‘A matter of responsibility’
Philips and Sustainability

Henk de Bruin, Vice-President
Corporate Sustainability Office

Royal Philips Electronics
Philips & Sustainability

“We recognize the need to perform not only against a single, financial bottom line, but against a triple bottom line. This involves the simultaneous pursuit not only of economic prosperity, and environmental quality, but of social equity as well. It’s about living up to our brand promise Let’s make things better”

Gerard Kleisterlee
President & CEO of Royal Philips Electronics
This presentation

• Philips’ history in Sustainability
• Why Sustainability?
• The Sustainability business case?
• Sustainability and quality?
• Where do we stand?
• What are we going to do?
Agenda

- Philips’ history in Sustainability
- Why Sustainability?
- The Sustainability business case?
- Sustainability and quality?
- Where do we stand?
- What are we going to do?
Anton & Gerard Philips …

… innovators and entrepreneurs who succeeded in business while improving the lives of customers and employees

Their founding belief was that by daring to make choices that improve the lives of people both inside and outside the company, they would be successful not by coincidence but by design.
## 100 years of Personnel Policy (1)

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1900</td>
<td>Various health insurance arrangements</td>
</tr>
<tr>
<td>1912</td>
<td>Profit sharing</td>
</tr>
<tr>
<td>1913</td>
<td>Pension fund</td>
</tr>
<tr>
<td>1929</td>
<td>Philips company school</td>
</tr>
<tr>
<td>1920 – 1931</td>
<td>First phase of housing program (1969 &gt; 20,000)</td>
</tr>
<tr>
<td>1950</td>
<td>Collective labor agreement</td>
</tr>
<tr>
<td>1961</td>
<td>5-day working week</td>
</tr>
</tbody>
</table>
We at Philips
1948

Consultatie-bureau
Kien die meest geroepen ziekten is aangevallen de tuberculose. Dat het cijfer van tijders aan deze ziekte is in ons bedrijf zo lang is, danken wij aan de voortgangsmetingen: de doorlozing van personeel bij de aanvankelijke en in het gehele bedrijf, de vrijwillige doorlozing van huishoudens en de actie van het officieel erkende Philips Consultatiebureau tot bestrijding der tuberculose. Gezinsleden kunnen doorge-licht worden in het gebouw van de Medische Afdeling, Hoogheemstraat 12, dagelijks van 3.30 tot 4 uur.

Consultatie-bureau voor zorgvraag
Het consultatie-bureau voor zorgvraag wordt geopend in de Polikliniek Strips en voor bewoners van 'Twee bevonden in het buurthuis „Twee”. Hier worden kosteloos adviezen verstrekt aan de echtgenoten van onze werknemers.

Hygiëne in de werkplaatsen
De Sociëteits Hygiënische Afdeling is tevens bezig met de zorg voor de bedrijfsygiene; zij controleert de arbeidsomstandigheden op het gebied van biv, verlichting, ventilatie, rivierleiding, etc.

Tot dusver hebben wij uitsluitend gesproken over de ziekte die de arts is toegewezen om ziekten te voor- komen; ook van het personeel echter wordt verlangd dat het stil zul leven en niet zul sturen om de werk- plaatsen rege te houden. Hoeveel immers gebeurt het ziet dat spinrozen en werkgedeelten, producten dus, die bij het werk schuin moeten zijn, op alle manieren zijn vereist of niet voltooid zijn, de hoeveelheid, de werkwijze, de werksamen, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandigheden, de arbeidsomstandi-
100 years of Personnel Policy (3)

Items included in ‘We at Philips’:

- Personnel, - council, - magazine
- Theft and reputation
- Fines fund
- Sickness fund
- Pension fund
- Educational fund
- Sports and leisure activities
- Housing
- Allotments
- Consultancy bureau
<table>
<thead>
<tr>
<th>Year</th>
<th>Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>• Participation in ‘Club of Rome’</td>
</tr>
<tr>
<td>1971</td>
<td>• Corporate Environmental function</td>
</tr>
<tr>
<td>1974</td>
<td>• Logbooks on manufacturing sites</td>
</tr>
<tr>
<td>1980</td>
<td>• Energy and emission reduction programs</td>
</tr>
<tr>
<td>1987</td>
<td>• First Global Policy</td>
</tr>
<tr>
<td>1991</td>
<td>• Second Global Policy</td>
</tr>
<tr>
<td>1994</td>
<td>• First ‘all aspects’ action program</td>
</tr>
<tr>
<td>1998</td>
<td>• Second ‘all aspects’ action program</td>
</tr>
<tr>
<td>2002</td>
<td>• Third ‘all aspects’ action program (2002 – 2005)</td>
</tr>
</tbody>
</table>
Our definitions

