials, creating less waste



- Made of 97% PVC free material

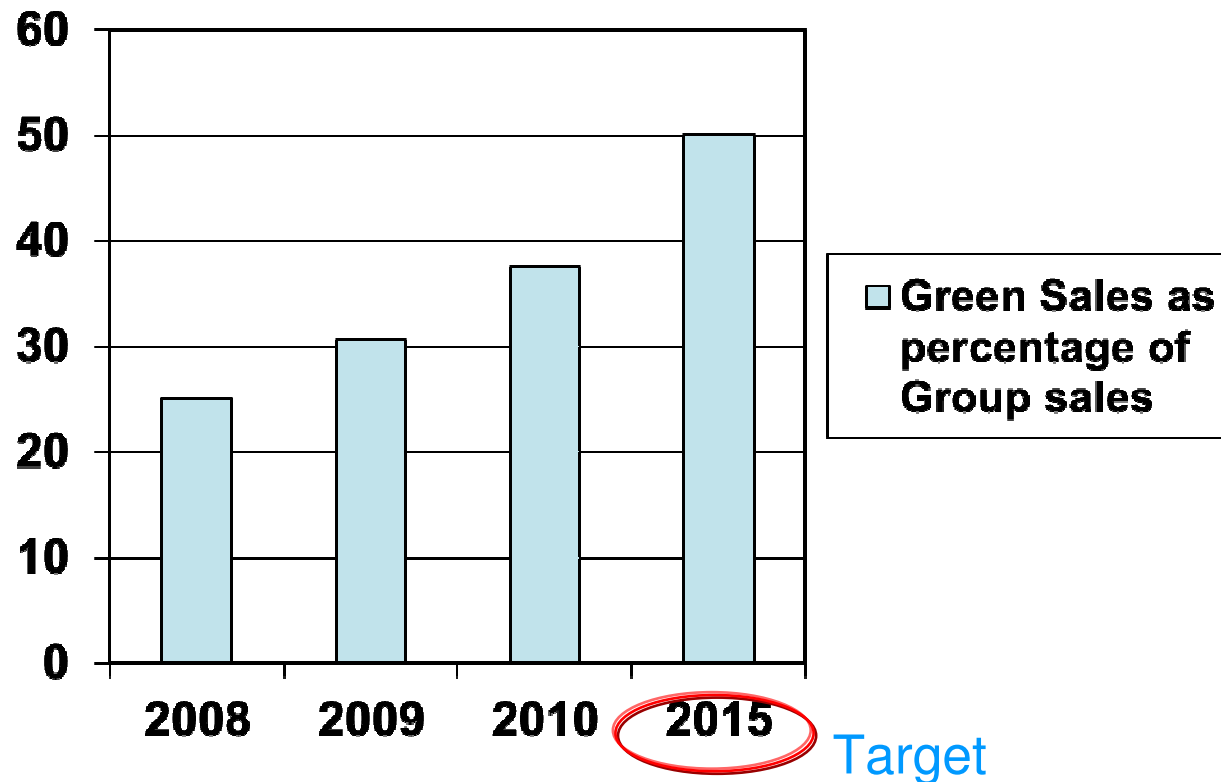


[asimpleswitch.com](http://asimpleswitch.com)

