

Philips leverages technology to create products that are seductive to the individual, valuable to society, friendly to the environment and profitable for the business.



Sustainability Report 2002

PHILIPS

About Royal Philips Electronics

Royal Philips Electronics of the Netherlands is one of the world's biggest electronics companies and Europe's largest, with sales of EUR 31.8 billion in 2002. It is a global leader in color television sets, lighting, electric shavers, medical diagnostic imaging and patient monitoring, and one-chip TV products. Its 170,000 employees in more than 60 countries are active in the areas of lighting, consumer electronics, domestic appliances, components, semiconductors and medical systems. Philips is quoted on the NYSE (symbol: PHG), London, Frankfurt, Amsterdam and other stock exchanges. News from Philips is located at www.philips.com/newscenter

About this report

Welcome to the first sustainability report from Koninklijke Philips Electronics N.V. ("Royal Philips Electronics"). This report provides information on Philips' sustainable development activities for the 2002 fiscal year, running from January 1, 2002 to December 31, 2002.

Philips views this report as a valuable tool for maintaining a dialogue with a variety of interested parties, including shareholders, customers, business partners, governmental and non-governmental organizations, and, of course, Philips employees around the world, who work daily to improve the company's performance.

In compiling this report, Philips has followed relevant best practice standards and international guidelines, including the Global Reporting Initiative's (GRI) "2002 Sustainability Reporting Guidelines."

Philips will strive to improve the quality of its sustainability reporting by, for example, refining the data collection and reporting structure. Readers are invited to support this process with their feedback. Please contact the Corporate Sustainability Office, using the reply card in the back of this report or by email at philips.cso@philips.com

Scope of this report

This report describes the performance of the Philips Group regarding sustainable development. It covers the consolidated Philips activities, with the exception of environmental results in facilities, which are limited to production activities.

The Philips Group consists of the following product sectors for the reporting year 2002:

- Lighting
- Consumer Electronics
- Domestic Appliances and Personal Care
- Components
- Semiconductors
- Medical Systems
- Miscellaneous

The consolidation criteria for the Philips Group are based on the legal entities, as they form the basis for the reporting on the financial performance of the Philips Group. Therefore, unconsolidated companies, including 50/50 joint ventures, are not reported.



In 1891 we lit up the world ... today, we continue to create a better one.

Anton Philips donated 60 acres of woodland to the city of Eindhoven for use as a public park.



Frits Philips believed the enterprise fulfills an important economic and social role. Therefore, he felt large companies needed to replace "the short-term goal of maximum profit by the long-term goal of continuity so as to give increased security to employees, the providers of capital and suppliers."

Sustainable development is the journey toward sustainability. Companies that pursue this path are known as sustainable entrepreneurs.



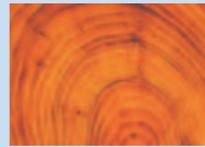
Building on a series of programs that focused on a single issue, Philips introduced the Environmental Opportunity, its first comprehensive corporate environmental action plan, in 1994.

Contents

3	Message from the President
6	Sustainable development
18	Economic responsibility
26	Environmental responsibility
40	Social responsibility
42	<i>Working at Philips</i>
47	<i>Our role in the community</i>
50	Shaping the future
54	Assurance Report
55	Appendix
70	Glossary



When they founded the company, Anton and Gerard Philips saw no distinction between business and responsible business.



Gerard Philips believed it was his duty to make electricity "more and more the servant of the people."



Anton Philips was unshakeable in his faith in the triumph of technology and human progress.

During the Depression Philips established a Company Family Allowance Fund to support large families.



Philips affirmed that many people were needed for "important production" during World War II, because a job with Philips could save a person from forced labor in Germany.



Philips provided free hot meals and made 70 hectares of land available as vegetable plots for employees during the days of World War II.



In 1970, Frits Philips instructed all product divisions to implement an active and effective environmental policy, and the Board of Management formulated guidelines for environmental performance.



Responsible business demands an outward-looking perspective. Philips works to ensure that its technology is meaningful and improves the quality of life for everyone, not just those who buy Philips products.



We assume that contributing to the well-being of society is part of our business cost and in the end will translate into shareholder value.

Philips issued a general environmental policy in 1987, and updated it in 1991 and 1998.



Philips' General Business Principles govern the company's business decisions and actions.



Philips created BEST – Business Excellence through Speed and Teamwork – to reach higher and higher quality levels in all products and services.



Philips has been a member of the World Business Council for Sustainable Development since 1993.



Philips set new standards for environmental performance with its four-year action programs EcoVision 1998-2001 and EcoVision 2002-1005.



The Philips Values lie at the heart of the company – they reflect the way in which we want to interact with all our stakeholders, and guide our behavior every day of our working lives.

Verification symbols used in this report

Two symbols indicate the types of verification activity



For a full explanation see page 54



Economic responsibility

Our goal is to achieve sustainable economic growth. While we have made good progress in transforming ourselves into a company with a platform for profitable growth, we are strengthening and accelerating this progress. We are doing that with a sharp focus on the balance sheet, organizational effectiveness, ongoing portfolio management, product and technology momentum, and customer intimacy.



Environmental responsibility

We are committed to being the world's leading eco-efficient company in the electronics industry. Seeing environmental improvement as an opportunity for innovation, we work continuously to minimize the impacts of products, processes and services. To meet this challenge we establish solid action programs to drive progress in this important area.



Social responsibility

By living up to our heritage of social commitment we can use our capabilities to enhance the lives of our employees and society at large. Inside the company, we encourage teamwork and collaboration in an environment that enables employees to reach their full potential. And building on our rich heritage of embracing social issues, we have established a disciplined approach to provide education and healthcare particularly to the underprivileged.

Message from the President



Dear Stakeholder:

Philips had to contend with a very difficult operating environment in 2002.

Nevertheless, we made definite advances in most areas of our business that we can control – by simplifying our organization and driving down costs, improving the quality and cycle time of our operational processes, lowering inventories and reducing debt.

We also made significant progress in taking our commitment to sustainable development to a new level.

A matter of responsibility

We have long recognized the need to perform against the triple bottom line, integrating economic prosperity, environmental quality and social equity. This pursuit is not new to Philips. Our founders, Anton and Gerard Philips, saw no distinction between business and responsible business. It's built into our heritage, our values and our commitment to improve the quality of people's lives.

What is new for us is measuring and reporting our sustainability performance.

In our environmental report for 2001, I announced our intention to produce a more comprehensive report for 2002 and we have done that.

In this report you'll read about our approach to sustainable development, as well as details on our performance.

“We are taking our commitment to sustainable development to a higher level.”

- In terms of the economic dimension, we have made good progress in transforming ourselves into a company with a platform for profitable growth. For the first time, we have reported more extensively on employment structure and development. Moreover, we have covered a range of financial relationships with many stakeholders including employees, suppliers, investors and governments.
- We are continuing to make strides in the environmental area, with the targets set forth in our latest four-year action program, EcoVision 2002-2005. While we are pleased with our progress overall we know that we need to further institutionalize our EcoDesign procedures and parameters for Green Flagship products.
- The social aspect includes our responsibility to employees and to communities. Internally, we have started measuring our health and safety performance, and are establishing policies and key performance indicators for other sustainability parameters. In terms of society at large, we have instituted a sustainability sponsorship initiative to improve people's lives by focusing on education and healthcare, particularly for the underprivileged.

This report is a first step on the road toward sustainability reporting and we are working to strengthen our efforts in this important area. That's why we have established a Sustainability Board and a Corporate Sustainability Office – to support the Board of Management in focusing on environmental, health and safety, and social and community issues, including their economic impact.

“Our goal is to improve quality of life.”

Opportunities for innovation

Building sustainable development into our business processes is the ultimate opportunity. By its very nature, the journey toward sustainability requires the kind of breakthrough thinking that results in true innovation. It also calls for partnership and cooperation as well as open, honest dialogue with stakeholders inside and outside the company.

Working in this way we can improve quality of life. Philips employees around the world will do just that by bringing meaningful technology innovations to market at the right time. And we will focus on what we are good at – lifestyle, healthcare and enabling technologies. That's who we are and how we can deliver value.

Looking ahead, we will continue to explore emerging markets and new business models, and seek creative ways to bridge the digital divide. These are strong business opportunities that also allow us to make things better.

At Philips we believe sustainable development is imperative. It is our way of doing business – an investment that will create value and secure the future. And in the end, it's the right thing to do.



Gerard Kleisterlee, *President*

Philips and Sustainability

When they founded the company, Anton and Gerard Philips knew that by daring to make conscious choices that would improve the lives of people both inside and outside the company, they would be successful, not by coincidence, but by design.

Today, we are living up to that heritage, as well as our values and our commitment to improve the quality of people's lives with meaningful technology.

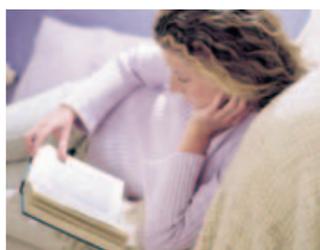
We view sustainable development as an opportunity for innovation, enhanced brand reputation and wealth generation, while enriching people's lives and continuing to earn our license to operate.

Our path to sustainability includes involving stakeholders both inside and outside the company. Therefore, we listen to employees, their families, the local communities in which we work and society at large.

Focusing on sustainable development generates new growth opportunities.

“Sustainable development is the journey toward sustainability, and is a creative but demanding process of change. It’s all about greater social equity, not only today but especially for future generations. Emerging markets need to be developed with new business models that provide opportunities for tailor-made solutions and technologies.”

Arthur Van der Poel, Executive Vice President and Chairman of the Sustainability Board



Lighting



Consumer Electronics



Domestic Appliances and Personal Care



Semiconductors



Medical Systems



Technology & Design

In 1891 we lit up the world... today, we continue to create a better one.



Anton and Gerard Philips

A firm foundation

When they began making light bulbs in their small factory in Eindhoven, the Netherlands, Anton and Gerard Philips saw no distinction between business and responsible business.

The company remains true to the beliefs held from the beginning by these entrepreneurial brothers. Gerard believed it was his duty to make electricity “more and more the servant of the people,” while Anton was unshakeable in his faith in the triumph of technology and human progress.

Anton and Gerard Philips never lost sight of their employees or the community they came from. In the early decades of the 20th century, they carried on the tradition begun by their father, Frederik. The brothers provided pensions, sick pay, housing and free medical care, a sports center, elementary and secondary schools for Eindhoven, and a foundation to finance the older children of Philips employees through college. They even provided the factory with a full-time bicycle repairman.

Anton Philips, who was dedicated to the planting and preservation of trees, donated 60 acres of carefully nurtured woodland to the city of Eindhoven for use as a public park.

The Depression forced Philips to make drastic cutbacks in personnel. Those who lost their jobs were given a payment related to their number of years of service and wage or salary.

Despite the economic collapse, Philips continued to replace and modernize plant and equipment.

Product quality was kept high and, where possible, improved to preserve the Philips brand and secure the future.

During World War II, although exports came more or less to a standstill, Philips affirmed that many people were needed for ‘important production’ – because a job with Philips could save a person from forced labor in Germany. Other initiatives during that period include providing free hot meals and making land available for employees to grow vegetables.

In 1948 a booklet titled “We at Philips” (shown below) provided employees with information to help them “feel comfortable” as part of the Philips community. Subjects covered include the company’s role in society and the importance of employees knowing their duties and rights.



The company as catalyst

In discussing “basic considerations of modern industrial policy,” Frits Philips explained to an audience in 1970: “The enterprise fulfills an important economic and social role in society. It contributes to the prosperity and general well-being of society not only by the development of new technological developments, but also as a source of employment and a catalyst for the development of human talents and capacities.”

To fulfill this function, he believed large companies must replace “the short-term goal of maximum profit by the long-term goal of continuity so as to give increased security to employees, the providers of capital and suppliers.”

In that same year, he instructed all product divisions to implement an active and effective environmental policy, and the Board of Management formulated guidelines for environmental performance.

Working toward sustainability

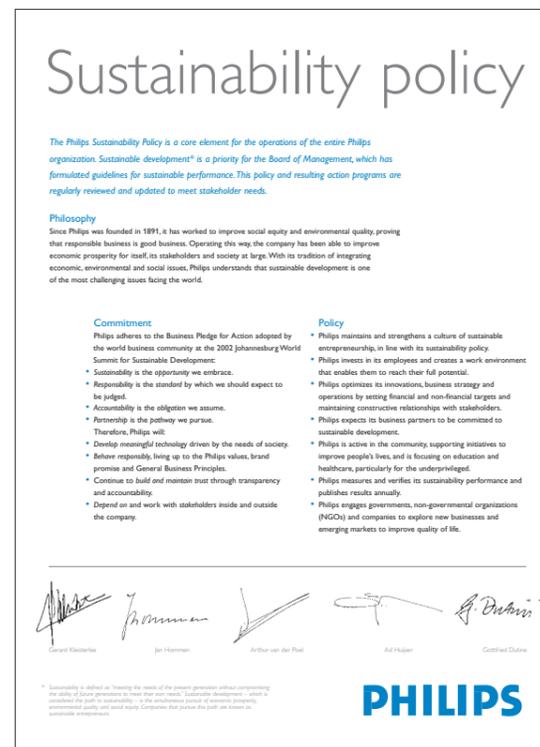
True to its origins, Philips today desires to do good as it does well – to build a business of globally repeatable successes, mindful always of the social, environmental and economic impact of the choices it makes.

