

# PHILIPS

sense and simplicity

Royal Philips Electronics

*Creating long-term value with sustainability*

ING Benelux SRI Conference – Amsterdam

March 25<sup>th</sup>, 2010

## Important information

### *Forward-looking statements*

This document and the related oral presentation, including responses to questions following the presentation contain certain forward-looking statements with respect to the financial condition, results of operations and business of Philips and certain of the plans and objectives of Philips with respect to these items. We caution readers that no forward-looking statement is a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking statements.

Examples of forward-looking statements include statements made about our strategy, estimates of future sales growth, future EBITA, future cost savings and future developments in our organic business as well as the benefit of future acquisitions, and our capital position. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances and there are many factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements.

These factors include, but are not limited to, domestic and global economic and business conditions, particularly in light of the ongoing recessionary condition prevailing in many markets, the successful implementation of our strategy and our ability to realize the benefits of this strategy, our ability to develop and market new products, changes in legislation, legal claims, changes in exchange and interest rates, changes in tax rates, pension costs and actuarial assumptions, raw materials and employee costs, our ability to identify and complete successful acquisitions and to integrate those acquisitions into our business, our ability to successfully exit certain businesses or restructure our operations, the rate of technological changes, political, economic and other developments in countries where Philips operates, industry consolidation and competition. As a result, Philips' actual future results may differ materially from the plans, goals, and expectations set forth in such forward-looking statements. Additional risks and factors are identified in our Annual Report for the fiscal year ended December 31, 2008, our Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission (the "SEC"), which is available on the SEC's website at [www.sec.gov](http://www.sec.gov), and the "Risk and uncertainties" section in our semi-annual financial report for the six months ended June 28, 2009. Readers should consider the disclosures in these reports and any additional disclosures that we have made or may make in documents that we have filed or furnished to the SEC or may file with or furnish to the SEC or other regulatory authorities. Any forward-looking statements made by or on our behalf speak only as of the date they are made. We do not undertake to update forward-looking statements to reflect any changes in expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

### *Third-party market share data*

Statements regarding market share, including those regarding Philips' competitive position, contained in this document are based on outside sources such as research institutes, industry and dealer panels in combination with management estimates. Where information is not yet available to Philips, those statements may also be based on estimates and projections prepared by outside sources or management. Rankings are based on sales unless otherwise stated.

### *IFRS basis of presentation*

The financial information included in this document is based on International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the European Union (IFRS), unless otherwise indicated. As used in this document, the term EBIT has the same meaning as Income from operations (IFO).

### *Use of non-GAAP Information*

In presenting and discussing the Philips Group's financial position, operating results and cash flows, management uses certain non-GAAP financial measures like: comparable growth; EBITA; NOC; net debt (cash); free cash flow; and cash flow before financing activities. These non-GAAP financial measures should not be viewed in isolation as alternatives to the equivalent GAAP measures. In our Quarterly report we've included a reconciliation of such non-GAAP financial measures to the most directly related GAAP measures.

### *Use of fair value measurements*

In presenting the Philips Group's financial position, fair values are used for the measurement of various items in accordance with the applicable accounting standards. These fair values are based on market prices, where available, and are obtained from sources that are deemed to be reliable. Readers are cautioned that these values are subject to changes over time and are only valid at the balance sheet date. When observable market data does not exist, fair values are estimated using valuation models, which we believe are appropriate for their purpose. They require management to make significant assumptions with respect to future developments which are inherently uncertain and may therefore deviate from actual developments. Critical assumptions used are disclosed in the financial statements. In certain cases, independent valuations are obtained to support management's determination of fair values.

1. Building the leading company in health and well-being

2. Sustainability in Philips

3. Leading in sustainability

Philips defined: we are...

“...a global company of leading businesses creating value with **meaningful innovations** that improve people’s **health and well-being.**”

## Health and well-being

A commitment to:

Healthy, fulfilled lives

Our communities and societies

Our world

## Meaningful innovations

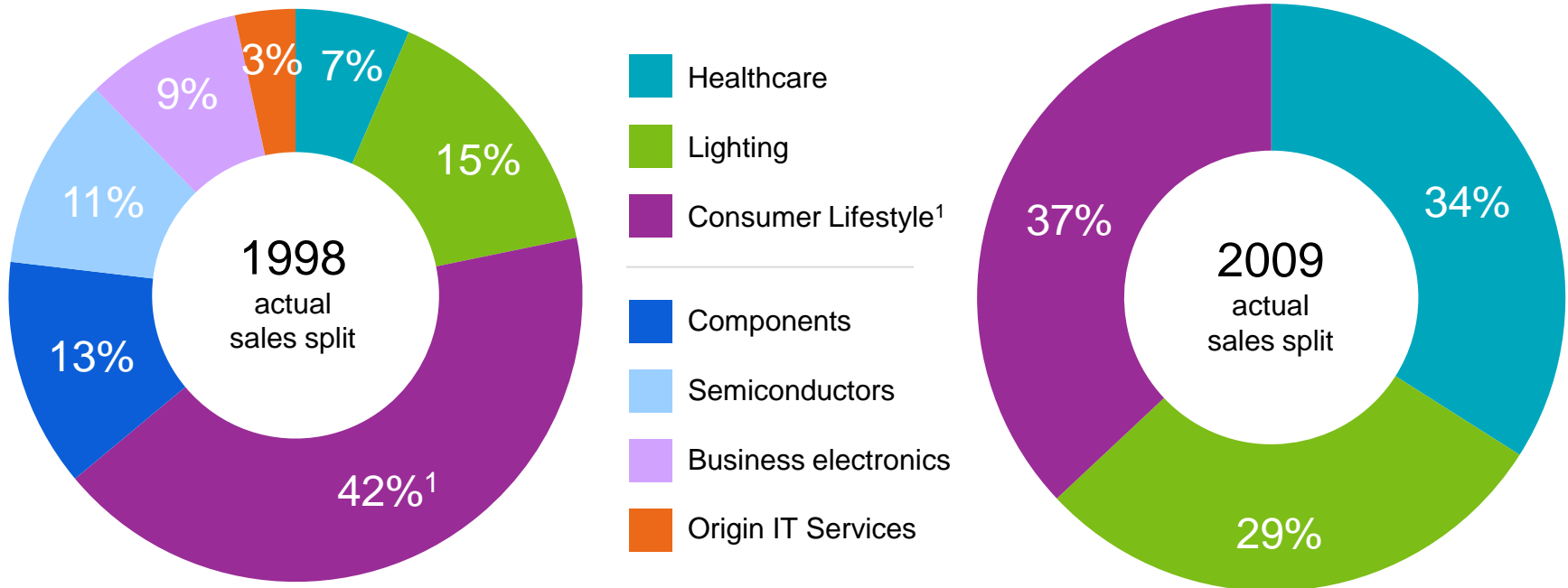
Improving people’s lives

Going beyond technology

Introduced at the right time

# Building a leading company in Health and Well-being

Over the past decade we have fundamentally simplified our business portfolio, investing proceeds from disposals in our Healthcare, Consumer Lifestyle and Lighting businesses



<sup>1</sup> Consumer Lifestyle in 1998 includes the former DAP and Consumer Electronics divisions

## Our Health & Well-being portfolio leverages critical global trends

*We have chosen our three markets well*

### Aging population

The number of people aged over 60 will double from 500 million today to 1 billion by 2015.

### Emerging markets

99% of future population growth will be in emerging markets. Emerging & developing economies are expected to account for 2/3<sup>rd</sup> of global GDP by 2016.

### Empowered consumers

Consumers are increasingly focused on their Health and Well-being and look for products that fit their lifestyle.

### Climate change and sustainable development

19% of global electricity consumption is used for lighting. Energy efficient lighting can save 40%...or 600 power stations worth of energy!



# A strong position in emerging markets

*Represents a significant and growing part of our global footprint*



## Emerging markets represent 30% of sales

In Healthcare double-digit growth in sales and order intake

## High corporate brand equity<sup>1</sup>

Consistently among the top-ranking players:  
India: top 10%, China: top 10%,  
Russia: top 40%, Brazil: top 10%

## Championing growth with dedicated strategies

Based on local market insights, supported by increased marketing investments

## Increasing our footprint

- Opened more than 100 exclusively branded stores in China and India
- Established an Imaging Systems Industrial Campus in Suzhou, China

<sup>1</sup> Source: TNS Consumer Heart BEAT brand equity study 2009

# Sustainability as a driver for growth



## Our commitment

One of the strategic drivers behind our targets is a commitment to sustainability and making a difference in energy efficiency

## EcoVision4 program

A clear example of how we are driving business growth through sustainability is evident in our current EcoVision4 program

## Targets for the period 2007 – 2012

- Double revenues from Green Products to 30% of total sales
- Double investment in Green Innovations to a cumulative EUR 1 billion
- Improve our operational energy efficiency by 25% and reduce CO2 emissions by 25%

asimpleswitch.com



1. Building the leading company in health and well-being

## 2. Sustainability in Philips

3. Leading in sustainability

# Sustainability is an integral part of the Philips DNA



Philips & Co founded in 1891 in Eindhoven by Anton and Gerard Philips  
Already our founders believed we could do well by doing good

Part of the 2010 Management Agenda  
“Leverage sustainability as an integral part of our strategy”

Driven by ambitious EcoVision programs  
We have installed 4-year programs since 1994