# Green Product Sales

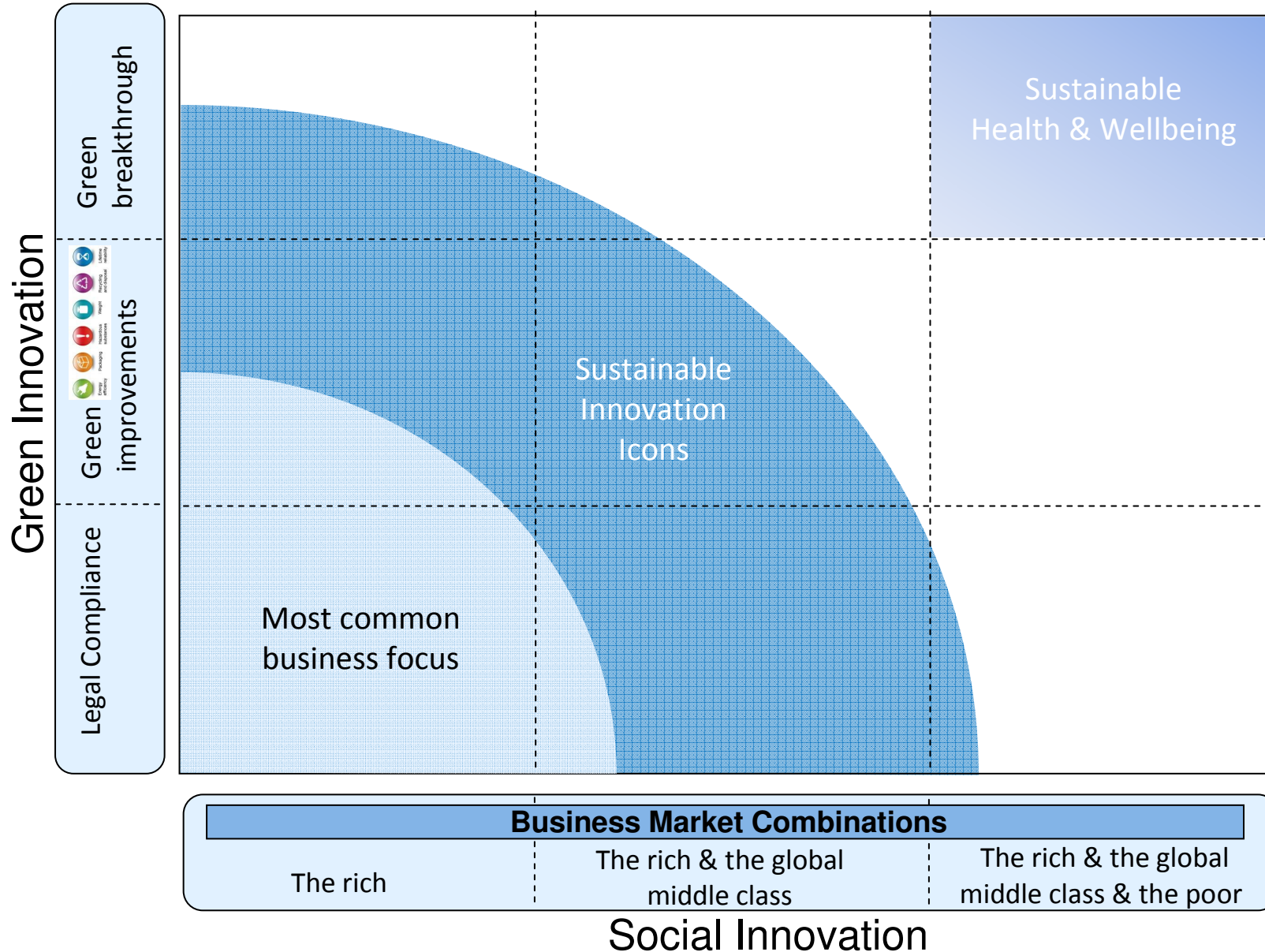
## Progress made to date

Green Innovation investments 2007 - 2010: 1 billion  
2010 - 2015: 2 billion



# Sustainability as Innovation driver

## Sustainable innovation portfolio mapping tool

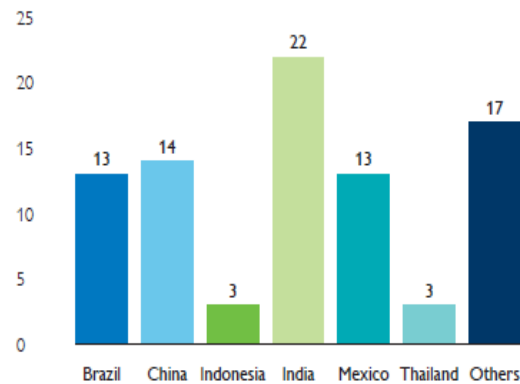




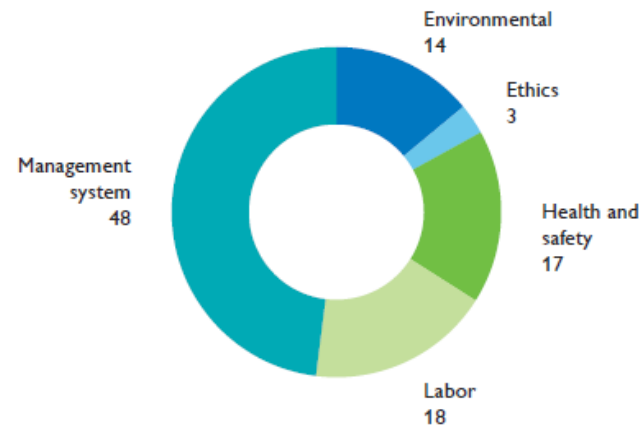
# Risk and reputation management

Transparency required on Sustainability in Supply Chain (yearly performance, progress and corrective actions)

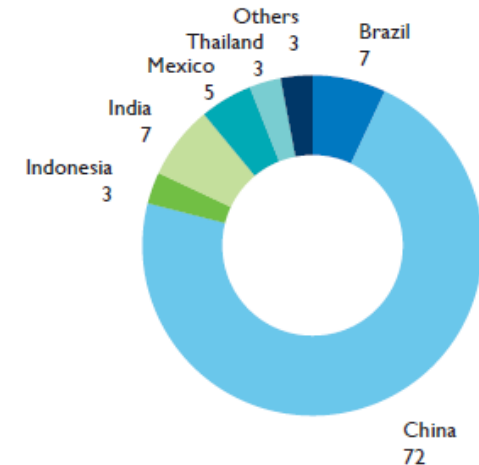
**Average non-compliances per audit**



**Distribution of non-compliances by grouping**  
as a % of Bill of Material-related audits in risk countries



**Distribution of supplier audits by country**  
as a % of Bill of Material-related audits in risk countries



# Risk and reputation management

Transparency required on Business Ethics

(yearly performance, progress and corrective actions)

**Breakdown of alleged violations GBP**

	2006	2007	2008	2009
<b>Business Integrity</b>	54	83	62	88
<b>Health &amp; Safety</b>	20	10	10	6
<b>Treatment of employees</b>	232	236	197	162
– Collective bargaining	2	1	1	–
– Discrimination	72	75	76	63
– Employee development	10	4	8	3
– Employee privacy	5	9	2	2
– Employee relations	14	3	14	15
– Respectful treatment	110	115	81	53
