

# Becoming simpler, stronger and greener

Since our company was founded our mission has been to improve the quality of people's lives through the timely introduction of meaningful innovations. With growing concern about the environment and pressing social issues, sustainability has become even more important, evolving into a main business driver and strategic imperative.

We recognize that sustainability offers a world of opportunities to deliver value to individuals and communities around the globe, as well as to the company. We firmly believe that socially and environmentally sound behavior contributes to sustained profitable growth and value creation. This is reflected in our company strategy.

## Strategic focus

As we strive to enhance the quality of people's lives, our 7 strategic drivers, detailed on pages 18-19, are helping us become a simpler, stronger and greener company. Number 6 states: "We are committed to sustainability and focus on making the difference in efficient energy use."

Clearly environmental stewardship and a commitment to energy efficient innovations will be a key characteristic of our development over the coming years. This will create value both for our planet and for our company. To sharpen our focus, we launched our latest EcoVision program in 2007, setting targets to further increase the energy efficiency of our products and facilities.

### EcoVision4 targets

With EcoVision4, we have committed to:

- Generate 30% of total revenues from Green Products over the next five years (up from 15% in 2006);
- Double our investment in Green Innovations to EUR 1 billion by 2012; and
- Further increase the energy efficiency of our operations by 25% by 2012.

We are also engaging our employees, encouraging them to be environmentally aware at work and at home.

## Making a positive impact

As the world leader in lighting, we can make a significant contribution to reduce global warming. A recent CO<sub>2</sub> abatement study by McKinsey identified energy efficient lighting as one of the most effective solutions for greenhouse gas reduction. Switching currently installed older lighting to the latest technology would save more than EUR 100 billion.

With our Green products it's possible to make "a simple switch" today. And the future promises more exciting developments as we drive for Green Innovations.

## Caring for Climate

In July of 2007 our company attended the UN Global Compact Leaders Summit convened by UN Secretary-General Ban Ki-moon. Business leaders from 153 companies worldwide committed to speeding up action on climate change and called on governments to agree as soon as possible on measures to secure workable and inclusive climate market mechanisms after 2012, when the Kyoto Protocol expires. This call was made in a statement titled "Caring for Climate: The Business Leadership Platform." We are proud that Philips is a signatory to this statement.

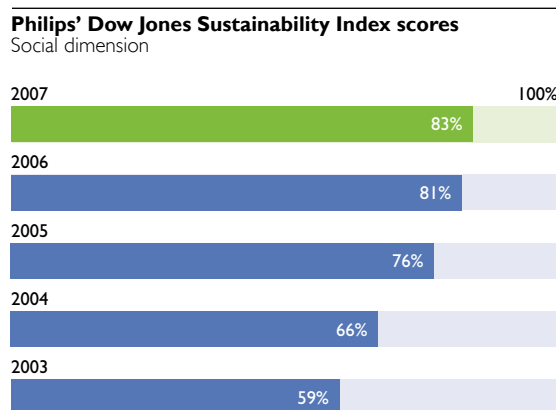
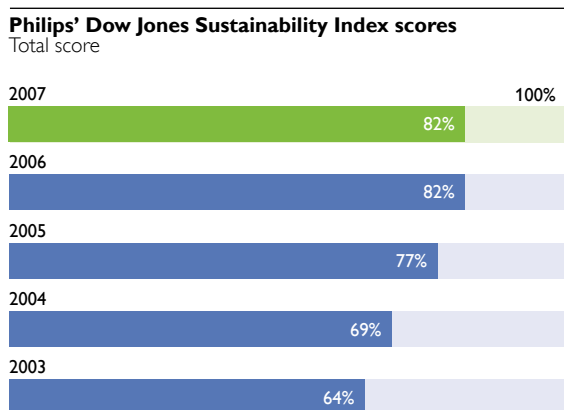
## Innovations in energy efficiency and healthcare

In a meeting that brought together our businesses, Corporate Technologies, Product Development, Corporate Sustainability and others, we articulated our sustainable business strategy: "To become the recognized leader in key Philips global market opportunities relevant to society at large, by applying our company strengths." Therefore, in addition to energy efficiency we are focusing on available and affordable healthcare, and will continue to use our capabilities to make a positive impact on society at large.

“Sustainability offers  
a world of  
business  
opportunities.”

**Barbara Kux** Member Group Management Committee  
and Chair Sustainability Board





**Making progress**

Thanks to our teams around the world, and driven by our Sustainability Management Agenda and Key Performance Indicators (KPIs), we continue to make progress. During 2007 we focused on the following areas specified in our Sustainability Management Agenda:

**Dow Jones Sustainability Index (DJSI)**

We are proud to have achieved the position of DJSI supersector leader in our market sector. However, our total score of 82 did not increase compared to 2006. Our social score improved to 83 from 81 and our environmental score rose to 90 from 86. Our economic score was 75, down from 79 in 2006, in spite of the company's stronger financial performance. According to the Corporate Sustainability Assessment of SAM Research, which identifies the leaders for the DJSI, more transparency on our risk response strategy for non-financial risks is recommended.

In its detailed report on Philips, SAM Research noted:

“The early inclusion of sustainability in its strategic planning enabled Philips to identify two global challenges as key business drivers: energy and healthcare. In response, the company is refocusing its own activities and solutions around these themes in order to profit from new market opportunities and generate added value. For instance, the lighting division is developing answers to replace energy inefficient incandescent bulbs.