We must work to ensure that the technology we create is meaningful and improves the quality of life for everyone, not just those who buy Philips products. Responsible business demands an outward-looking international perspective.

“Sustainability issues have become branding issues. Philips is in a unique position to link its brand heritage to the challenge of improving people’s quality of life – to really make things better.”

Andrea Ragnetti, Chief Marketing Officer

In addition to the Board of Management’s guidelines for environmental performance originally set forth in 1970, Philips issued a general environmental policy in 1987, updating it in 1991 and 1998. Using this as a foundation, the company developed its sustainability policy (shown below), released simultaneously with this report.



The following sections provide an overview of the way we do business at Philips – the things that underpin our sustainable development efforts – from the principles that guide us to how we are governed and our business excellence model.

General Business Principles

The Philips General Business Principles govern the company’s business decisions and actions throughout the world, applying equally to corporate actions and the behavior of individual employees when on company business. They incorporate the fundamental principles on which all Philips activities are or should be based: integrity, fair trade, non-discrimination and equal opportunities.

Since they were established in 1998, the General Business Principles have been translated into the local language in 68 of the 73 countries where Philips’ country organizations and/or product divisions operate. In more than 60 of these countries they are now an integral part of the labor contract. Where this is not the case, employees sign a document confirming that they have received a copy of the principles and will adhere to them, while in four countries only country and division management, controllers and human resources management sign a document confirming they have received the principles and will ensure compliance.

To achieve full implementation of and compliance with the General Business Principles, country and product division management and Compliance Officers report twice yearly to the Corporate Review Committee on their progress in safeguarding that all employees are bound by the principles. In 2003 this issue will be introduced as part of the General Business Principles self-assessment questionnaire with our Statement on Business Controls.

Review Committee General Business Principles

The Board of Management has assigned final responsibility for coordination of all General Business Principles-related issues to the Review Committee General Business Principles, chaired by the Secretary to the Board of Management/Chief Legal Officer, who is a member of the Group Management Committee.

The responsibility for compliance with the Philips General Business Principles rests first and foremost with the management of the business. In every product division and country organization a Compliance Officer has been appointed. The Philips Intranet provides information on how to contact the Compliance Officer.

On the basis of regular reports by the country and product division Compliance Officers on compliance with the General Business Principles, the Review Committee submits a twice-yearly report on this subject for approval to the Board of Management and Audit Committee of the Supervisory Board.

“We have taken significant steps in recent years to increase transparency and accountability regarding adherence to business principles. There is no room for complacency so we continually strive to improve our processes and procedures in this critical area.”

Arie Westerlaken, Chief Legal Officer

New Supporting Policies

In 2002 an update of the Philips' Sub-Policies to the Code of Conduct of Business Principles was distributed to all organizations, with a letter from the President. The Sub-Policies, which are an integral part of the Philips General Business Principles, are rule-based and include detailed guidelines and directives on specific issues, which are covered in general terms by the principles.

The General Business Principles and Sub-Policies are included in the Appendix on pages 56-58.

Casebook for dilemma training

A number of initiatives have been taken to increase awareness and improve the implementation of the General Business Principles in the company. For instance, a casebook for dilemma training has been distributed throughout the organization for incorporation in management development courses.

The casebook was updated in 2002 to further heighten awareness of the issue of business ethics. The casebook for dilemma training has been expanded with nine new cases, bringing the total to 44 cases.

Ethical dilemmas

Conflict of interest?

Dilemma: Your daughter is a member of the local tennis club, and they are looking for advertisers for their magazine. Knowing you are involved in Philips' advertising, they contact you and ask if you can place a Philips advert there. Should you?

A. Generally, you should avoid this kind of activity. However, if there is a valid business reason to place the advert, you should discuss it with the next higher level of management.

Should you or shouldn't you?

Dilemma: At a party, you mention you're busy evaluating bids for a large contract. The next day, someone from the party invites you to dinner. It emerges that he is a freelance consultant working for several companies involved in the bid. He then asks you and your wife to join him on his yacht the following weekend. Should you report this conversation, and should you accept the invitation?

A. You should report the conversation to a higher level of management, or to the people involved in evaluating and negotiating the contract. Without exception, the sailing invitation should be refused.

Hotlines

Following the lead of our US organization, several countries – Australia, Canada, the Netherlands, New Zealand, Singapore and South Korea – have introduced guaranteed-anonymity hotlines and/or mailboxes for reporting suspected contraventions of the General Business Principles. In 2002 the program passed a new milestone as it was implemented throughout Latin America.

Reporting suspected breaches in the Netherlands

The process for reporting a suspected breach to the General Business Principles is similar in the countries using the hotline approach. Here's how it works in the Netherlands.

To familiarize employees with the process, the hotline is publicized on the Philips Intranet and in internal publications.

Employees can report suspected breaches by informing the Country Compliance Officer via e-mail, letter, or ordinary fax or telephone. Additionally, employees have the option to make a telephone call or send a fax through a special toll-free guaranteed-anonymity hotline.

Available 24 hours a day, the hotline is outside the Philips network to ensure the employee's confidentiality and that of the report. Hotline calls are recorded on a secured answering machine accessible only to the Country Compliance Officer and Ethics Assistant.

The investigation process

Each business day the Ethics Assistant prepares a transcript of all voice messages, which is registered with incoming faxes in a book accessible only to the Country Compliance Officer and the Ethics Assistant.

When an employee has provided his or her identity, within five business days the Country Compliance Officer confirms

by letter receipt of the call or fax. Employees who later decide to disclose their names can request a copy of the message as registered in the book.

The Country Compliance Officer conducts an investigation, which may involve other compliance officers, or departments such as Internal Audit. The Country Compliance Officer will keep the employee informed about the investigation and its outcome, providing feedback within a reasonable time, preferably four to six weeks.

Confidentiality

In addition to the measures described above, the person mentioned by the employee who reported the suspected breach will not be informed until necessary. The departments or compliance officers involved in the investigation will not be given the name of the employee who made the report, unless otherwise agreed to by this employee and the Country Compliance Officer.

No reprisals

Philips ensures that the employee suffers no reprisals in the form of discrimination or otherwise after calling the hotline. Only where false allegations are made maliciously might it be considered appropriate to act against the employee.

Internet

To ensure maximum transparency for shareholders and other interested parties, a section of the Philips Internet site (www.investor.philips.com) is devoted to specific issues of business ethics, such as political payments, military and defense contracts, and child and forced labor.

Code of ethics for financial executives

To ensure full awareness of and compliance with the highest standards of transparency and accountability by all employees performing important financial functions, and in view of the recent legislation, Philips is preparing a financial code. This code will contain, among other things, standards to promote honest and ethical conduct, and full, accurate and timely disclosure procedures to avoid conflicts of interests, including a whistleblower procedure. All employees performing important financial functions will have to confirm adherence to this financial code, which is expected to be introduced in the first half of 2003.

Child labor

Philips conducted an in-depth, internal survey in 2001, which indicated that child labor within the company is highly unlikely.

To monitor the situation on an ongoing basis, we have installed a process whereby country and product division Compliance Officers must report to the Review Committee twice a year regarding the workforce under 18 years of age, as far as relevant for their organization.

These reports will also provide information on the number of working hours, as well as a detailed description of the nature of the work and working conditions, including educational opportunities offered.

We extended our efforts in 2002 to major suppliers in countries that we considered to have a higher risk. To this end, a survey was conducted in the

Philippines, China, Thailand, Pakistan, India, Mexico, Brazil, Hungary and Poland, which enables us to chart the child labor situation.

Next, the Review Committee General Business Principles approached the Institute for Business Ethics of Nyenrode University in the Netherlands (EIBE) to study how the survey data should be interpreted and what further steps the company might take to develop a corporate policy on child labor in the supply chain. EIBE also conducted an additional pilot study on suppliers and conditions in India.

The objective is – in those situations where the study revealed that child labor is used – to develop improvement programs in close cooperation with local NGOs to arrive at a situation that satisfies International Labour Organization (ILO) Conventions 138 and 182, taking local economic and cultural customs into account.

Based on this Philips will establish a policy in 2003 on child labor in relation to its key suppliers. Further, the company will develop supplier requirements on other sustainability issues. This information will be published in the next sustainability report.

General Business Principles corporate database

To fulfill its supervisory role with regard to the practical implementation of the General Business Principles, the Review Committee needs to have correct and up-to-date information on the field of business ethics in the various countries where Philips is represented.

To do that, the Review Committee maintains a database of the following information, per country: correspondence/general; twice-yearly reports from the countries; reported cases of violations of the business principles; special issues; child labor; hotline; human rights/ILO/OECD; casebook/training; Philips profile in the country.

Risk assessment

As part of the General Business Principles database, we are developing a risk-rating system (Philips profile in the country). The aim of this is to increase awareness among country management to identify the main risk countries and for the Review Committee to undertake initiatives to keep the risks manageable.

The main criteria for the risk rating are: number of employees; number of sites; joint ventures in which Philips has no effective control; General Business Principles performance; the opinion of Internal Audit; a number of external criteria (the Corruption Perception Index of Transparency International, year reports from Human Rights Watch and Amnesty International).

Product safety

Philips aims to supply high quality products and services. Due to the wide variety of Philips products, each division issues a product safety policy tailored to its business. These policies incorporate the framework of the company's business excellence approach.

Customer privacy

Philips believes strongly in protecting the privacy of personally identifiable information shared by consumers. We also believe it is important to inform them about how personal data is used and give choices about how those data will be used.

With the implementation of its new global consumer database that stores consumer data from the Consumer Electronics and Domestic Appliances divisions, Philips issued its privacy policy in November 2002. Available on the company's Internet site, the policy is based on the so-called "soft opt-in" principle for unsolicited commercial information via online or offline communication. This requires Philips to seek the consumer's consent before sending unsolicited commercial communications.

The new Philips privacy policy and opt-out sentences have been translated into 22 languages and have been deployed on most of Philips' general and consumer websites. A training module for marketers and call center employees on handling consumer data will be developed.

Corporate governance

The company has consistently improved its corporate governance over the past decade by increasing transparency and accountability through simplification of the corporate structure, by improving the supervision of the company's policies and activities, and by adopting a culture of best practices.

Royal Philips Electronics is managed by the Board of Management, which is responsible for the general direction and long-term strategy of the Philips group as a whole. The Board of Management includes the President, Chief Financial Officer and three Executive Vice Presidents.

The Group Management Committee (GMC) has responsibility for implementing the company's policies. The GMC consists of the members of the Board of Management, chairmen of the product divisions and other key senior officers. The Group Management Committee, which is the highest consultative committee, also serves to ensure that business issues and practices are shared across Philips.

The oversight of the policies and actions of the executive management (the Board of Management) of the company is entrusted to the Supervisory Board, which, in the applicable two-tier structure of Netherlands law, is a separate body and completely independent from the Board of Management. This independency is also reflected in the requirement that members of the Supervisory Board be neither a member of the Board of Management, nor an employee of the company.

The Supervisory Board, acting in the interests of the company and the Philips Group, supervises and advises the Board of Management in performing its management tasks and setting the direction of the Group's business.

The Supervisory Board is empowered to recommend persons to be appointed as members of the Supervisory Board of the Board of Management to the general meeting of shareholders.

Major management decisions, including the Group strategy, require the approval of the Supervisory Board. The Supervisory Board determines the remuneration of the members of the Board of Management.

Business controls

Philips' policy on business controls is communicated to all levels of management. Key elements are: setting clear policies; issuing clear directives; delegating tasks and responsibilities clearly; carrying out supervision; taking corrective action; and maintaining highly responsive accounting systems, including internal accounting controls.

The company's internal control structure follows current thinking and practice in integrating management control over company operations, compliance with legal requirements and the reliability of financial reporting. It makes management responsible for implementing and maintaining effective business controls, including internal financial controls. The effectiveness of these controls is monitored by self-assessment and audits performed by internal and external auditors.

Every year, in the framework of the annual closing, general managers and controllers of the business organizations are required to sign a statement on business controls. By doing so, management assumes full responsibility for the implementation and maintenance of an effective system of business controls. Compliance with the General Business Principles is an integral part of this statement.

Auditor independence

Philips has established an unambiguous policy with regard to the role of its external auditor on a global basis, maintaining strict separation between the auditor's consulting and auditing arms.

Philips reports its financial performance on the basis of maximum transparency and openness – this comprehensive policy goes beyond external requirements. (A summary of this policy is provided on page 55.)

Sustainable development organization structure

At corporate level, the newly created Sustainability Board acts as an advisory body to the Board of Management.

Chaired by a member of the Board of Management who has overall responsibility for the subject, the Sustainability Board includes corporate staff executives from the relevant functional disciplines. They provide governance on the subject and track progress on sustainability issues throughout the company.

Philips has established a Corporate Sustainability Office to focus on environmental, health and safety, and social and community issues. Corporate employees from the Environmental & Energy Office, Human Resources Management and Control who spend the majority of their time on sustainability matters have been reassigned to this new office.

A Vice President heads the Corporate Sustainability Office, reporting to the Board of Management member responsible for sustainable development. The Vice President also serves as functional leader of the worldwide environmental network, and is employing this successful process with other internal networks to focus on the broad range of sustainability matters.

Task forces comprised of members of the Sustainability Office and other appropriate departments have been established to work on key areas – new business and emerging markets, communication and training, and reporting.

Internal communication

To ensure that environmental policy is truly integrated into the business, communication has proven essential. Following this model, Philips communicates sustainable development issues in the company's internal worldwide management magazine and websites.