- **Sustainability** is defined as “meeting the needs of the present generation without compromising the ability of future generations to meet their own needs”

- **Sustainable development** – which is considered the path to sustainability – is the simultaneous pursuit of economic prosperity, environmental quality and social equity

- Companies that pursue this path are known as **sustainable entrepreneurs**
What comprises sustainability?

Economic responsibility
- Profit
- Impact

Environmental responsibility
- Process
- Product

Social responsibility
- Internal
  - Health & Safety
- External

BUSINESS PRINCIPLES
Agenda

- Philips’ history in Sustainability

  - Why Sustainability?

- The Sustainability business case?

- Sustainability and quality?

- Where do we stand?

- What are we going to do?
Why Sustainability?

Philips

Customers → Philips

Shareholders → Philips

Government → Philips

Employees → Philips

Suppliers → Philips

Consumers → Philips

NGO’s → Philips

Financial Sector → Philips
Why Sustainability?

Business assets

• Value of a company comes from

• Physical assets:
  – Land
  – Manufacturing facilities

• Intangibles – up to 75% of total value:
  – Reputation and brand
  – Perceived risks
  – Ability for constructive dialogue and partnerships with stakeholders
Why Sustainability?
Partnerships

• Changing role of the partners
  – Dominance of governments diminished
  – Growing influence of business
  – Civil Society maturing
Some critical non-financial factors in relation to corporate reputational risk

- Business Integrity
- Environment
- Health and Safety
- Employee Satisfaction
- Non-Discrimination
- Equal Opportunities
- Diversity
- Human Rights
- Product Safety
- Customer Satisfaction
- Contribution to Society at Large
Why Sustainability?
Accountability and transparency

Consequences for Business:

- External reporting: “More work”
- Need to be clear what you stand for
  - Your values and principles
- Need to be open about your performance
  - Reporting (success and failures)
  - Verification
- More Stakeholder interaction
Annual Corporate Sustainability Reports
Top 100 companies in 12 countries

<table>
<thead>
<tr>
<th>Year</th>
<th>HSE</th>
<th>Sustainability / Social</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>13%</td>
<td>0%</td>
</tr>
<tr>
<td>1996</td>
<td>17%</td>
<td>0%</td>
</tr>
<tr>
<td>1999</td>
<td>24%</td>
<td>0%</td>
</tr>
<tr>
<td>2002</td>
<td>18%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: KPMG International Survey on Corporate Sustainability Reporting 2002
Reporting by industry sector

Utilities: 50%
Communications and media: 46%
Chemicals & synthetics: 45%
Forestry, pulp & paper: 43%
Oil & gas: 38%
Transport: 37%
Mining: 33%
Pharmaceuticals: 30%
Automotive: 28%
Electronics & computers: 25%
Food & beverage: 25%
Metals, engineering & other manuafacturing: 24%
Trade & retail: 15%
Finance, securities & insurance: 12%
Construction & building materials: 9%
Other service: 6%

Source: KPMG International Survey on Corporate Sustainability Reporting 2002
Agenda

- Philips’ history in Sustainability
- Why Sustainability?
- The Sustainability business case?
- Sustainability and quality?
- Where do we stand?
- What are we going to do?
CEO’s opinion: what drives sustainability?
% of response

- Innovation/learning: 10%
- Access to capital: 12%
- Risk management: 27%
- License to operate: 48%
- Market position: 48%
- Employee motivation: 58%
- Reputation/Brand: 78%

Business value from sustainable development

Integration of SD into business processes and
Risk & reputation management

% Effort

Business value creation

Now

Time

Corporate Sustainability Office
What is the Sustainability business case?