Sustainability as a driver of value creation  
At the heart of our Health and Well-being strategy

# Sustainability means for us creating long-term value for our stakeholders including shareholders and customers

<b>Our vision</b>	<ul style="list-style-type: none"><li>• “In a world where complexity increasingly touches every aspect of our daily lives, we will lead in bringing sense and simplicity to people”</li></ul>
<b>Our mission</b>	<ul style="list-style-type: none"><li>• “A global company of leading businesses creating value with meaningful innovations that improve people’s health and well-being”</li></ul>
<b>Our promise</b>	<ul style="list-style-type: none"><li>• This brand promise of “sense and simplicity” encapsulates our commitment to deliver solutions that are advanced, easy to use, and designed around the needs of all our users</li></ul>



**Sustainability** is an integral part of all our **business processes** and a powerful **innovation driver** for business opportunities that improve **people’s health and wellbeing** around the world

# SRI / ESG touches many processes and dept's

**Sustainability**

The challenges around the health and well-being of our planet offer substantial business opportunities, creating value for our company as well as society at large

**Risk mgmt**

Philips recognizes different risk categories, namely Strategic, Market, Operational, Compliance, and Financial risks, which may hinder Philips' strategic objectives

**Supply chain**

Our focus is to create a supply chain fully compliant with the Electronic Industry Code of Conduct standard, and with global transparency & harmonized way of working

**Managing opportunities, but also risk and reputation**

**Governance**

Pursue a consistent policy to enhance and improve its corporate governance in line with US, Dutch and international (codes of) best practices

**Employees**

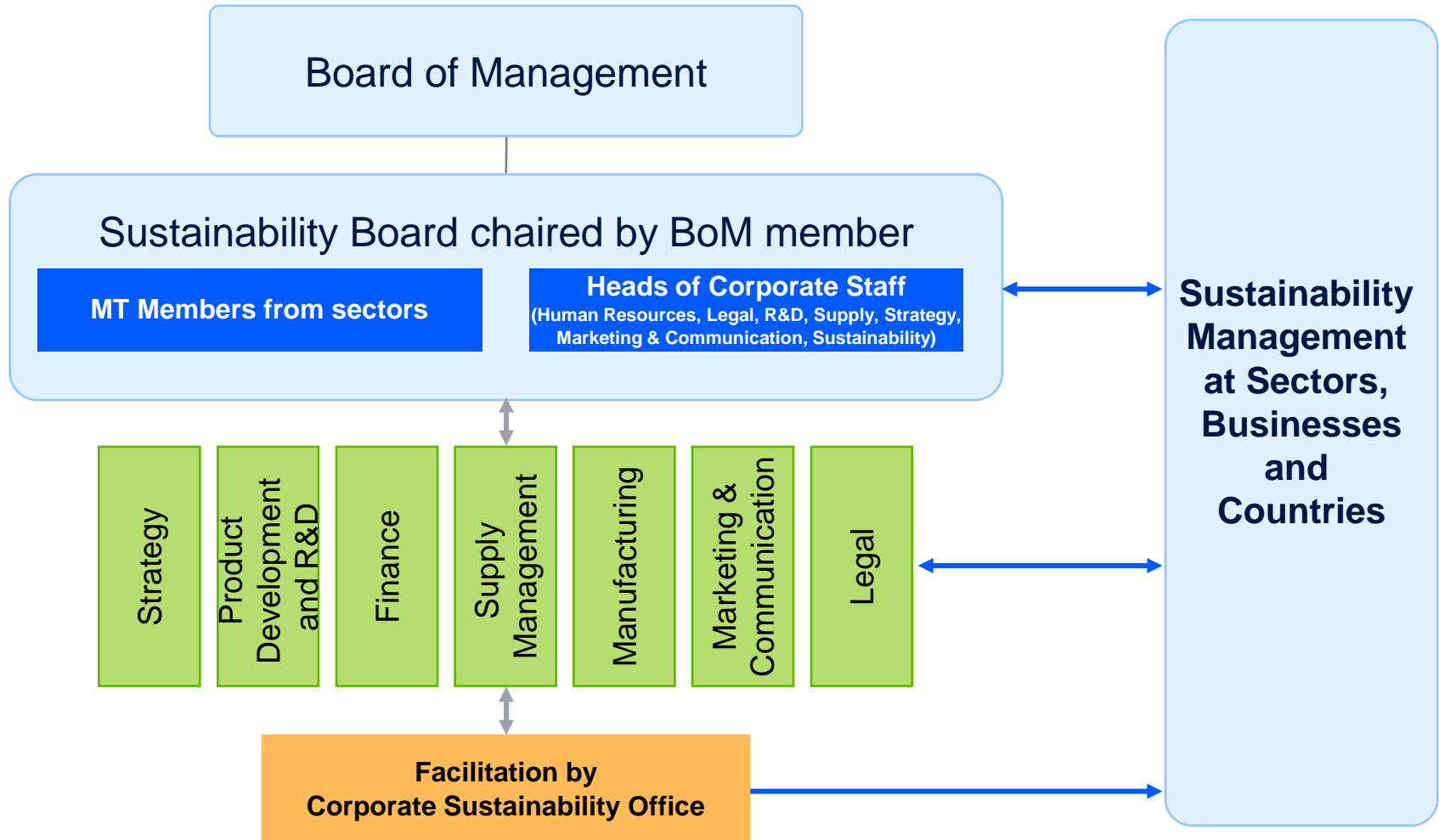
We stimulate people to develop their talents and encourage them to make the most of themselves both at work and in their personal lives