Moving forward, communications will continue to be strengthened. Plans for 2003 include a corporate sustainability seminar and intranet site. Additionally, we are working on developing training programs on sustainability issues.

Internal awards

Philips has been working to establish a new sustainability award program to recognize outstanding achievements of employees around the world. The first awards, which will be presented in the second half of 2003, will honor employees who have achieved significant accomplishments in key areas of sustainable development.

Sustainability monitoring and internal controls

Regular monitoring has been an essential component of the Philips environmental management system to measure progress against policy, objectives and targets (see page 28). Monitoring also helps the company evaluate compliance with legislation and regulations.

We are leveraging our expertise in this area, extending the disciplined approach used in the environmental area to other sustainable development issues. A system for gathering information on health and safety was launched in 2002 throughout the world of Philips. Methods to measure performance in other sustainability areas are being developed.

Philips' policy is to report quantitative data only when there is a sufficient level of reliability. Therefore, quantitative data on sustainability that are new for us are being reported and analyzed internally, with a view to properly applying definitions and criteria to strengthen the reporting and verification processes, bringing them to the proper level of reliability.

Business excellence

Philips continuously explores ways to improve products and offer meaningful technology to consumers. That's why Philips created a business excellence model through which it can reach higher and higher quality levels in all products and services. It's called BEST – Business Excellence through Speed and Teamwork.

BEST includes a comprehensive set of tools, training methods and assessment systems. The use of balanced scorecards emphasizes the importance of balancing stakeholder needs and monitoring leading indicators in the execution of business strategy.

To achieve the targets of the company's latest four-year environmental action program, EcoVision 2002-2005, maturity grids have been developed in line with the BEST assessment methodology, which is discussed in detail in the section on environmental responsibility.

BEST tools and methods will also be used to drive progress in other sustainability areas, including health and safety, employment-related policies and procedures, and purchasing and community activities.

Caring for the community

Philips Electronics Kong Hong Limited was awarded the title of 'Caring Company 2002/2003' by the Hong Kong Council of Social Service – in recognition of the work of a Quality Improvement Team from Philips Domestic Appliances and Personal Care.

This team focused on one of the Philips business excellence building blocks – society results. They collaborated with the Evangel Children's Home to serve about 64 children from broken families, coordinated with the Hong Kong Social Welfare Department on a program to donate knitted scarves, and organized regular clothing and toy donations for the Salvation Army.

Philips is one of 259 companies selected as a caring company for its commitment to encouraging volunteering, providing a family-friendly environment, employing the vulnerable, partnering with the social service sector, mentoring and giving to the community.

BEST

Our way
to business excellence



PHILIPS

Stakeholder dialogue

Philips recognizes the importance of communicating with stakeholders both inside and outside the company. We will strive to balance the often-competing demands of various constituencies, as well as short- and long-term interests.

Philips' approach to business excellence (BEST) provides a framework to institutionalize stakeholder dialogue in the company. Plans include establishing an advisory board with various stakeholders. Further, we will report on actions that result from the input of our stakeholder groups.

Listening to employees

To take the pulse of the organization and measure employee commitment, engagement and satisfaction, Philips surveys its employees (see page 43).



To provide a platform for communications with employees in Europe, Philips has established the Euroforum with the European Works Council. This group meets with Philips management twice a year to discuss important business developments, industry trends, major investments or divestments and other topics that could affect employees in the region.

Shareholder relations

Philips attaches great value to its relations with its shareholders. For instance, Philips was one of the key companies in the establishment of the Shareholders' Communication Channel – a project of Euronext Amsterdam, banks in the Netherlands and several major Dutch companies to simplify contacts between a participating company and its shareholders.

Learning from other companies

As a member of the World Business Council for Sustainable Development (WBCSD), Philips is part of a coalition of 160 international companies united by a shared commitment to sustainable development.

WBCSD members are drawn from more than 30 countries and 20 major industrial sectors. Members also benefit from a global network of 40 national and regional business councils and partner organizations involving some 1,000 business leaders globally.

The Chairman of the Sustainability Board and the head of the Corporate Sustainability Office represent Philips at WBCSD events where business leaders analyze, debate and exchange experiences on all aspects of sustainable development.

Focus on people

Philips Design recently conducted a qualitative research project with two main aims – to explore and understand possible human futures and to understand what makes life better for people in different cultures.

The research – called the Delphi project – focused on the United States, Europe, China and India, representing one third of the world's population.

Outcomes of this study include insights into the following questions: What will the world look like in the future? What values do people hold now, both as members of a society and as individuals? What values and attitudes do different generations hold? How might the world and its societies change?

The research reveals that sustainability is approached differently in each part of the world. Europe, for example, has an emerging 'system view' of the connection between ecology, society and economy, which is generating an ethics of sustainability. Meanings and beliefs beyond materialism will guide a search to balance tangible and intangible aspects of culture.

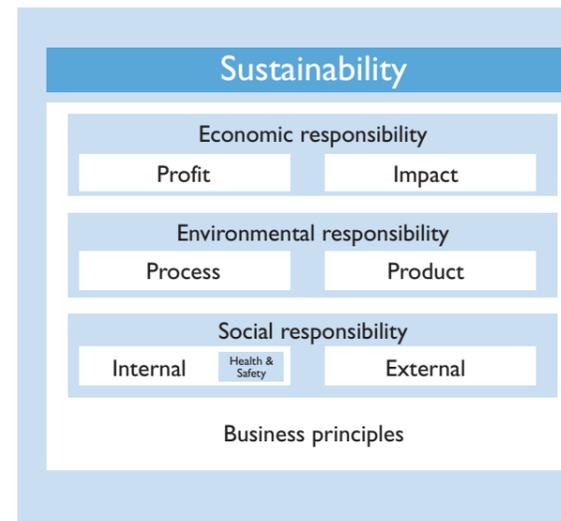
On the other hand, in China sustainability is mainly perceived as personal and environmental well-being. People in the city value clean and green parks, which are considered collective 'gyms' where people can exercise daily to maintain good physical and mental health. In the future, environmental values will be increasingly translated into responsible behavior. Insights gained from this research will be used in developing meaningful innovations and business strategies.

Recognition

Most respected company

Philips India ranked number one in *Businessworld* magazine's 'Most Respected Company Awards' in the Consumer Durables sector. The award is based on a peer-perception survey, where senior managers in the corporate world are polled in order to rank the country's most respected companies on the basis of their performance during 2001-2002.

Companies were judged on parameters such as: top management leadership, ability to attract talent, belief in transparency, social responsiveness, environmental consciousness, quality of products/services provided, belief in customer satisfaction, dynamism, continuous innovation, global competitiveness, returns to shareholders, value for stakeholders and ability to cope with recession.



The path to sustainability

The Philips General Business Principles are the foundation of the company's approach to sustainable development. We believe performing against the triple bottom line is a serious responsibility, so we are working diligently to integrate these often competing demands.

The following sections provide details of how we are living up to our responsibilities.



Our goal is to achieve sustainable economic growth.

Economic responsibility

Philips is committed to achieving sustainable growth by providing technology that improves people's lives. We will pursue our efforts to become a consistently high-performing company without compromising our integrity, our openness or our internal controls.

"Pursuing sustainable development is less an option and more a necessary part of doing business. Many people are turning to the concept of sustainability to identify well-managed and future-oriented companies to invest in."

Jan Hommen, Chief Financial Officer

Managing for tomorrow's economy

We have a 112-year history because we have recognized the need to change when change is essential. Today we are dedicated to making Philips a less complex, better-focused organization to manage for tomorrow's economy.

While we have made good progress in transforming ourselves into a company with a platform for profitable growth, we are strengthening and accelerating these efforts. We are committed to maintaining a strong balance sheet, ongoing portfolio management, organizational effectiveness, customer intimacy and product & technology momentum.

Our priority is to have good, solid and consistent execution in the way we run our businesses. By working together more collaboratively, we can leverage the core technologies we share and create meaningful innovations.

In this way we can create sustainable value for all of our stakeholders.

Preface

Reference is made to the Philips Annual Report 2002 regarding accounting principles and further detailing. The consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ('US GAAP'). The company adopted application of the US GAAP as of January 1, 2002. All previous statements have been restated for this effect, with recognition of the effect in stockholders' equity as of the beginning of the earliest period presented. Historic cost is used as the measurement basis unless otherwise stated.

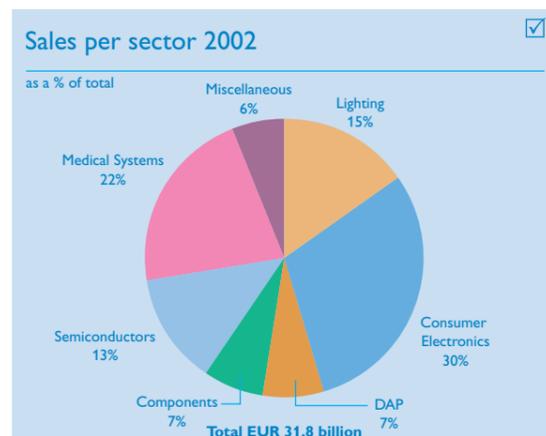
Economic impacts

The following data cover a range of the financial relationships Philips has with many stakeholders including customers, employees, suppliers and investors.

Customer

Net sales of the Philips Group

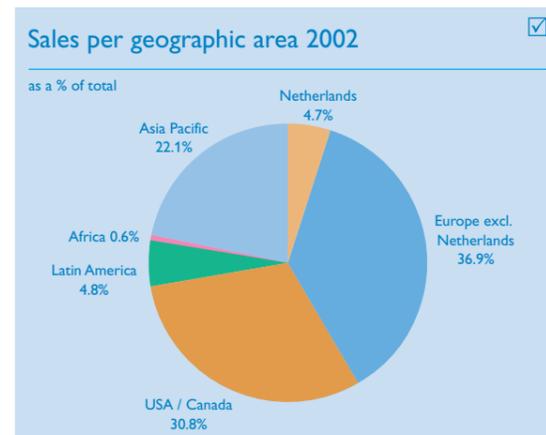
Sales in 2002 totaled EUR 31,820 million, 2% lower than in 2001. Changes in consolidation had a net positive effect of 3%, while the weakening of the dollar and related currencies had a 4% negative effect, particularly in the second half of the year. Sales volume grew by 6%, in contrast to a 6% decline in 2001. The year-over-year growth trend improved every quarter in 2002. Price erosion eased somewhat in 2002: 7% compared with 8% in 2001.



Growth was achieved in the sectors DAP, Components (predominantly in Mobile Display Systems) and Medical Systems (42% growth, of which 5% was organic growth). Sales were somewhat lower at Lighting and Semiconductors. The lower sales in the Consumer Electronics sector were caused by lower volumes for mobile phones and set-top box products (as a consequence of the changed business models in 2001), which were not offset by solid growth in TV and DVD products in particular.

Geographic sales distribution

As a global company, Philips' sales are spread across the main geographic areas. The traditionally strong basis in Europe is expanding more and more toward the USA/Canada and Asia Pacific regions.



Sales in USA/Canada increased 5% in 2002, lifted by the effect of the new consolidations at Medical Systems, partly offset by a weaker US dollar and weak semiconductor demand.

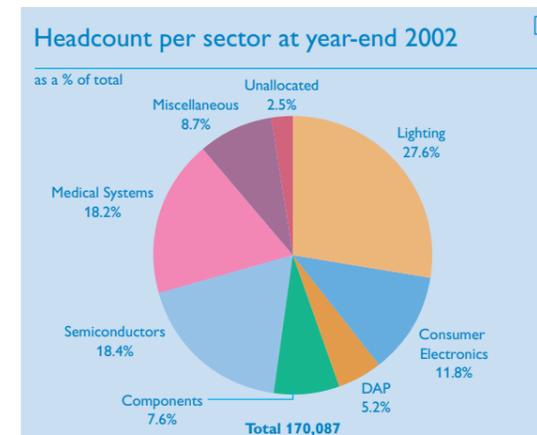
Sales growth in Asia Pacific, at 1%, was hampered by the negative effect of deconsolidations and weaker currencies. On a comparable basis, sales expanded by 8%. Strong growth was posted in China (26%) and South Korea (22%), while sales declined in Japan, mainly due to lower licensing income.

Sales in Europe declined by 5%, partly due to the unfavorable effect of deconsolidations. Additionally, sales suffered from the weak economy in Germany. Sales in Latin America were 21% lower, mainly attributable to the economic downturn in Argentina and Venezuela.

Employees

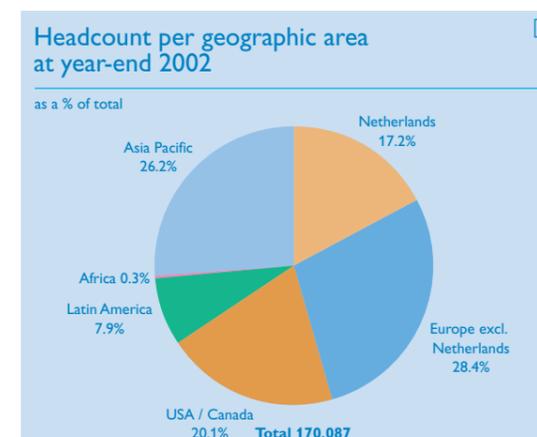
Employment structure

The number of employees at the end of December 2002 totaled 170,087. Lighting remains the largest product sector in terms of employment, followed by Semiconductors and Medical Systems.