- Brand equity
- License to operate
- Customer loyalty
- Employee retention
- Flexibility in operations
- Lower cost of capital
- Possible new source of revenue growth
- Non-financial management steering information for improving corporate governance

‘Sustainability is simply a matter of doing business’
Agenda

- Philips’ history in Sustainability
- Why Sustainability?
- The Sustainability business case?
- Sustainability and quality?
- Where do we stand?
- What are we going to do?
The EFQM Model as tool for sustainability

- **Leadership**
- **Policy & Strategy**
- **Partner/ Resources**
- **Processes**
- **People Results**
- **Customer Results**
- **Society Results**
- **Key Performance Results**

**Enablers**

**Results**

= area related to sustainability
Building blocks for Sustainability at Philips

- Where do we come from?
- What are we good at?
- How are we different?
- Whom do we serve?
- How do we act?
- What do we believe in?
- Why do we do all this?

- Delight customers
- Deliver on commitments
- Develop people
- Depend on each other

Business Excellence

Sustainability

Business Strategy

Philips Values

Brand Foundation
Agenda

- Philips’ history in Sustainability
- Why Sustainability?
- The Sustainability business case?
- Sustainability and quality?

  - Where do we stand?

- What are we going to do?
Where do we stand?

- Since 1891

- 1994 (first environmental program)
- 1998 (first environmental report)
- 2003 (first sustainability report)

- 2003

- Q3 2003
Governance of sustainability

Sustainability board

Sustainability Group & Corporate Sustainability Office

Task force Reporting

Task force Communication

Task force New businesses
Multi-step process

- Social Issues: 3–4 years
- Health & Safety: 2–3 years
- Environmental: 1–2 years
- World-class level: high maturity level

Assurance/profiling level:
- High
- Low
Integration of policies and systems (1)

Separate policies:
- Environmental
- Health & Safety
- Social Issues

Integration:
- Corporate Sustainability Policy

Balanced addressing:
- Opportunities
- Risk Assurance
Integration of policies and systems (2)

Sustainability policy

The Philips Sustainability Policy is a core element for the operations of the entire Philips organization. Sustainable development is a priority for the Board of Management, which has formulated guidelines for sustainable performance. This policy and resulting action programs are regularly reviewed and updated to meet stakeholder needs.

Philosophy
Since Philips was founded in 1891, it has worked to improve social equity and environmental quality, proving that responsible business is good business. Operating this way, the company has been able to improve economic prosperity for itself, its stakeholders, and society at large. With the emphasis of integrating economic, environmental, and social issues, Philips understands that sustainable development is one of the most challenging issues facing the world.

Commitment

Philips adheres to the Business Pledge for Action designed by the United Nations in the 2002 Johannesburg World Summit for Sustainable Development.
- Sustainability is the opportunity we embrace.
- Responsibility is the essence of which we should expect to be judged.
- Accountability is the obligation we assume.
- Partnership is the pathway we pursue.
- Therefore, Philips will:
  - Develop environmental and technology driven by the needs of society.
  - Act transparently both in terms of our culture and making Business Principles.
  - Commit to self and maintain that through transparency and accountability.
  - Embrace and work with stakeholders inside and outside the company.

Policy

- Philips vanishes and strengthens a culture of sustainable entrepreneurship, in line with its sustainability policy.
- Philips invests in its employees and creates a work environment that enables them to reach their full potential.
- Philips optimizes its operations, business strategy and operations by setting financial and non-financial targets and increasing constructive relationships with stakeholders.
- Philips expects its business partners to be committed to sustainable development.
- Philips is active in the community by supporting initiatives to improve people’s lives, and in focusing on education and health, particularly for the underprivileged.
- Philips resists pressure from sustainability pressure groups and publishes results annually.
- Philips supports international non-governmental organisations (NGOs) and companies to explore new business and emerging markets to improve quality of life.

Corporate Sustainability Office
Philips first Sustainability Annual Report

**Why?**
- We have long recognized the need to integrate economic prosperity, environmental quality and social equity in our performance. It is built in our heritage, our values’ and our commitment to improve the quality of people’s lives. Now for the first time we have measured and reported on our sustainability performance.

**How?**
- As announced in our Environmental report for 2001, we have developed a more comprehensive report for 2002. We have established a Sustainability board and Corporate Sustainability Office. The report has been developed following the Guidelines Core Indicators as set by the GRI (Global Reporting Initiative). The report has been verified by KPMG.