What does CSR / SRI cover?

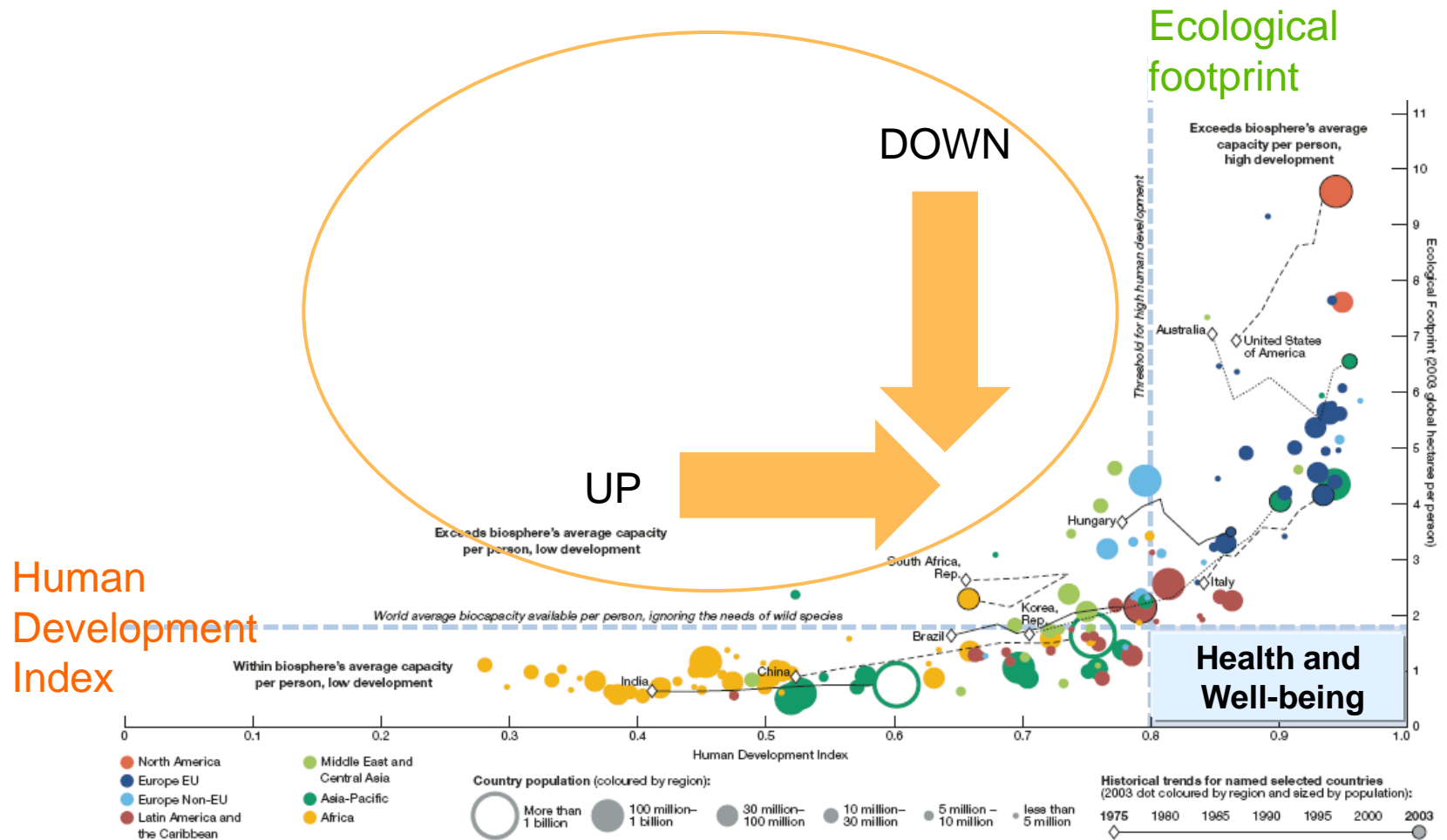
The market doesn't differentiate and wants to learn about it all!