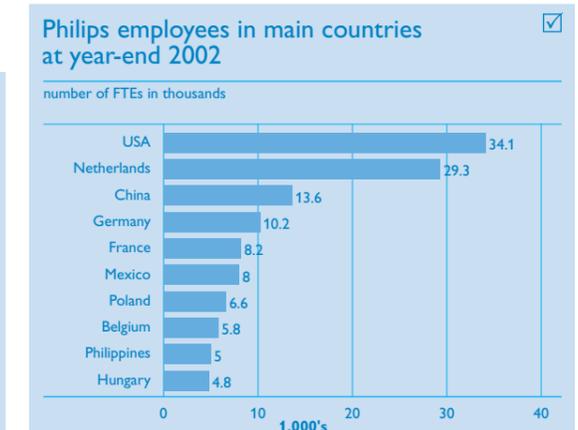


Compared with December 31, 2001, the number of employees declined by 18,556. The greater part of the reduction (9,514) was caused by consolidation changes. Excluding these changes, the headcount reduction came to 9,042 mainly centered on Consumer Electronics, Semiconductors and Corporate Investments. The headcount at Medical Systems increased by 846 FTEs as a result of expanding activities.

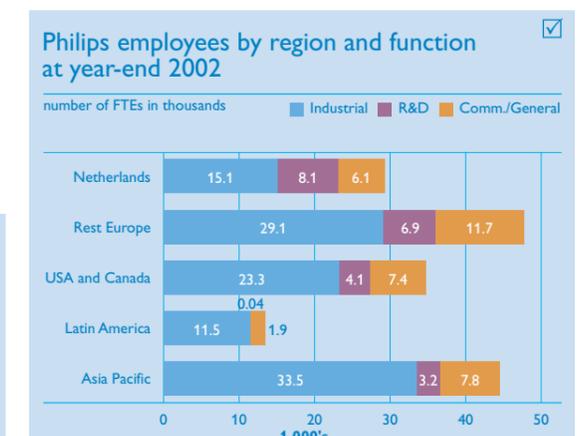
The headcount reduction in 2002 was primarily attributable to the regions Europe and Asia Pacific.



The geographic spread of employees reflects the company's business expansion into the USA/Canada and Asia Pacific. With the rapidly expanding activities of Medical Systems, the number of employees in the USA has surpassed the Netherlands.



In functional terms, our activities (production, research and development, sales and general) are widely distributed across the main geographic areas. For example, industrial production is spread across 152 manufacturing sites in 35 different countries. In addition to our strong research and development base in Europe, we are increasingly expanding R&D activities in the USA and Asia Pacific.



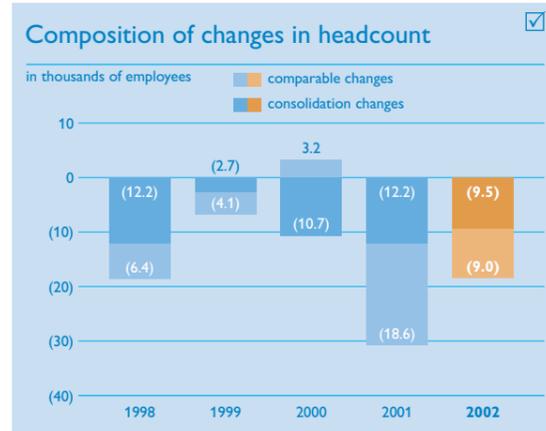
The decrease of employment levels in 2002 was most significant in the areas 'production' and 'general', while research & development was less affected. The number of employees with a temporary contract increased as a result of uncertain and unfavorable market conditions.

A closer look at employment

The number of employees at Philips has been shrinking during the last five years. This development must be seen against the background of the changed focus of the company. Over the last five years, Philips has become a more focused, leaner and more agile organization, better able to react to the continual changes we are confronted with in today's environment.

In particular, we have:

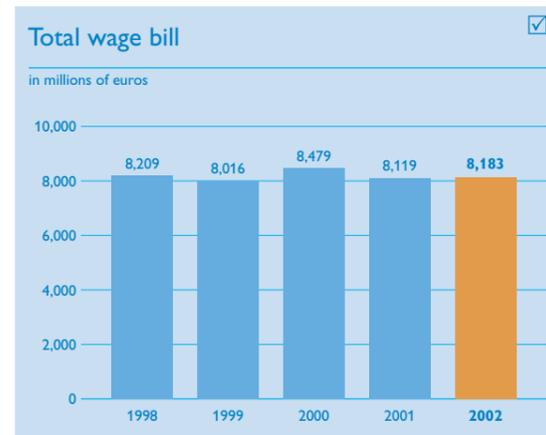
- invested in businesses that are established or potential world leaders;
- reduced our exposure to more volatile and unprofitable businesses and industries;
- limited our exposure to market fluctuations by outsourcing, reducing capacity and expanding partnerships;
- reduced our cost structure;
- rationalized our portfolio by divesting businesses that are unprofitable or did not fit with our long-term strategy.



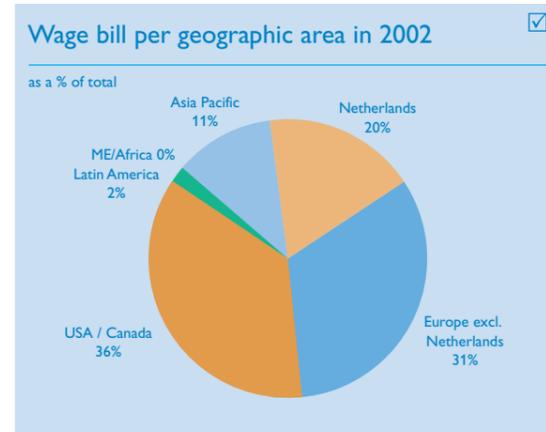
For these reasons it is important to separate the impact of the tightened focus of the Philips portfolio (consolidation changes) from the other changes. The reductions due to divestments and outsourcing occurred mainly in the product sectors Consumer Electronics, Components and Miscellaneous. The headcount at Lighting decreased slightly, while the number of employees at Semiconductors expanded modestly. The number of employees on Medical Systems' pay-roll nearly tripled.

Total wage bill

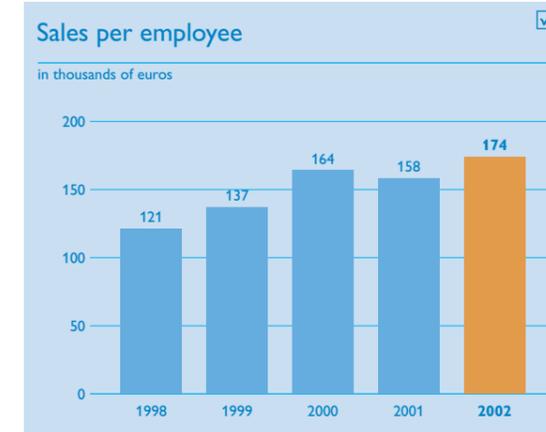
The total amount of all wages and wage-related costs for the Philips Group has been more or less stable during the last five years. The total amount includes all salaries, costs for temporary personnel, voluntary social security costs, costs of defined-benefit pension plans, costs of defined-contribution pension plans and cost of post-retirement and post-employment benefits. The last few years were also impacted by costs for restructuring and favorable pension credits.



The average wage cost per employee has been increasing as a result of the changed focus of the Philips Group. We have extended our value-adding activities, including significant acquisitions at Medical Systems, while other activities have been reduced, divested, outsourced or transferred to joint ventures. This is reflected in the geographic breakdown of the total wage bill.



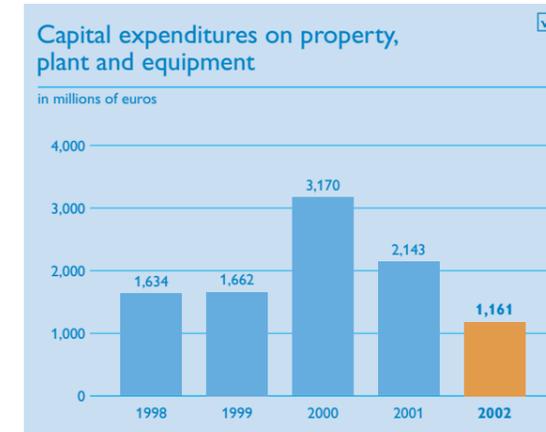
This changed focus is also illustrated by the increase of sales per employee, in spite of rapidly increasing wage costs per employee.



Suppliers

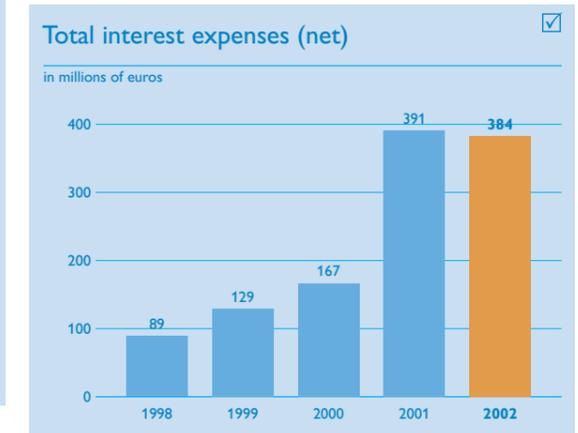
The total cost of all goods, materials and services purchased is not available in the existing reporting structure in the Philips Group. However, we do know from indirect calculations that in 2002 a total of EUR 21 billion was paid for all externally derived products, materials and services. This equates to 65-70% of total sales.

Another important cash outflow relates to total capital expenditures on property, plant and equipment. The total decreased sharply in 2002, as a result of weak market conditions and the uncertain future.



Providers of capital

The total amount of interest paid decreased in 2002, due to lower interest rates.



Share price

The Philips share has outperformed the Dow Jones Global Index (DJGI) and the Dow Jones Sustainability Index (DJSI) over the past five years, as indicated in the accompanying chart. The strong value increase in the late 1990s through mid-2001 reflects the boom in the technology markets, followed by the worldwide downturn.



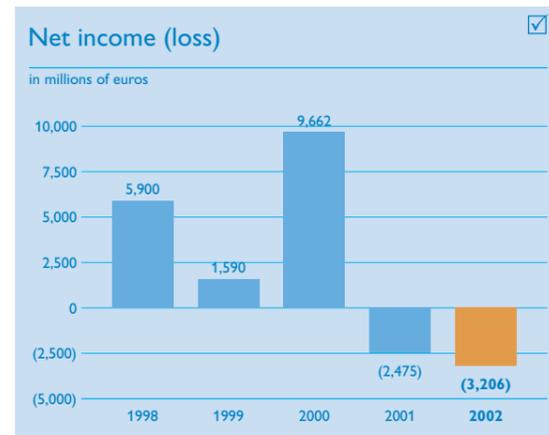
Philips is the sustainability leader in the consumer electronics sector of the Dow Jones Sustainability Index. This tool allows investors to track the triple bottom line performance of leading sectors and companies.

In addition to the share price, a total amount of EUR 3.2 billion has been returned to shareholders as part of the share reduction programs in 1999 and 2000.

During the last five years a total amount of EUR 2.0 billion has been paid to shareholders as dividend or cash distribution.

Financial performance in 2002

Net income in 2002 came to a loss of EUR 3,206 million, or a profit of EUR 208 million excluding special items. The total loss was heavily impacted by charges of EUR 1,955 million for writing down the valuation of securities (mainly Vivendi Universal), as the main financial markets closed with negative results for the third year in a row. Also, the company took impairment charges totaling EUR 1,305 million for its shareholdings in unconsolidated companies (mainly Atos Origin and LG.Philips Displays).



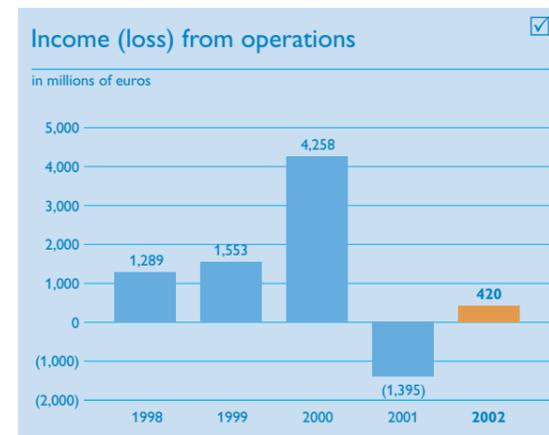
Income from operations improved by EUR 1,815 million to a profit of EUR 420 million; excluding special items and goodwill amortization (the latter totalling EUR 180 million in 2001), income improved by EUR 440 million to EUR 460 million, notwithstanding an increase in pension costs of EUR 541 million. The strong margin improvement in all sectors can be attributed to the close attention the company gave to margin and cost management during 2002.

We announced cost-saving programs intended to deliver a EUR 1 billion run-rate saving by the end of 2003. With regard to the EUR 300 million overhead cost reduction program, we realized savings of EUR 257 million in 2002 and achieved a run-rate saving of EUR 324 million in the last quarter of 2002. Medical Systems already realized savings of EUR 173

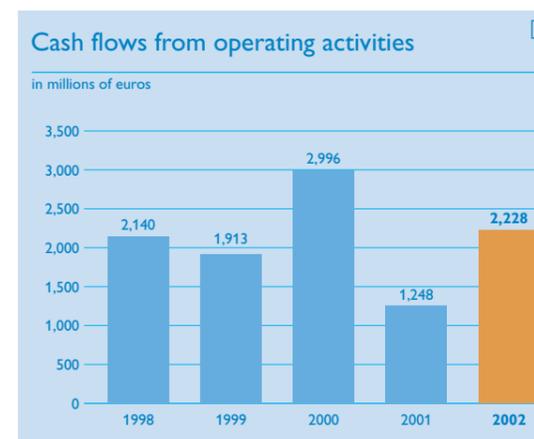
million in 2002. Detailed programs are in place to realize the remainder of the EUR 350 million savings in 2003.