– Remuneration	13	11	7	22
– Right to organize	1	5	–	–
– Working hours	5	13	8	4
<b>Legal</b>	25	14	8	4
<b>Supply management</b>	9	10	5	4
<b>Other</b>	52	36	78	54
<b>Total</b>	<b>392</b>	<b>389</b>	<b>360</b>	<b>318</b>

## Driving both sides of the coin

### External reporting has been instrumental

- 1998 Environmental Annual Reports (ecological dimension)
- 2002 Sustainability Annual Reports (economical [executive summary], ecological and social dimension including General Business Principles Reporting and Supply chain performance)
- 2008 Integration with Financial Report to One Philips report covering all three dimensions extensively
- 2009 One Philips Report web based only with print function and tailor made downloads
- 2010 One Philips Report with tailor made multistakeholder cross sections on screen or in downloads

*Since 1998 all Philips environmental and sustainability reports have been externally verified (KPMG) and all dimensions in the integrated Annual report are externally verified*

# Reporting parameters on Sustainability

According to Global Reporting Initiative\* guidelines (GRI)

•Governance	(17)
•Economic	(25)
•Environment	(18)
•Labor practices and decent work	(10)
•Human Rights	(7)
•Society	(7)
•Product responsibility	(5)

\*Philips is at the highest level (A<sup>+</sup>)