# How we drive Sustainability Innovation

*Embedded in the business*

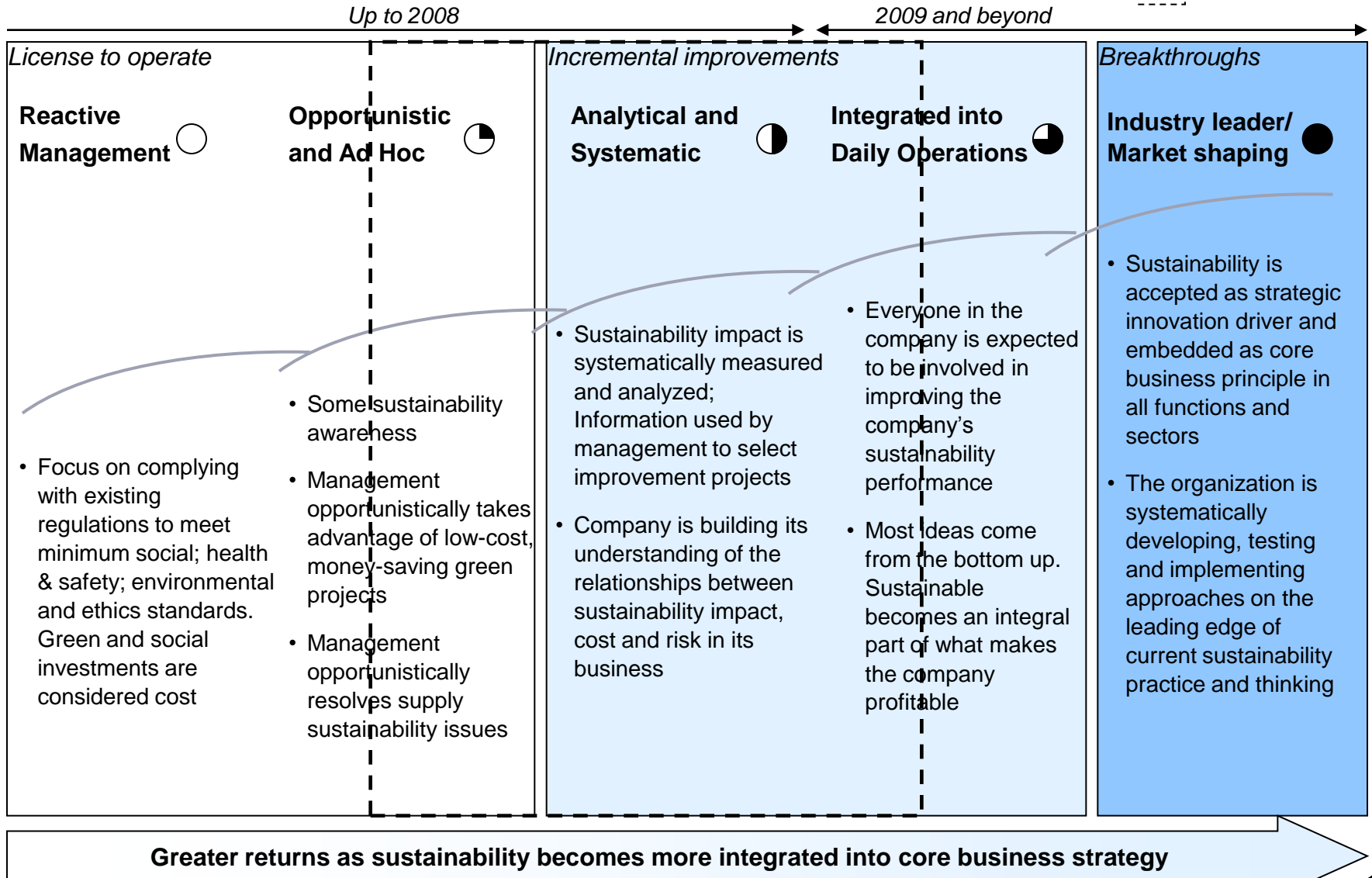


# Sustainability at the heart of health and well-being



# Roadmap to a leadership position

- Early stage
- Fully embedded
- ⋯ Current status



## What makes us different?

Early adaptor of EcoDesign, structurally embedded in product creation process



Energy efficiency



Packaging



Hazardous substances



Weight



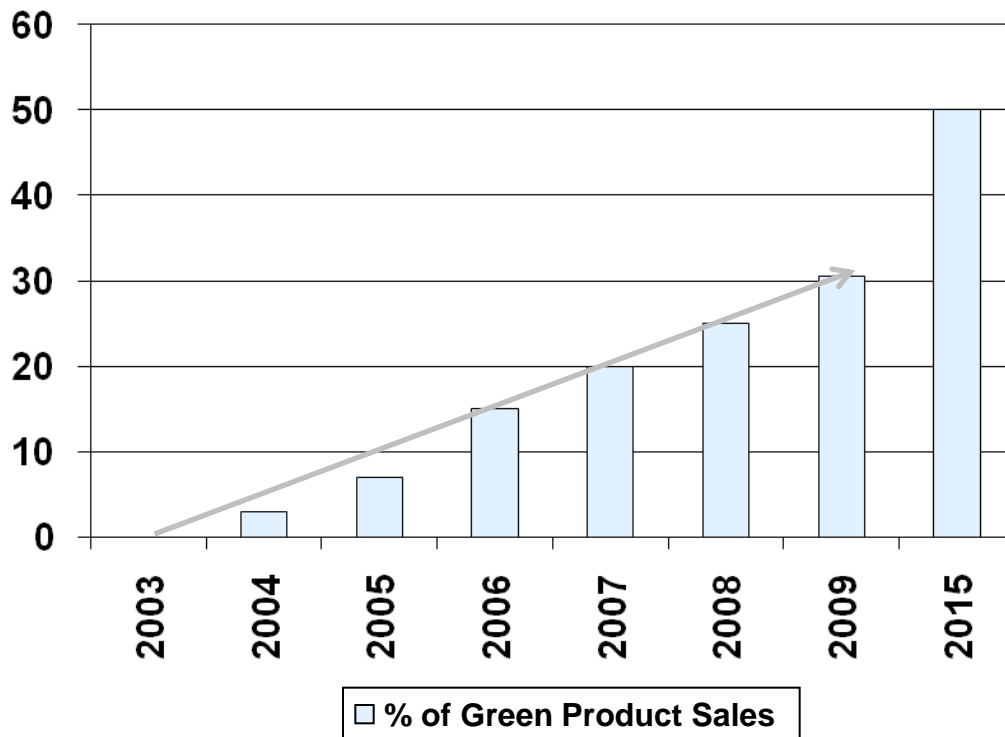
Recycling and disposal



Lifetime reliability

## EcoVision4: Progress made to date

By the end of 2012, we promised to:  
Generate 30% of total revenues from Green  
Products (from 15% in 2006) – MET in 2009



## EcoVision4: Progress made to date

By the end of 2012 we promised to:

Invest a cumulative EUR 1 billion in  
Green Innovations – Will be MET in 2010

2008: EUR 282 million

2009: EUR 400 million

2010: EUR 350 million \*

\* This figure is based on an estimate for 2010



## Green Innovations

### Green Innovations

comprise all R&D activities directly contributing to the development of Green Products or Green Technologies

### Focus on

energy, hazardous substances, water, air and waste

### Driving technological breakthroughs

for instance in solid state lighting

### Lead in open innovation

by working closely together with partners in a spirit of open innovation



## EcoVision4: Progress made to date

By the end of 2012 we promised to:

Improve the energy efficiency of our operations by 25% – Well on track to be MET in 2012