Income increased by more than EUR 425 million due to the effects of the 2001 restructuring program.

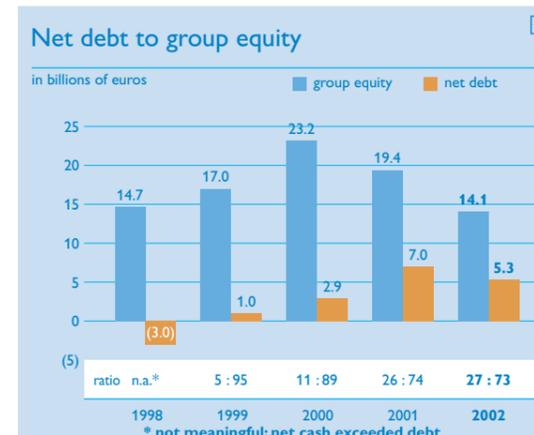
Net gains resulting from the sale of businesses and real estate amounted to EUR 569 million. The ongoing divestment program led to special gains of EUR 311 million. Other special gains related to the sale of real estate (EUR 65 million), an earn-out of JDS Uniphase shares (EUR 113 million), the sale of Components' glass activities: (EUR 40 million) and a currency translation gain from the liquidation of certain Components activities in Japan (EUR 40 million).



Philips was able to generate an improved operating cash flow of EUR 2,228 million in 2002, compared to EUR 1,248 million in 2001. Our cash conversion cycle improvement program continued to bear fruit and led to, excluding currency and consolidation effects, lower inventories, higher payables, and lower receivables. Inventories at the end of 2002 arrived at an all time low of 11.1% of sales, compared to 13.3% a year earlier. Consumer Electronics drastically reduced its cash conversion cycle to a level close to zero.



Philips continued to have a strong balance sheet in 2002. At the end of the year, Philips had a net debt position of EUR 5,251 million, which was down EUR 1,725 million from 2001. The net debt to group equity ratio was 27:73, compared to 26:74 in 2001.

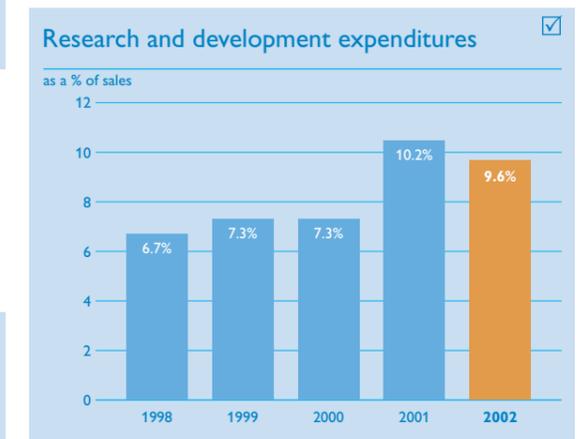


Public sector

In 2002 Philips charged a total of EUR 27 million corporate income taxes to income. This does not include various local taxes, which are not measured at corporate level. It should also be noted that, as for any business, a substantial amount is paid to the public sector via personal income taxes, which are estimated to represent 1/3 of the total wage bill.

Technology

Research and development expenditures in 2002 amounted to EUR 3,072 million, representing 9.6% of sales. This sustained high level of investment, in spite of reverse economic and market conditions, emphasizes Philips' commitment to create meaningful innovations. And we are increasing R&D expenditures relating to Medical Systems in keeping with our focus on healthcare.



In 2002, the number of patent filings was about 3,000. As a result of the increased filings over the past two years the worldwide patent portfolio grew by more than 10% in 2002 and now comprises some 85,000 patent rights. Significant efforts are being devoted to establishing the standards for the next generation of high-density optical storage technology and to putting in place systems for protecting and securing the distribution of digital audio and video content.



We are committed to being the world's leading eco-efficient company in the electronics industry.

Environmental responsibility

Seeing environmental improvement as an opportunity for innovation, we work continuously to minimize the impacts of products, processes and services. To meet this challenge we establish solid action programs to drive progress in this important area. We are guided by the basic principle that prevention is better than cure, striving always to avoid problems at the outset.

“At Philips we have a tradition of sound environmental policy dating back more than 30 years. Now we have strengthened our action program to further challenge ourselves.”

Arthur Van der Poel, Executive Vice President and Chairman of the Sustainability Board

Taking action

Philips was at the forefront when it instituted a disciplined approach to environmental improvement with the Environmental Opportunity Program in 1994, which set forth a series of measurable targets. This was followed by EcoVision, which ran through 2001.

Under EcoVision 1998-2001, the company's accomplishments on the marketing side included integrating EcoDesign into the product creation process with a drive toward developing Green Flagship products and a 21% reduction in packaging materials, compared with the reference year 1994. In terms of manufacturing, achievements included reducing actual waste by 60% and water by 50%, as well as improving energy efficiency 24%, also compared with 1994.

We raised the bar in 2002 with the ambitious goals of our latest four-year environmental action program, EcoVision 2002-2005. Progress under this program will be measured against the reference year 2001.

Given the significant improvements realized with previous action programs, reaching the new targets is challenging – but we are determined to accomplish these goals.

EcoVision 2002-2005 Environmental action program

Product improvements

Philips product developers follow EcoDesign principles and focus on one or more of the following Green Focal Areas



	Mandatory target	Recommended target
EcoDesign ¹	Level 6 on maturity grid	Level 8 on maturity grid
Green Flagship products ²	One per product division per year	One per business per year
Packaging	Maintain performance	10% reduction
Supplier management ³	Level 6 on maturity grid	Level 8 on maturity grid

Process improvements

	Mandatory target	Recommended target
Energy	10%	20%
Waste	20%	30%
Water	15%	20%
Emissions to air and water		
Hazardous substances (category I)	70%	90%
Hazardous substances (category II)	30%	50%
Environmentally relevant substances (category III)	15%	30%
Packaging	Maintain performance	10% reduction
Supplier management ³	Level 6 on maturity grid	Level 8 on maturity grid
ISO 14001 certification	All manufacturing sites	All facilities

¹ Maturity grid ranges from 0-10, with 10 representing world class. N.B. All targets are to be achieved by 2005 compared to reference year 2001. Weighted scores reflect targets and results have been corrected for production fluctuations.

² A Green Flagship is defined as a product or product family that meets additional EcoDesign criteria and, after investigation in three or more of the Green Focal Areas, has proven to offer better environmental performance in two or more of these areas, compared with its predecessors or closest commercial competitors.

PHILIPS

EcoVision monitoring and internal controls

The Philips EcoVision monitoring system is a computer-based system to gather information and measure worldwide progress on the EcoVision program's product- and production-related targets. Since its installation in 1998, Philips has worked to enhance this monitoring system. Efforts in 2002 included tools to support trend analysis.

The system's self-assessment tool evaluates each reporting organization's data collection practices and identifies areas for improvement. Internal control procedures at the divisional level are formalized with a comprehensive instruction manual issued to validation officers.

Mid-year 2002 results indicated that the internal controls carried out by product division validation officers were insufficient. Actions taken include careful analysis of gaps, informing senior management at the corporate and divisional levels, and drafting improved instructions. We have verified that significant progress has been made and internal controls improved substantially.

Relevant managers from the reporting organizations are responsible for forwarding the data collected by the local environmental officer to a central database, managed by the Corporate Sustainability Office in cooperation with environmental officers at product division, business group, national and local level.

The data reported on the following pages and in the appendix have been collected worldwide using the Philips EcoVision monitoring system.

ISO implementation and certification

To manage and further reduce the environmental effects of its activities, Philips is committed to bringing its operations into compliance with the internationally recognized standard ISO 14001. Accordingly, company policy requires that all manufacturing sites achieve ISO 14001 certification and introduce environmental management systems to realize this goal. The company also recommends that all non-industrial facilities obtain certification.

The percentage of certified reporting organizations at year-end 2002 was 88%, compared with 92% in 2001. This decrease can be attributed to the large number of newly acquired reporting organizations, particularly within Philips Medical Systems, which were not certified. These units are required to achieve certification by the end of the first calendar year after acquisition.



Spotlights on EcoDesign

Philips Medical Systems has made EcoDesign mandatory. This is true at all of Medical Systems' worldwide facilities, including new acquisitions. Medical's eco-facilitators meet at least twice a year to discuss progress and exchange best practices.

At Philips Lighting a workshop focusing on Life Cycle Assessment brought together marketers and product developers working on the next generation solar electricity inverter, which transforms DC-current into AC-current. Participants drafted individual EcoDesign action plans and received practical tools to support their product development activities.

To do that, we have introduced the use of maturity grids that focus on product creation process maturity to determine what we need to do to reach world-class status. The EcoDesign maturity grid has been developed in line with the Philips BEST assessment methodology.

The company's progress in integrating EcoDesign procedures in product creation is assessed by using this maturity grid (shown on page 62). Scoring is on a strict step principle, so the conditions for level 1 must be satisfied before moving to level 2.

As this is a new measurement, we recognize that there is a learning curve and are working to improve definitions and criteria for this valuable tool. We will report on results for 2003.

Products

Building on Philips' tradition of innovation and technological expertise, we have developed procedures for Environmentally Conscious Product Design – what we call EcoDesign – that deal with all phases of product development. It's about embedding environmental issues in product policy and strategy from the very beginning.

To support the EcoDesign process, Philips' EcoVision program calls for a sharp focus on the following five Green Focal Areas when developing products.



Green Flagships

Our top EcoDesigned products achieve Green Flagship status. This means that after meeting EcoDesign criteria, a product has been investigated in three or more of the Green Focal Areas and proven to offer better environmental performance in two or more of those areas, compared with its predecessors or closest commercial competitors. When a product is compared with more than one competitor, the results are expressed as an average of the competitors' performance in the investigated focal area.

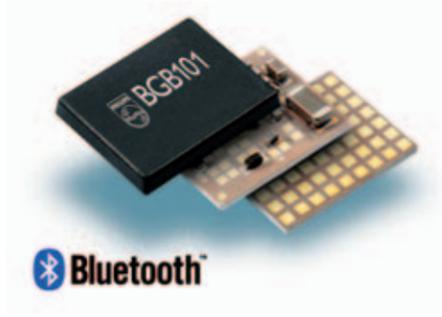
To continue to drive innovation and the development of environmentally responsible products, the current EcoVision program calls for one Green Flagship product per product division each year.

The following pages feature examples of Philips' meaningful technology.

Concentrating on these areas in an increasing number of products, Philips' product developers analyze every stage of the product life cycle. In most divisions, analyses of this kind are performed with the support of the EcoScan computer program, used to calculate the environmental impact of products in terms of Eco-Indicators.

EcoDesigned products

While building EcoDesign into the product creation process was a serious effort under the first Philips EcoVision program, we knew we must step up our work in this important area to ensure that these procedures are used for all products.



  **No strings attached**

Philips TrueBlue radio modules are short-range *Bluetooth** radio transceivers providing wireless connectivity in the globally available ISM band (at frequencies ranging from 2402 to 2480 MHz).

The BGB101 plug-and-play, a low-power radio module optimized for cellular applications, weighs 12% less and uses 31% less energy than its predecessor, BGB100.

* Philips is licensed to use the Bluetooth trademark.



  **DVD with a record button**

Recordable DVD allows you to record from a TV or digital camera onto a DVD with the touch of a button.

The Philips DVDR890 uses 28% less energy and is 20% more recyclable than its closest commercial competitor.

This product took top honors at the European Imaging and Sound Association (EISA) 2002-2003 awards, being named *European Digital Video Recorder of the Year*.

   **Clear results**

Designed for a wide range of cardiac, vascular and fluoroscopic radiography, the Velara X-ray generator is engineered for long-term reliability.

The Velara weighs 33% less and uses 22% less energy and 15% less packaging than its predecessor.



   **Image is everything**

This 32-inch widescreen TV features the best in picture quality with the Real Flat 100Hz tube for a clear stable picture that is relaxing for the eye and more lifelike.

Compared to the average of its three closest commercial competitors, the Philips 32PW8717 TV weighs 8% less, is 33% more energy efficient and uses 15% less packaging.



   **Freedom of space**

At work or at home, the Philips LCD 15-inch Flat Panel Monitor provides outstanding image quality, and its ultra-slim design takes up 60% less desk space.

Compared to the average of its two closest commercial competitors, this monitor is 5% lighter in weight and uses 20% less energy and 23% less packaging.



  **More light ... less energy**

The Philips MASTER Line ES Energy Saver is the best long-life, low-voltage dichroic tungsten halogen lamp available today. A 45W MASTER Line ES lamp can replace a standard 65W dichroic without reducing light output.

The MASTER Line ES Energy Saver's energy efficacy (in lumens per watt) is 15% better than the average of its two closest commercial competitors, while packaging is reduced 13% compared to the average of those competitor products. The lifetime of the MASTER Line ES is 25% longer than its competitors.



Leader in energy efficiency

The U.S. Environmental Protection Agency (EPA) and Department of Energy (DOE) named Philips Lighting an ENERGY STAR® Partner of the Year in 2002 for its commitment

to making and promoting energy-efficient products that save money on energy bills and reduce greenhouse gas emissions.