# Annual Report 2010

Financial, social and environmental performance

Annual Report 2010

Performance Strategy Leadership Statements Investing in Philips How we make a difference

Simply making a difference

The stories ▶

Popular content

- Sustainability analyst
- Financial analyst
- Employee

€ 25 billion sales

10% EBITA as a % of sales

59% (co-) leadership Net Promoter Score

Performance highlights

Key facts and figures on our 2010 performance

President's message

Watch message ▶

How we make a difference

See the stories ▶

Download PDF

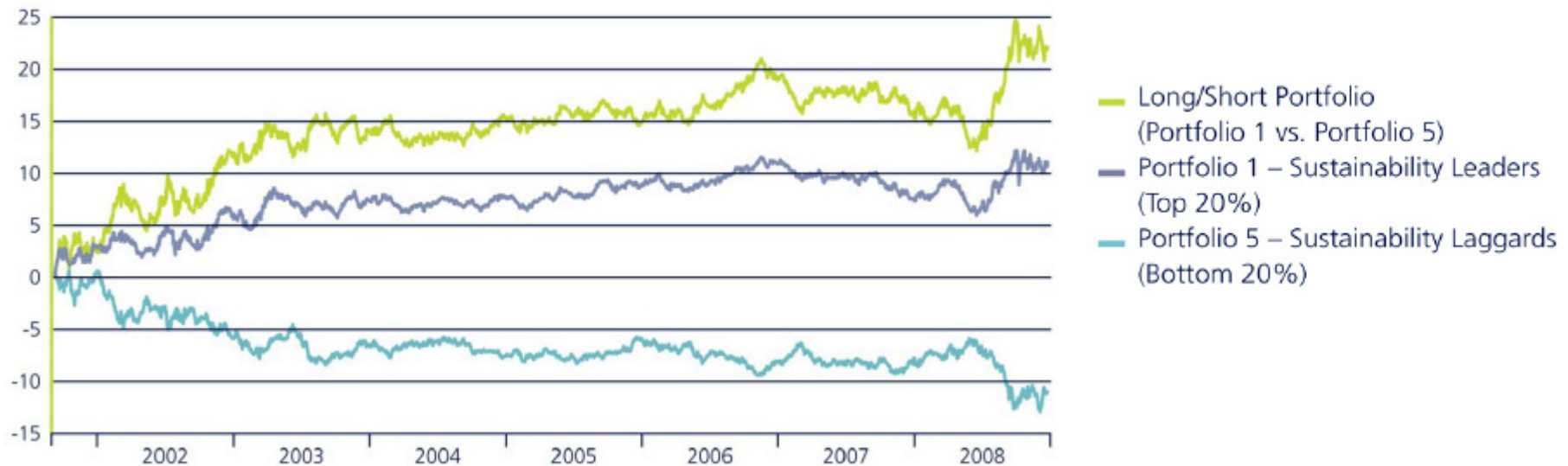
All downloads ▶

Full Annual Report ▶

▶ Site map

# Sustainable entrepreneurs

## Dow Jones Sustainability Index



**Benchmark:** Companies rated on the basis of the SAM Corporate Sustainability Assessments

**Metric:** Total sustainability score (economic, environmental, and social criteria)

Past performance is no indication of future results.

# Relevance of Sustainability to the Investor Community

(Source: Social Investment Forum and Eurosif 2008; Interbrand 2009)