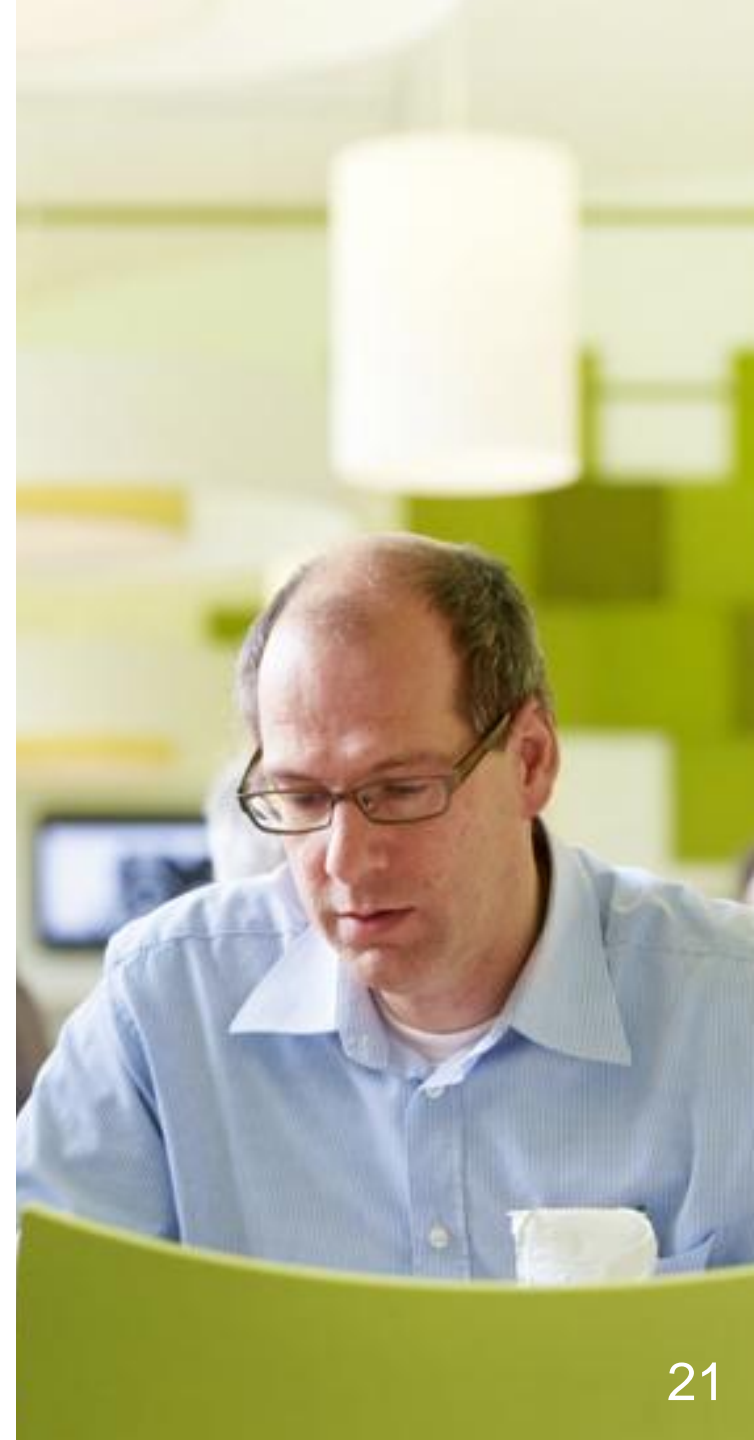
## Greening our own operations

**Driving overall energy efficiency**  
reducing costs for our company,  
lowering our carbon footprint

**Greening facilities**  
by durable energy

**Conscious travel**  
videoconferencing, green lease car  
policy

**Green IT**  
energy efficient systems, switching  
off computers when not in use



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## Sustainability powered by global trends

Climate change with dramatic consequences to our planet's balance

Rising healthcare costs

The increase in chronic diseases in both developed and developing economies

The rapid population and consumer demands in growing economies

Scarcity of materials and the lack of collection and recycling legislation in certain areas of the world



# Launching EcoVision5: A holistic approach to Sustainability

We've gone beyond the environmental impact

We are focusing on areas where we believe we can have a significant impact on the Health and Well-being of individuals, communities and governments



## Launching EcoVision5: Our ambitious new targets

By 2015:

Philips will **bring care** to more than 500 million people

Philips will improve the **energy efficiency** of its overall portfolio by 50%

Philips will double the **global collection and recycling** amounts of our products, as well as double the amount of **recycled materials** in our products



## Launching EcoVision5: Bringing Care

### Our commitment

By 2015, Philips will bring care to 500 million people

### Because

We understand that sustainability also includes quality of life and wellness

### To achieve this

We will track all of our products and solutions that address care, [such as our light therapy and home healthcare solutions](#), to make our Health and Well-being strategy more tangible



## Launching EcoVision5: Improving Energy Efficiency

### Our commitment

By 2015, Philips will improve the energy efficiency of its overall portfolio by 50%

### Because

We understand that the need for more energy efficient solutions is driving demand

### To achieve this

We will continue to focus on innovation and leverage EcoDesign best practices to ensure the development of more solutions such as our EU EcoLabel TV range and LED applications



## Launching 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

### Because

It responds to global scarcity of materials and builds on our global partnerships to help strengthen take-back and recycling legislation in many parts of the world

### To achieve this

We will continue expanding on our pilot projects and on [Cradle to Cradle inspired projects](#)