Among the company's consumer education initiatives is the Philips Lighting Formula – An Energy Blueprint for the Nation. This living experiment illustrated how replacing lighting products with energy-efficient options saved up to 45% of lighting-related electricity costs on a single block in Berkeley, California. If the

same results were extrapolated to New York's Times Square, yearly savings of EUR 5.4 million and 36.8 million kWh would be realized.

Additionally, in recognition of the company's efforts in promoting energy conservation and efficiency measures, the State of California presented Philips with the 2002 'Flex Your Power' Energy Conservation Award.

Production

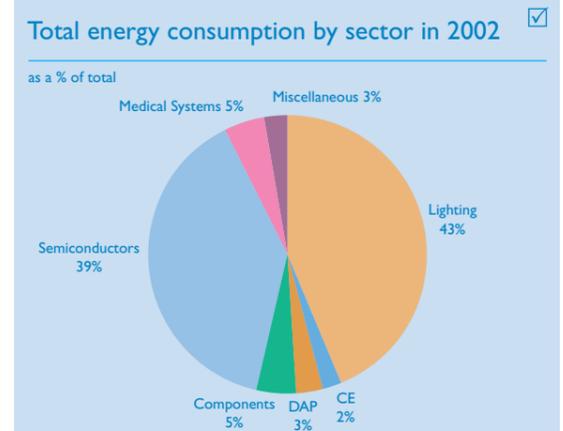
Philips strives to make effective use of resources and has set targets that focus on optimizing its processes. The aim is to reduce environmental impacts, achieving cost savings and improving efficiency.

Philips focuses on minimizing the environmental impacts of its processes by considering such options as:

- efficient product design to reduce material purchasing, which in turn leads to reduction in waste and emissions to air and water;
- the use of recycled rather than virgin materials to close the materials loop;
- careful production planning to avoid obsolete stock;
- careful engineering and good housekeeping to avoid losses due to over-specification, unnecessary cooling, heat dissipation, air emissions and water discharges.

Energy

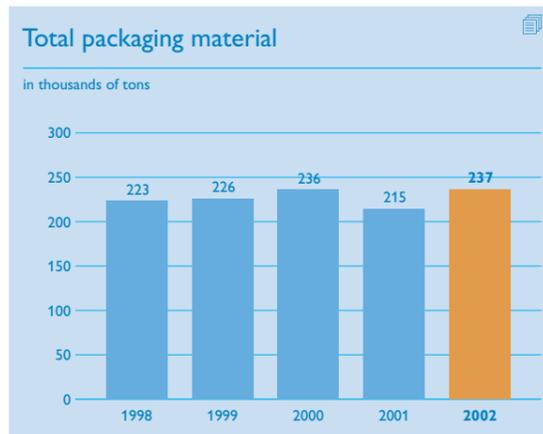
Philips measures energy use and applies efficiency measures worldwide. Knowing that generating energy by burning fossil fuels causes the emission of CO₂, which is a major contributor to global warming, EcoVision 2002-2005 calls for an energy reduction of 10%. In 2002, energy consumption amounted to 31.1 PJ, a 4% decline from 2001 in absolute terms. After adjusting for changes in reporting organizations and production volume, energy consumption decreased 8% on a relative basis, compared to the reference year 2001.



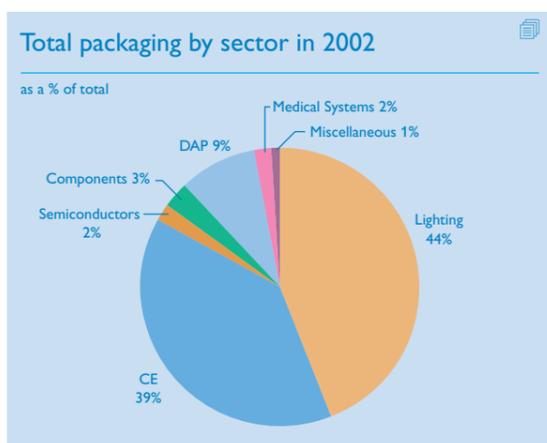
Both Lighting and Semiconductors achieved relative energy reductions, by 11% and 4%, respectively, driven by focused energy management.

Packaging

Wherever possible Philips' product packaging must be reusable or recyclable. According to the EcoVision requirements, the company must maintain its 2001 packaging performance.



In 2002, the total amount of Philips' packaging materials was 237,000 tons, an absolute increase of 10% over 2001, mainly due to an increase in production volume. In relative terms, the use of packaging materials was reduced by only 1%. Improvements achieved in Lighting were offset by increases at Consumer Electronics and Domestic Appliances and Personal Care caused by changes to the product mix that require additional packaging.



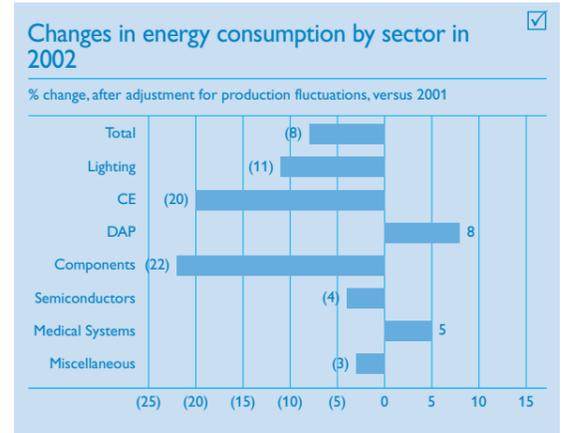
End-of-life management

Philips emphasizes the importance of making products that can easily be recycled. At Philips, end-of-life management primarily entails participation in national take-back initiatives and recycling programs whenever possible, preferably in cooperation with competitors.

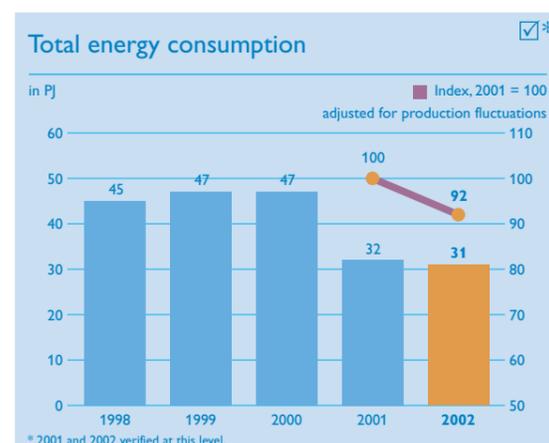
Reduced packaging ... increased savings

Philips Semiconductors in Wetzlar, Germany, has changed the packaging design for CD and DVD players, resulting in a weight reduction of 25%. This decrease will also result in less variety of materials used, less transportation and significantly lower costs – approximately EUR 240,000 per year.

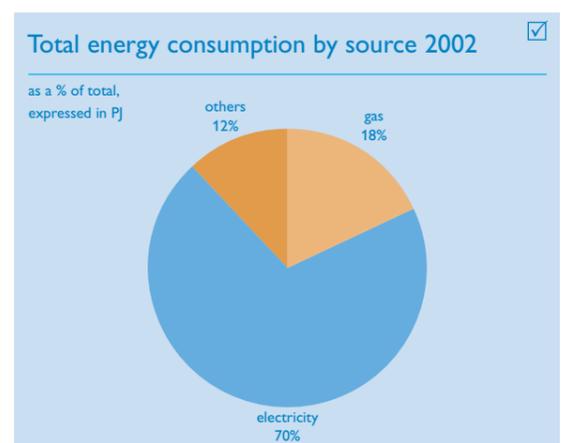
In Tierra del Fuego, Argentina, Philips Consumer Electronics works with its local supplier to reuse cardboard packaging from TV parts imported from Philips in Manaus, Brazil. Since this program began in 2001, the facility in Argentina has used this recycled packaging for the 92,000 TV sets it has produced, cutting down on transportation and preventing the original cardboard from ending up in landfills.



In 2002, 70% of the total energy consumption was related to electricity.



The Lighting and Semiconductors product divisions account for nearly 80% of the total energy used during production.



Less energy and a better workplace

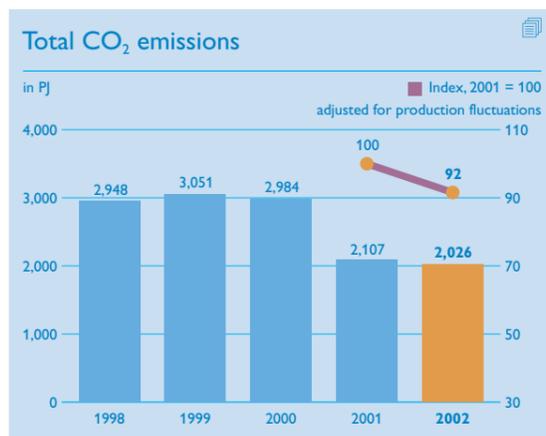
The Energy Saving Committee at Philips Lighting's Automotive Lighting in Hong Kong initiated a project in January 2002 to rework the facility's bulb blowing machines. Each machine had its own furnace. The team combined two or even three of them, using a single furnace for the newly integrated machines.

The ovens were also converted from gas power to electricity, eliminating the need to continually burn gas to maintain the working oven's temperature. While using electricity for heating is less energy efficient than gas, it is important to consider that the 'on' time for electricity is about 60% versus the need to keep the gas ovens on at all times.

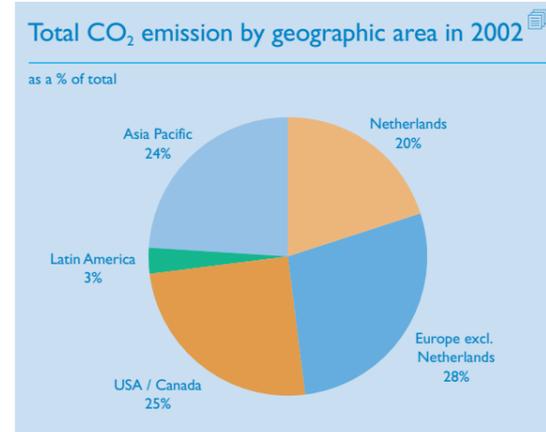
And with less heat radiated from fewer ovens, the work environment has improved dramatically – with operators feeling more comfortable and less energy needed for air conditioning.

CO₂ emissions

Philips reports data on its carbon dioxide emissions from production. This figure is calculated by converting different types of energy use, such as kilowatt hours, cubic meters of gas and tons of coal. For the conversion factor used see explanatory notes on page 55. Based on these conversion factors, the calculated amount of CO₂ emissions from production in 2002 is 2,025,536 tons, compared with 2,106,869 tons in 2001. On a comparable basis, energy consumption decreased by 8%.

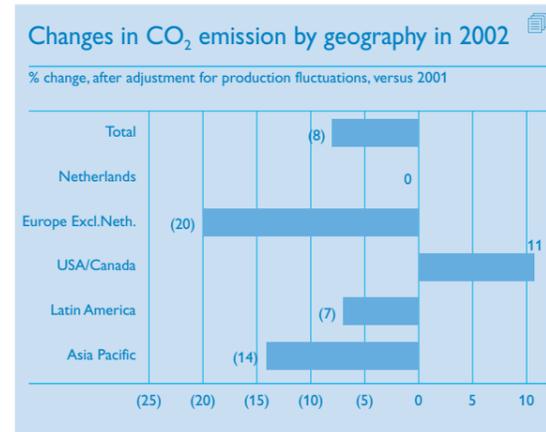


From the point of view of global warming, it is interesting to look at the geographic distribution of CO₂ emissions.



Europe excluding the Netherlands has significantly contributed to the overall decrease in CO₂ emissions in 2002 versus 2001. It should be noted that while there was no improvement in the Netherlands during 2002, substantial reductions were achieved in the past 10 years in keeping with an agreement with the Dutch government. New reduction targets have been set and agreed to, and we expect to deliver results during the course of the EcoVision 2002-2005 program.

The increase in USA/Canada was caused by newly acquired companies.

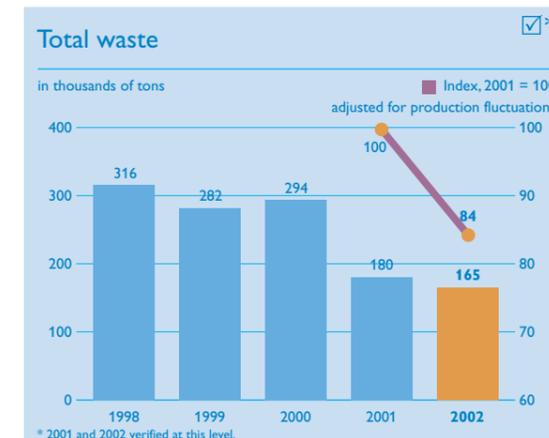


Waste

We make a distinction between recycled waste (material explicitly delivered for secondary use) and actual waste (waste not delivered for secondary use and disposed of by landfill or incineration).

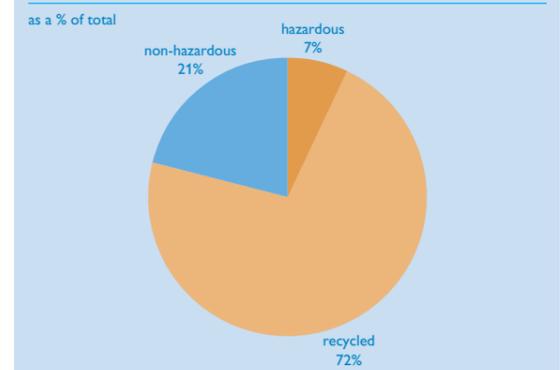
Globally, Philips promotes methods to reduce waste generation and considers landfills a last resort. The EcoVision program targets a 20% reduction in waste.