## Analysis

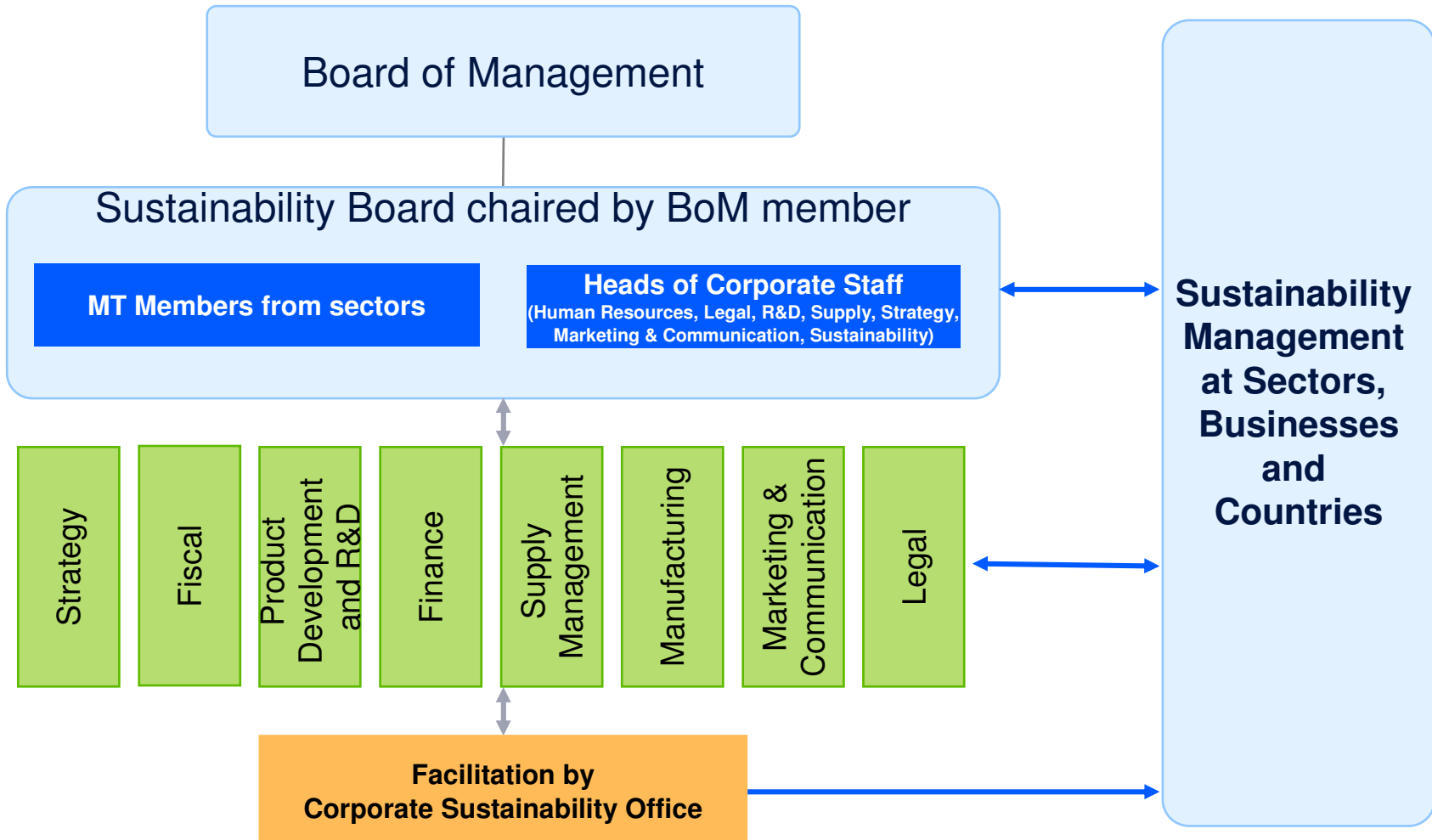
- In the 2009 Interbrand calculations, Sustainability contributes to the Philips brand with **11%**
- In the US **12%** of invested capital is managed by professional fund managers that apply Sustainability performance as an 'entry ticket' next to financial criteria.
- In Europe this professionally managed invested capital with Sustainability as an 'entry ticket' has grown from 18% in 2008 to **47%** in 2010

## Investors key topics of interest (based on Sustainability road shows and questions of fund managers)

- View on climate change and the company strategy for that
- Green product sales and Green innovations
- Managing Sustainability in the Supply chain
- Closing material loops (collection & recycling; recycled content)
- HR data (gender and age composition, inflow and outflow of staff, etc.)
- Remuneration of company executives related to Sustainability