# Dow Jones Sustainability Index Philips' historical performance

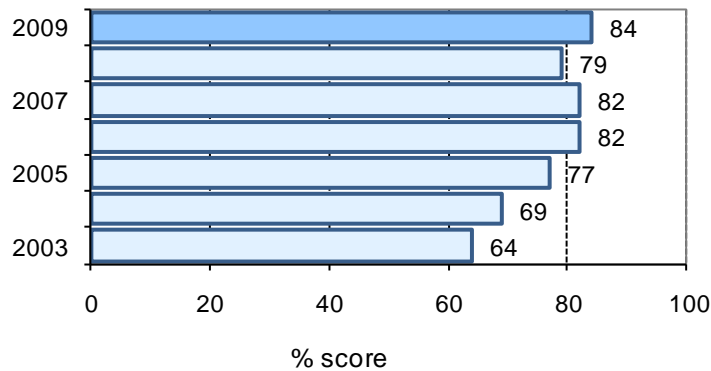
2000	Included in the DJSI World Index
2001	Not included (due to re-arrangement of sectors)
2002	Included in the DJSI World Index and segment leader in new DJSI STOXX index (Europe)
2003	Global leader in Market Sector 'Cyclical Goods & Services' (World)
2004	Global leader in Market Sector 'Cyclical Goods & Services' (World)
2005	Included in the DJSI World Index. Procter & Gamble became global leader in new supersector 'Personal & Household Goods'.
2006	Included in the DJSI World Index and global leader in the sector 'Leisure Goods', replacing Sony. P&G remained global leader in new supersector 'Personal & Household Goods'.
2007	Included in the DJSI World Index, global leader in the sector 'Leisure Goods' and new global leader in new supersector 'Personal & Household Goods', displacing P&G.
2008	Included in the DJSI World Index. Adidas is new global leader in supersector 'Personal & Household Goods', displacing Philips
2009	Included in the DJSI World Index, global leader in the sector 'Leisure Goods'. Adidas remains global leader in supersector 'Personal & Household Goods'

Philips has been leader in sustainability index since introduction of DJSI in 1999

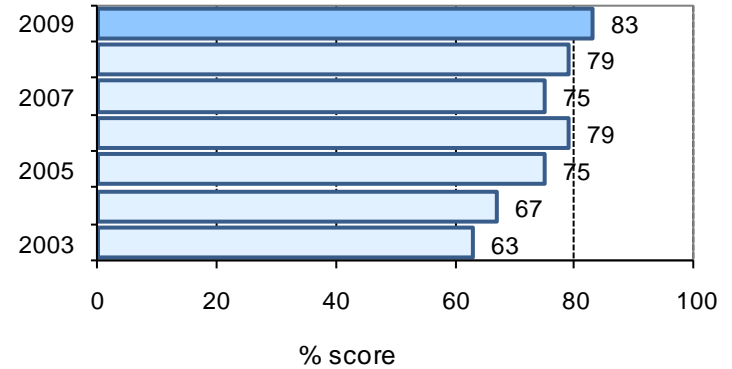
# Dow Jones Sustainability Index (World)

## Philips scores in % of potential score

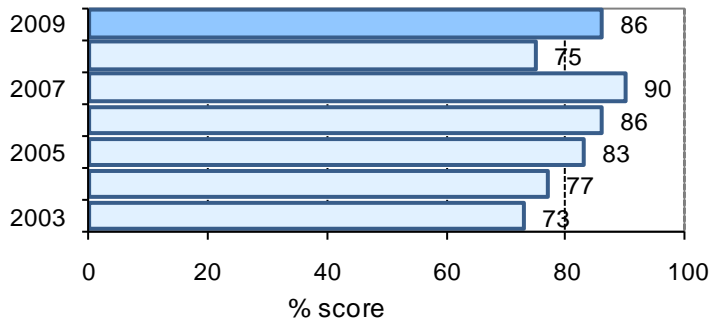
Total Score



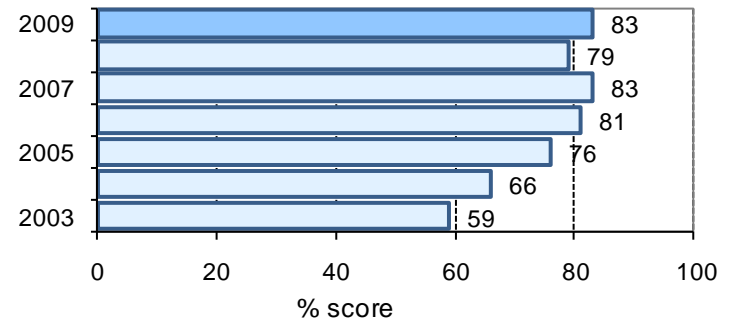
Economic dimension



Environmental dimension



Social dimension



## Responsible recycling

### Frontrunner

in establishing efficient recycling systems in the Netherlands and Europe

### Collective approach

providing most efficient systems

### Voluntary systems

in emerging markets such as India, Brazil, Argentina and China

## Close supplier relationships

Endorsing our sustainability policies throughout the supply chain

## Philips people

Driving diversity and inclusion, heading a highly engaged workforce



## Conclusions

- We are **delivering on our EcoVision4 targets** ahead of schedule
- We have raised the bar with the launch of our **ambitious EcoVision5 targets for 2015**, that go beyond environmental impact and which encompass our overall portfolio
- We will continue to leverage sustainability as an **integral part of our strategy**
- Our deeply embedded sustainability strategy will continue to **create value for all our stakeholders**, including our shareholders and employees