**What?**
- With the Sustainability report we made our first step towards sustainability reporting and further strengthen our efforts in this important area. It shows our approach to sustainable development and offers detailed insight in our performance and the white spots we still have.
Some feedback on Sustainability Report 2002

‘Further integration of sustainability into the Philips strategy and ways of working (Sustainability should not be an add-on)’

‘More focus on issues that Philips sees as most important’

‘More dilemma sharing’

‘More stakeholder dialogue’

‘The tone and presentation of the report needs to be acknowledged as one of the highest quality. Graphs, language and presentation techniques make the report accessible to a wide range of stakeholders’

‘A beautifully written and laid-out report; a model for good clear design’
From Environmental to Sustainability Report (1)

- Corporate staff (Sustainability Office): from 2 to 4 FTE
- Divisional staff: Expected increase of capacity from 10 to 13 FTE
- Additional tasks for existing functional disciplines HRM, purchasing, compliance officers. Capacity increase yet unknown but estimated at 5 – 10%
- Environmental data: 250 reporting organizations
From Environmental to Sustainability Report (2)

- Health & Safety, social issues (internal), business principles: 500 reporting organizations

- Community interaction reporting: 60 country organizations

- Supplier database reporting: 2500 ‘key’ suppliers

- Customer privacy reporting: 3 internal databases with number of reporting organizations under investigation

- Verification costs up with 25% and now above 600,000 Euro

- Worldwide automated Intranet based data collection system with modular approach for new subjects
DJSI Ranks Philips #1 in Cyclical goods sector

Cyclical Goods Market Leader
- 2004 DJSI World
- 2004 DJSI STOXX
Vision on GRI guidelines

- Comprehensive and often exhausting to adhere to
- Helpful in structuring a Sustainability Report
- Since GRI ‘covers almost anything’ there is some conflict of interest between GRI reporting and creating focus
- Guidelines per industry sector can be useful, but decreases comparability at a ‘Fortune 500 level’
- Philips will follow the GRI guidelines again for the 2003 report and will continue to provide a four page full version matrix in the back of the Sustainability Report 2003
Philips insight development in reporting parameters

Definition of maturity levels per parameter

1. Only a best practice example and no policy (yet)
2. Policy defined
3. Policy communicated
4. Policy implemented
5. Data measurement system in place:
   - Quantitative data (‘hard data’ e.g. figures)
   - Qualitative data (‘soft data’ e.g. perception measurement)

Best practices may also serve as an illustration for the levels 2 - 5
Philips Sustainability Report(ing) at present

- The Annual Sustainability Report is a strong communication tool toward employees
- The Annual Sustainability Report is a communication tool and excellent bases for stakeholder dialogue
- Verification of results have proven to be a boundary condition for data reliability
- Reliable data reporting for new parameters is a process that takes 2 – 4 years
- Reliable non-financial data are gaining importance as management steering information
Agenda

- Philips’ history in Sustainability
- Why Sustainability?
- The Sustainability business case?
- Sustainability and quality?
- Where do we stand?

- What are we going to do?
Philips’ ambition level

**Sustainable entrepreneur:**

- Leader in major external sustainability ratings systems in the electronics sector
- Adequate risk assurance management
- Well established stakeholder dialogue mechanism
- Identification and implementation of business opportunities
Management Agenda Sustainability 2003

- Overall Sustainability Report 2003 at a moderate level of assurance (available in March 2004)
- Focus on standardization of reporting and verification
- Policy in place and roll out started for suppliers
- Diversity/Inclusion: from stake in the ground to a program
- Social investments activities well structured (90 % “known”, 80 % of 2004 budget in Health/Education)
- Sustainable business projects defined and decided upon
Focus for social investments

Access to

Quality of life

Health

Education

Europe
North America
Latin America
Asia Pacific
Corporate

TOTAL 10 million
Focus for social investments

The Global Pyramid

**Purchasing Power Parity per year**

- > $10,000
- $1,500 - $10,000
- < $1,500

**Population in millions**

- Advanced markets: 500
- Emerging markets: 1,500
- Developing markets: 4,000

Low

Medium

High
The sustainability assignment for the year ahead

Focus

Direction

Visibility