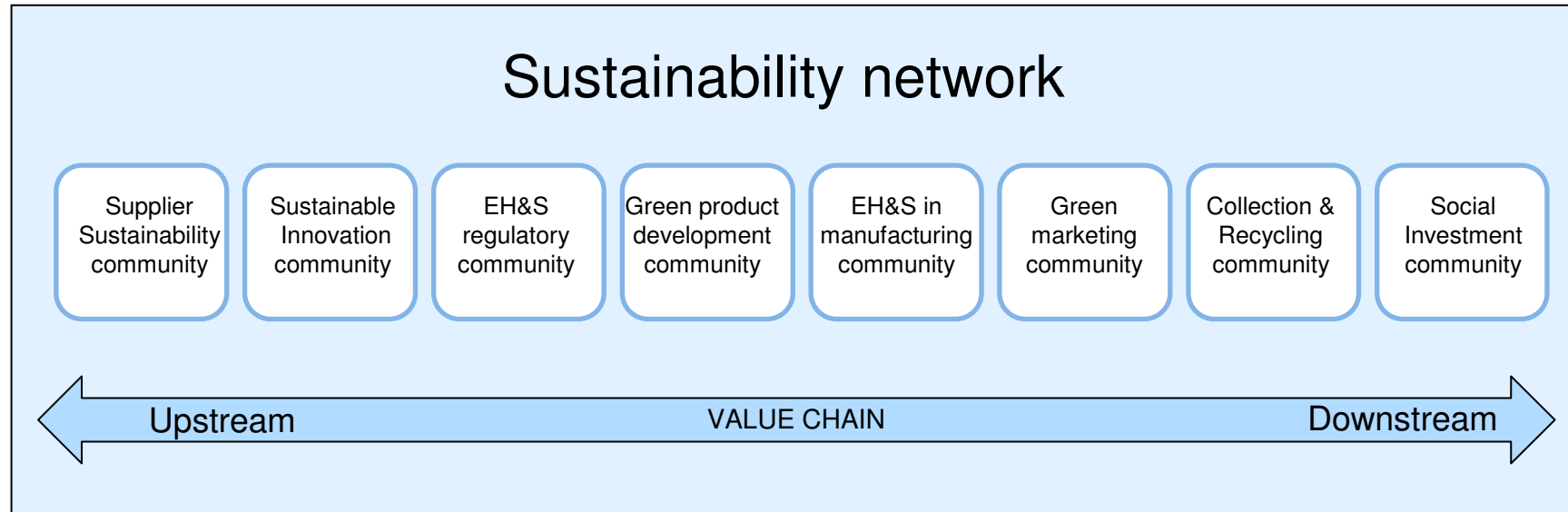
# How we organized the governance on Sustainability