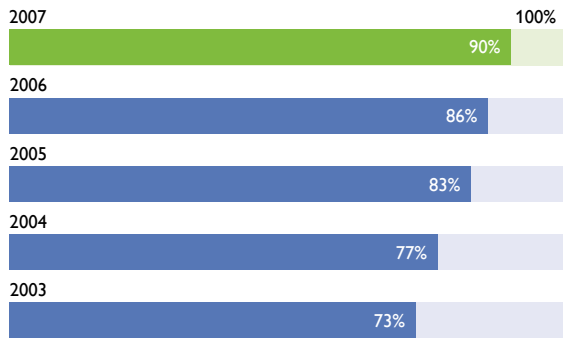
“To address the challenges with suitable products, Philips needs to identify early enough changes in the environment, understand the expectations of its stakeholders, integrate the findings into a product, have high regard for the environment and people in manufacturing, and finally reach the target customers. Sustainability thinking plays an important role in every aspect of this process.

**Key Performance Indicators 2005-2007**

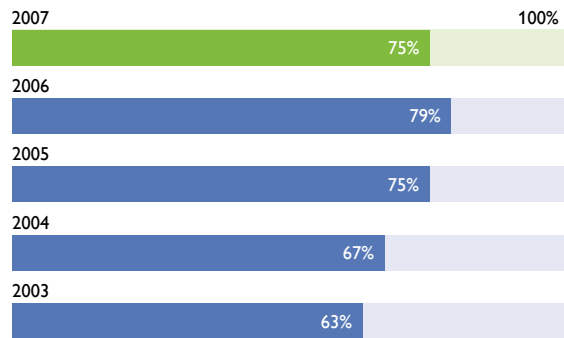
		2005 Actual	2006 Actual	2007 Target	2007 Actual
<b>Business</b>					
Sustainable business	Sales from sustainable business (Green Products), in %	-	15	20	20
	Number of new Green Flagships	46	57	60	53
<b>Communication</b>					
Internal communication	Sustainability messaging measured amongst employees as favorable (%)	62*	70*	75	72
External communication	Number of favorable clippings in top level printed media	322	453	500	493
<b>Social</b>					
Health and safety	Number of Lost Workday injury cases/100 FTEs	0.8	0.8	0.78	0.83
Diversity and inclusion	Women at executive level (%)	5	6	7	8
Human capital	Employee Engagement Index (% favorable)	59*	61	64	64
	People Leadership Index (% favorable)	55*	60	64	64
<b>Reporting</b>					
Supplier management	On-site assessments of identified risk suppliers (%)	-	98	100	100
DJSI rating	Overall increase 5% in 2007 score	-	82	87	82

\* Including Semiconductors

**Philips' Dow Jones Sustainability Index scores**  
Environmental dimension



**Philips' Dow Jones Sustainability Index scores**  
Economic dimension



“Engaging stakeholders and monitoring customers’ satisfaction enable Philips to better understand people’s needs. Promoting innovation and R&D ensure the creation of unique products. The definition of clear environmental and social policies ensure sound manufacturing practices. Managing brands and a comprehensive code of conduct further support a proper market appearance. In all these areas, Philips achieves a score that is well above its industry’s average.”

**EcoVision and Green Flagships**

With the launch of EcoVision4, we further developed and built on our EcoVision environmental action programs.

Sales of Green Products increased to 20% of total sales, compared with 15% in 2006, representing an important part of our revenue stream.

The number of Green Flagship products declined with our current focus on Green Products and Green Innovations to drive growth. Ten years ago we introduced the Green Flagship concept. To drive a disciplined approach only individual top EcoDesigned products achieved Green Flagship status.

As more technologies and even complete product ranges could be identified as “green,” particularly in Philips Lighting, we broadened our definition to “Green Products” in 2007.

We made good progress in communications but did not totally achieve our ambitious targets for the year, particularly on internal communication. In 2008 we will strengthen our approach to employee engagement by focusing on energy efficiency.

**Social performance**

We exceeded our diversity and inclusion target, with 8% woman at executive level, getting in sight of medium-term target of 10%.

With respect to health and safety, we saw a slight increase in lost working days, which will require more attention.

We refocused our social investment activities to reflect our business, directing our efforts on projects to upgrade lighting and healthcare initiatives that focus on children.

**Auditing all identified risk suppliers**

We audited all identified risk supplier sites, achieving our goal of 100% transparency.

We earned the Responsible Supply Chain Management Award in the Netherlands, ahead of 31 other multinational companies, listed on the AEX. According to a survey by the Association of Investors for Sustainable Development (VBDO), Philips achieved the highest score and also made the strongest improvement. Jury chairman Jan van der Kolk stated: “Philips differentiates particularly for its relatively high transparency and quantitative information on sustainable supply management in the 2006 report.” Our online *Sustainability Report 2007* provides full details of our activities in this area.

**The road ahead**

We are committed to continuing to deliver on our Sustainability Management Agenda and KPIs, and on our EcoVision targets.

**Sustainability Management Agenda 2008**

In 2008 we will work to:

- Drive the implementation of the EcoVision program to achieve the 2008 results.
- Strengthen the energy efficient and Green Product approach at both Healthcare and Consumer Lifestyle, leveraging the experience of our Lighting sector.
- Make our supply chain fully compliant with the Electronic Industry Code of Conduct standard.
- Continue to engage employees on energy efficiency and carbon footprint awareness.