In 2002, Philips disposed of 165,000 tons of total waste, a decrease of 8% compared to 2001. On a comparable basis, after adjustments for changes in reporting organizations and production fluctuations, total waste was reduced by 16%. The improvement was predominantly achieved in hazardous and recycled waste. The reduction is attributable to all product sectors except Medical Systems.



Total waste is composed of 120,000 tons delivered to recycling companies and 45,000 tons of actual waste, which was delivered either for landfill or incineration. Actual waste comprised 34,000 tons of non-hazardous waste and 11,000 tons of hazardous waste.

Composition of total waste in 2002



Closing the loop

Producing motors for small domestic appliances – like blenders, mixers and food processors – requires the use of copper wire. The Philips Domestic Appliances and Personal Care factory in Varginha, Brazil, changed the way it deals with the scrap wire generated by its activities.



As of January 2002 all scrap goes back to the original copper wire supplier, rather than being sold to a variety of companies. This new approach means that more scrap is transformed into finished goods, closing the materials loop and lowering costs.

New processes mean less waste

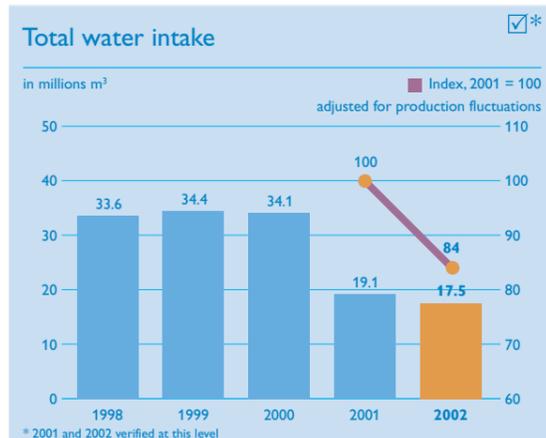
Aiming at reducing costs, Philips Semiconductors in Hong Kong embarked on two projects to transform their molding processes. During the process evaluation and implementation, the team realized their work would also reduce waste.

One conversion resulted in a reduction of 88 kg of molding waste per 1 million pieces – or 10 tons of waste per year. With the other change, molding waste disposed of in landfill has been reduced by 20 tons.

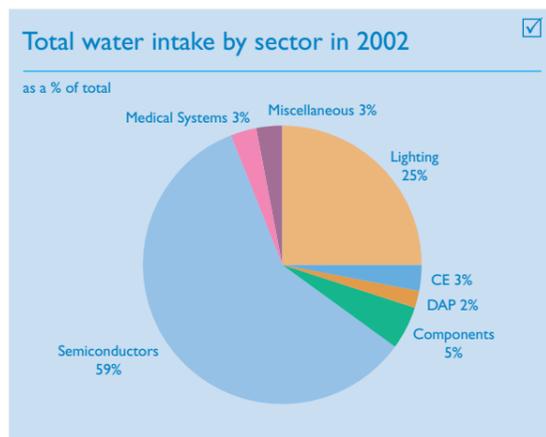
Water

Water plays a critical role in electronics production processes, particularly in the production of semi-conductors, which requires large volumes of ultra-pure water. The company continues to be committed to using water responsibly, and has targeted a 15% reduction in water usage by year-end 2005.

In absolute terms 17,502,739 m³ of water were used at Philips' facilities in 2002, amounting to a 9% decrease compared with the reference year 2001. Adjusted for increased production volume, the company improved its water efficiency by 16%.



Water consumption varies within the company. Philips Semiconductors, for example, represents nearly 60% of the water usage, followed by Lighting, which accounts for 25% of the total.



Semiconductors and Lighting realized relative reductions in water usage of 8% and 23%, respectively.



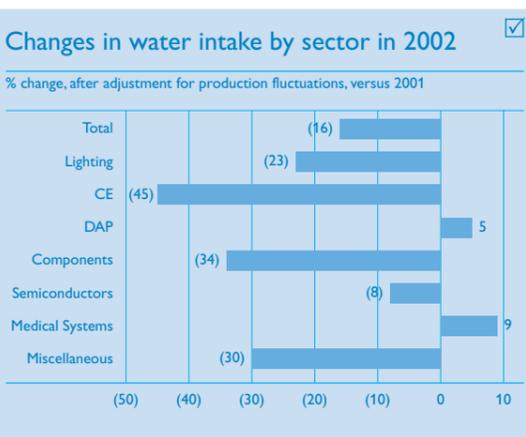
“An excellent achievement”

In a region where only 20% of the rainfall can be collected into reservoirs, water usage is obviously a critical business issue. Philips Consumer Electronics in Chungli, Taiwan, has worked to reduce water consumed at its monitors plant.

Changes include creating separate water sub-systems – one that uses groundwater for things like cleaning and gardening, while another takes city water for drinking. Water usage has also been reduced in the facility's cooling towers, faucets and toilets. The result is 14,090 m³ of water saved each year.

The Water Resources Bureau of the Ministry of Economic Affairs of the Republic of China, Taiwan, recognized Philips for its “excellent achievement in water conservation.”

On May 10, 2002, Minister of Economy Mr Lin, Ee-Fu and Director of Administration of Water Conservation Mr Huang, Jing-Shan presented the Chungli factory with a special award and certificate shown here.



Management of chemical substances

To control the use of chemical substances, Philips specifies procedures for introducing new substances and instructions for the use of existing substances, as well as an overall mandate to substitute or eliminate as many chemical substances as possible.

In addition, corporate policy identifies three categories of chemical substances and provides instructions for their management:

- Category I – restricted substances, such as benzene and mercury, the use of which Philips has restricted in production worldwide. Within this category, certain substances have been banned: cadmium, polychlorobiphenyls, polychloroterphenyls and halogenated hydrocarbons (CFCs, CHCs, HCFCs). Restricted substances should only be used where no alternatives are available, and require a formal internal waiver.
- Category II – hazardous substances, such as arsenic, cyanides and lead, the use of which is not forbidden, but must be reduced as much as possible, based on the most cost-effective, technologically feasible method.
- Category III – relevant substances, such as nitrates, phosphates and boron, the use of which has to be reduced in keeping with the principles of good housekeeping and ISO 14001.

All substances in each category are listed in full on page 61.

Emissions to air and water

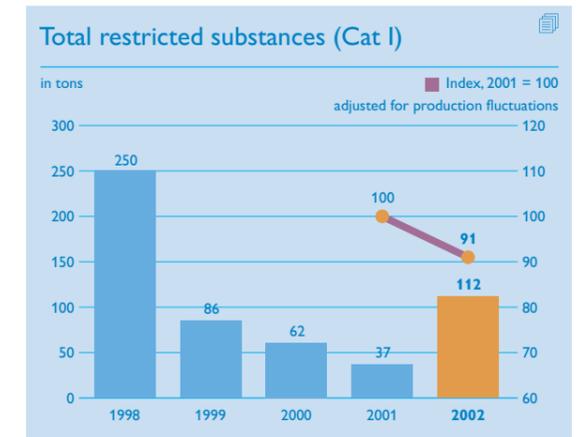
As the use of chemical substances in production processes may result in discharges and emissions, Philips continually conducts investigations to reduce the quantity of harmful substances in use to an absolute minimum without adversely affecting product specifications.

The company's EcoVision program set targets for emission reductions by year-end 2005 compared with 2001 in the following categories:

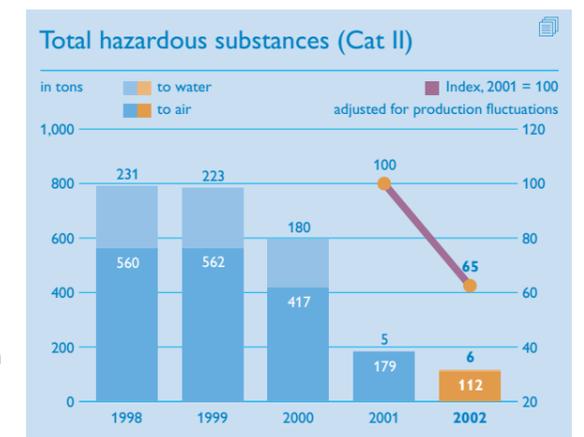
- Category I – emissions from substances Philips characterizes as restricted are considered the most harmful to the environment;
- Category II – emissions from substances Philips characterizes as hazardous; and
- Category III – emissions from substances Philips characterizes as relevant have the smallest impact on the environment, but in most cases these substances are emitted in the largest quantities.

Compared with 2001, Philips' 2002 production activities resulted in the emission of:

- 112 tons of substances Philips characterizes as restricted. This includes newly reported emissions of HCFC 141a used in a factory in China. These emissions were erroneously not reported in prior years due to a move from one production facility to another. We are investing to change the outdated production process in 2003 to eliminate these emissions.



- 118 tons of materials Philips characterizes as hazardous, which is 36% less than the amount released in 2001. In relative terms and in comparison with the reference year 2001, the emissions of hazardous substances were 35% lower.



Bright ideas

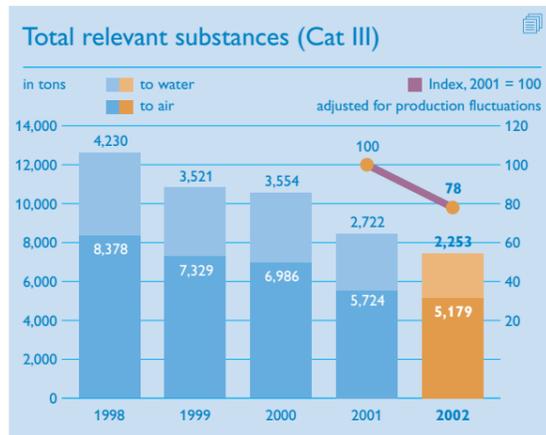
Operators at the Philips Lighting factory in Turnhout, Belgium, came up with a way to do away with the hydrogen fluoride traditionally used to clean glass dust. Until now, this chemical was the only way to break down this dust – because no mechanical method had been successful at dealing with these uneven glass particles.

A clever combination of soda (Na_2CO_3) and ultrasonic energy does the job – eliminating potentially dangerous hydrogen fluoride from the production process. And payback time is less than one year for this project initiated in March 2002.

Better inventory management at Philips Medical Nuclear Medicine in Milpitas, California, USA, means better management of hazardous substances. The Nuclear Medicine business consolidated the purchasing of all perishable and consumable products as of February 2002. A single vendor is responsible for supplying and restocking all inventory on a just-in-time basis.

Under the previous purchasing system, materials were overbought and ultimately disposed of when they expired, causing a negative impact on the environment. This new procurement program reduces materials costs, saves labor and eliminates the disposal of hazardous adhesives and lubricants.

- 7,433 tons of substances Philips characterizes as relevant, which is, in absolute terms, a decrease of almost 12% compared with 2001. Corrected for production volume, this corresponds to a decrease of 22% compared with 2001.



Legal compliance

Compliance issues are resolved through local management with legal counsel.

Certain of the company's subsidiaries are parties to proceedings in connection with environmental matters, mostly related to closure of the company's discontinued chemical operations, for which a provision has been made of EUR 225 million (2001: EUR 238 million).

As far as fines related to incidents of non-compliances are concerned, Philips incorporated this issue in its internal monitoring systems in 2002 and will report about any results in the Sustainability Report 2003.

Incidents

Environmental incidents are unintentional events that may have adverse effects on the environment. They can be caused by human error, technical defects or natural disaster.

Philips has implemented a system to monitor incidents, such as spills and fires, at its locations around the world. In 2002, a total of 30 incidents were reported in 10 different categories. The most important relate to emissions (14), soil (5), noise (4) and fire (4).

Other operations

Although the major environmental impact of our facilities lies in production, in 2002 we identified the reporting organizations for our non-industrial facilities, such as offices, logistic centers and R&D facilities. We started a pilot covering the parameters energy, waste and water, as well as emissions to air and water where relevant, and will start reporting environmental data from non-industrial facilities from 2003 onwards.

Recognizing there is a learning curve for new reporting organizations, we are working to clarify definitions in this area and, thereby, improve the reporting process.

Supplier involvement

Because purchased materials influence the environmental performance of Philips' products and processes, it is critical that suppliers be involved in the company's environmental program. Each division sets its own environmental supplier requirements, which include – at the very least – compliance with legislation, as well as with Philips' directives on the management of substances.

Working toward further improvements in this area, the EcoVision 2002-2005 parameters include supplier management. To assess progress in this area, the company is using a maturity grid (shown on page 63) in line with the Philips BEST assessment methodology.

We will report on results in our next report.



By living up to our heritage of social commitment we can use our capabilities to enhance the lives of our employees and society at large.

Social responsibility

Working at Philips

“We want to make Philips the best place to work. To do that we’re focusing on improving the value proposition we provide to our people – from development opportunities to the kind of work environment we offer.”

Tjerk Hooghiemstra, Senior Vice President,
Human Resources Management

Values guide the way

In a winning company, people share a sense of purpose and motivation, working together intensively to turn the company’s ambitions into reality. Such an environment has enabled Philips to be a technological pioneer for well over a century.

Building on that heritage, we have recommitted to the values that have made Philips successful, introducing a new expression of the company values – *Delight customers, Deliver on commitments, Develop people, Depend on each other*. The values lie at the heart of our company – they reflect the way in which we want to interact with all our stakeholders, and guide our behavior every day of our working lives.