*Embedded in the business and functions*



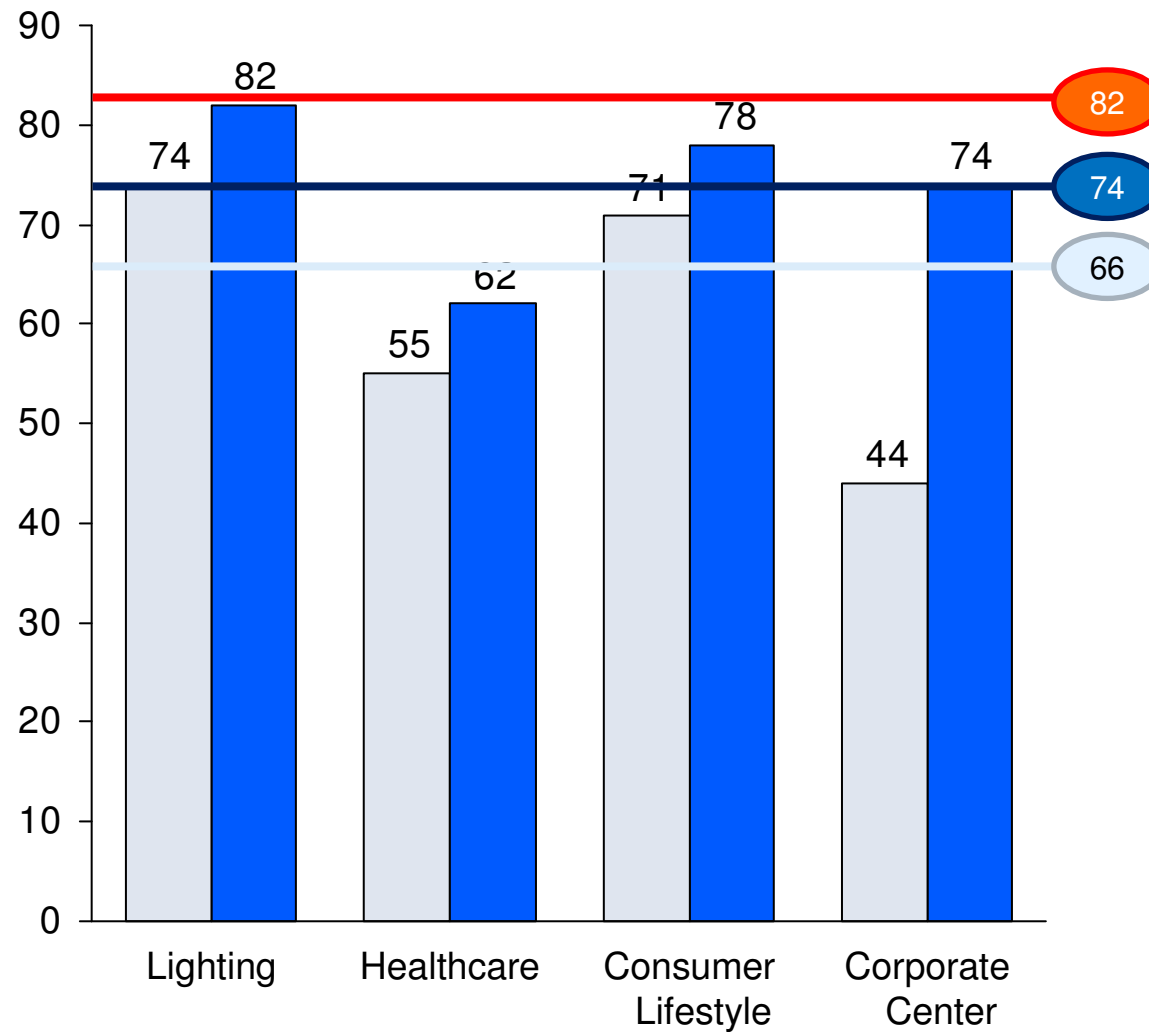


# Sustainability functional network and its communities of practice

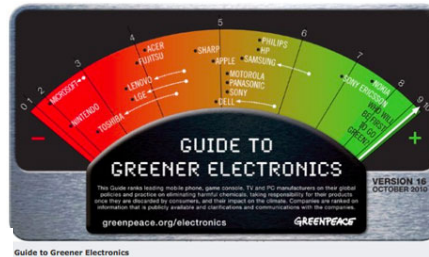


EH&S = Environment, Health & Safety

## Sustainability Employee Engagement Score



# Some 2010 Sustainability Achievements



**EES**  
Sustainability  
rating at 74%



+ 7%  
increase in  
Brand  
Value



Responsible Supply  
Chain award



Environmental  
leadership Award,  
Philippines



CSR communication  
program, Argentina

## Summary

- Philips has a strong **sustainability heritage**
- Philips raised the bar with the launch of our **ambitious EcoVision5 targets for 2015**, that go beyond environmental impact and which encompass our overall portfolio
- Philips will continue to leverage sustainability as an **integral part of our strategy**
- Philips has embedded sustainability in its strategy and will continue to **create value for all our stakeholders**, including its shareholders and employees
- Visit <http://www.annualreport2010.philips.com> for more information