These renewed values were introduced to the top 8,000 managers in Philips in January 2002 and have been communicated throughout the company. It is considered part of every manager’s job to fully embrace the values and incorporate them into their working life, as well as inspire and motivate others to do so. The values apply to everyone in Philips and everyone is expected to live the values every day, using them to guide behavior and determine how we do business.

The Philips Way -
Our Values in Action



Delight customers



Deliver on commitments



Develop people



Depend on each other

Delight customers

"We delight our customers by anticipating and exceeding expectations, thereby creating sustainable market leadership."

Deliver on commitments

"We pursue business excellence, being rigorous in delivering on our commitments."

Develop people

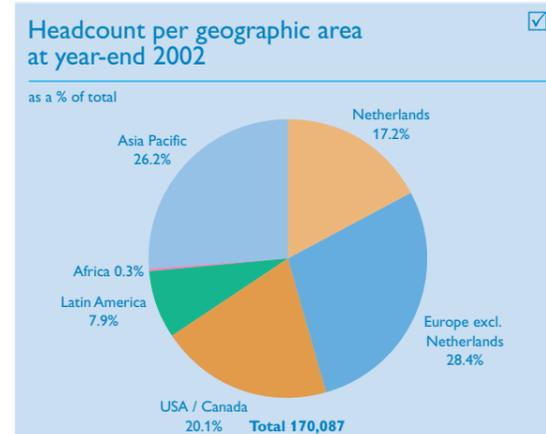
"We inspire and enable each other to use our creativity and entrepreneurial flair, and maximize our potential."

Depend on each other

"We work as 'one Philips' in an environment of transparency and trust to mobilize our collective competence and that of our business partners."

Philips employees around the world

Our success depends on the people who make up our global family.



People Performance Management

In keeping with a sharpened focus on the Philips values, we recognize that there is more to good business than simply meeting financial targets. Issues like management style, employee motivation and corporate culture are equally important.

This is the philosophy behind the new Philips appraisal process, People Performance Management (PPM). Performance is linked not only to whether people meet their targets, but also to how they meet them, reinforcing the values. As part of the new PPM, the targets for the company's top 1,000 managers include deployment of the values.

The new PPM process is two-pronged – with targets and assessment playing an important role. Employees and their managers set individual performance-related targets, ensuring personal objectives are aligned with business goals.

Assessment is based on feedback from colleagues, managerial input and self-assessment, comparable to 360-degree feedback. The Philips values form the basis for assessments to determine how they have been applied. PPM was used with the top 8,000 employees in 2002. As it reaches all corners of the company, we expect PPM to become an important tool in achieving business excellence, with a high-quality, inspired workforce whose rewards are clearly linked to performance.

One of IT's best employers in India

Philips Software Center in Bangalore, India, took decisive steps to improve employee retention in the competitive IT arena. The Software Center began supplementing the Philips Employee Motivation Survey in 2000 with its own specially designed survey to meet their unique needs.

Managers received extensive training on improvement areas after the 2001 survey. They then conducted workshops with their teams to discuss survey results and develop action plans that focused on two or three key areas. Employees could track overall progress with regular updates at town meetings and in newsletters.

The Software Center's commitment to listen to employees was the theme of the

communications program for the 2002 survey. Participation was a robust 87% with overall scores improving over 2001.

With the highest satisfaction levels in the industry, Philips Software ranked 5th in *Dataquest* magazine's 2002 list of Indian IT's Best Employers – up significantly from its 2001 ranking of 14. Philips topped the scores on company image, internal communication, overseas opportunity, performance appraisal systems, technology and job content.

Areas of concern included low scores on Philips being employees' preferred company or employer. Actions to deal with this include ongoing communication, job rotation and appreciation programs.



Employee engagement

Truly engaged people are passionate about their job, embracing it as their own. And it shows in their business results.

We know that to be successful in engaging employees we need to pay attention to two key factors – involvement (allowing employees freedom to use their talents as they see fit to accomplish business objectives) and development (providing employees with guidance and opportunities for personal and professional growth).

To take the pulse of the organization and measure employee commitment, engagement and satisfaction, Philips conducted the Employee Motivation Survey 2001 (EMS), completed in December 2001. The Philips businesses received their results in February and March 2002 and assessed the results to develop concrete action plans.

Like others before it, this most recent EMS had three main objectives: to create a meaningful picture of how employees think of Philips as an employer; to assess the level of involvement of employees in running the business; and to give employees an opportunity to speak their minds.

Around 64% of employees worldwide participated in the survey, representing a 10% decrease from previous years. This can be attributed to a number of factors, including restructuring in various parts of the organization and switching to online technology with the inherent concerns about confidentiality. Further, some employees had less faith in the current EMS because they hadn't seen improvements made after previous surveys, which were seen as isolated actions with no link to any specific business initiative.

This survey is different – it is integrated into the company's overall improvement efforts. The survey report categories are in line with Philips' approach to business excellence, providing managers with a structured approach to clearly identify critical issues and focus on improvements.

Managers are fully responsible for implementing the results of the survey and they are supported by a wide range of tools. A key part of the process is in continuing to develop and carry out action plans based on the survey results, and then in tracking results and sharing that information with employees.

Personal growth

Philips wants employees to grow and develop their talents to their full potential. Therefore, the company attaches great value to management development and considers it to be a core process. We invest in training and provide employees with opportunities to participate in projects that match their goals.

At Philips individuals are encouraged to take initiative in terms of their development. In turn, the company offers myriad opportunities for challenge.

To help employees find those opportunities, the company launched its Career Center in 2002.

This single intranet- and Internet-based system helps employees manage their careers, providing the ability to view and search through all Philips jobs worldwide. This process to facilitate internal mobility is a response to issues raised by the Employee Motivation Survey.

With the Career Center, employees can manage their own careers while Philips can enjoy the transfer of knowledge and skills within the company.

Leadership development

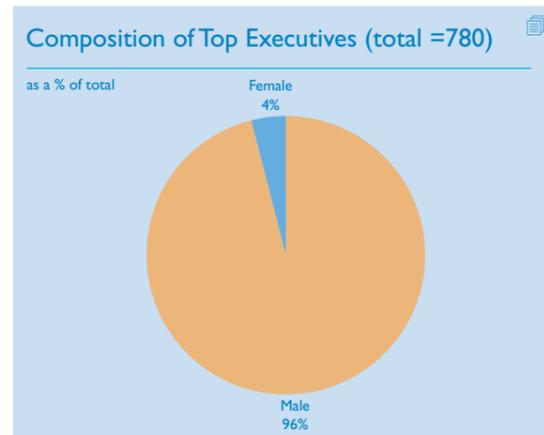
Leadership development is a core corporate process at Philips. We have a structured approach to both individual development and succession planning. In 2002 we rolled out a top-down 360-degree assessment program combined with extensive coaching for executives and employees in senior positions.

Diversity and inclusion

The Philips logo, brand and the company itself can be found in almost every country across the world, with products as diverse as the people who design, construct and sell them.

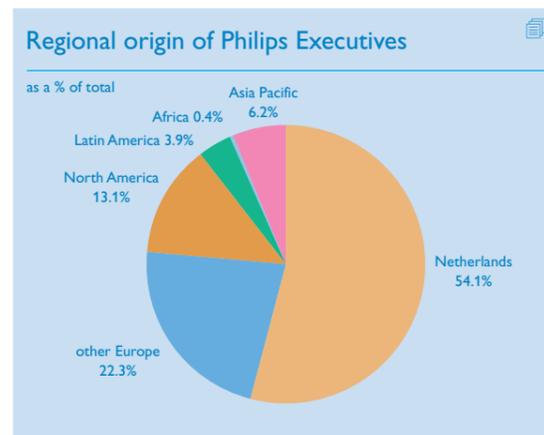
According to the Philips General Business Principles, "Ethnic and cultural differences throughout the world enrich society." Philips employees can find themselves on teams with colleagues from different disciplines, different offices and different countries.

We respect those differences and believe that collaboration and various points of view lead to the kind of innovation Philips has long been known for. We believe that our strength lies in the individuals who work for the company – unique members of one global team.



Overall, high-ranking women are less visible in the technology sector than in other industries. Historically this is because the path to senior management in this sector has been through traditionally male-dominated disciplines like engineering and R&D.

Philips recognizes the need to attract and retain talent, and understands that the only way to truly tap the full talent potential available is to do a better job of recruiting and developing women. Therefore, the company will work to increase the number of women in senior management – raising the percentage to at least 10% within four to five years, more than doubling it from the current 4%.



In terms of global representation within management, we will focus on improving the balance across the regions. Particularly, in the Asia Pacific region, the number of Asians in senior management positions is considered unsatisfactory.

These changes in the talent pool will be accomplished through careful examination of our

succession plans and recruiting efforts. We will provide information on our progress in future sustainability reports.

Equal opportunity

Philips is committed to a work environment in which all individuals are treated with respect and dignity. We believe that each person has the right to work in a professional atmosphere that promotes equal employment opportunity and prohibits discriminatory practices, including harassment.

Philips expects that all relationships among persons in the workplace will be business-like and free of bias, prejudice and harassment. Equal employment opportunity and non-discrimination have been – and will continue to be – fundamental principles at Philips, where assignments and advancement are based upon personal capabilities and qualifications, without regard to race, color, sex, language, religion, political or other opinion, national or social origin, property, birth or other status.

Establishing KPIs

As previously discussed, Philips is developing methods to measure performance in sustainability areas. These areas include diversity and inclusion as well as equal opportunity, discussed above. This is critical because these issues are handled locally and traditionally data has not been gathered into a central database.

We are currently working to establish Key Performance Indicators (KPIs), and are determining the most effective ways to gather information on these subjects from Philips' worldwide facilities. We will report our progress on these initiatives in our sustainability report for 2003.

Health and safety

Health and safety has always been an important issue for Philips. Health and safety care is a management responsibility and is part of Philips' policy at country, product division, business unit and plant level. Philips will do all that is reasonable and practicable to:

- protect the health and safety of employees and minimize any adverse effects on the environment;
- implement working practices to prevent personal injury and damage to property;

- limit the potential harm from known hazardous processes by maintaining safe systems of work, and by planning for emergencies that may reasonably be foreseen;
- involve employees in carrying out the policy, and make them aware of their own responsibility for the health and safety of themselves and others;
- provide appropriate training to ensure the competence of staff who advise on occupational health, safety and environmental matters;
- secure the maximum benefit from experience gained within Philips in dealing with health and safety hazards for the good of the business as a whole.

In the Philips Environmental Report 2001, the company stated its intention to begin measuring and reporting on its health and safety performance around the world. In 2002, we identified the reporting organizations and started a pilot program covering a number of parameters, such as incidents rate, lost work time rate and fatalities.

We will report verified data on the above-mentioned health and safety parameters in the Sustainability Report 2003.

Responsible reorganization

Globalization, new economies of scale and changes in regional labor costs and resources have contributed to Philips' presence in Europe shifting away from manufacturing toward an R&D, marketing and sales, and knowledge-based enterprise. This is evident in the company's significant investments, such as the High Tech Campus in Eindhoven, the Netherlands, and the new semiconductor R&D Center called Crolles2 in Crolles, France – a joint program with Motorola and STMicroelectronics.

On the other hand, manufacturing is concentrated more and more in Eastern Europe and Asia, both in Philips-owned facilities and with subcontractors.

Decisions about restructuring are never taken lightly. Philips explores ways to lessen the negative effects on employees and the affected local area.

In Europe, for example, the company has developed a position for responsible reorganization. Efforts to assist employees include finding new opportunities within or outside the company, professional development, CV writing workshops and career counseling.

Philips strives to provide advance notice of plant closings to help people identify their next career steps, and works with local leaders to minimize the effect on the community. For example, in November 2002, Philips announced plans for the phased closure of its semiconductor fabrication operation in Albuquerque, New Mexico, USA, in 2003.

Volunteerism

While the company does not have a corporate policy on volunteerism, Philips employees throughout the world have been committed to reaching out to their communities.

A 2002 survey provided information on a variety of volunteer programs throughout the world, in keeping with the Philips General Business Principles, which encourage employees to participate in community activities. Examples of these initiatives follow.

'We Help'

Philips Semiconductors in Sunnyvale, California, established the Community Action Team – We Help (CAT) in 1994. Since then, the team has expanded its charter to involve all Philips companies in Silicon Valley, with more than 400 employees giving in excess of 4,000 volunteer hours in 2002.

This employee-driven group develops partnerships with local organizations, including schools, the Second Harvest Food Bank, Social Advocates for Youth, Support Network for Battered Women & Children and Special Olympics. Employees involved in other educational or humanitarian efforts can petition the CAT for assistance in providing volunteers, funds or Philips products.

'Donate Life'

High school students in Brazil are better informed about HIV/AIDS and other sexually transmitted diseases thanks to Philips employees who participate in the company's 'Doe Vida' program. Translated 'Donate Life', this project has reached 21,000 students.



A total of 241 Philips volunteers have attended an eight-hour training program covering medical systems, statistics and the emotional impact of HIV/AIDS, including dealing with prejudice. These employees share this learning with students and teachers. A Philips medical doctor provides information on human anatomy, sexually transmitted diseases, pregnancy and condom use, while a Philips attorney discusses legal issues.

Philips Brazil's community activities have been noticed. For the fifth consecutive year, Philips was named 'most admired company' in its industry sector, according to a survey of 1,500 opinion leaders by Brazilian business magazine *Carta-Capital*.

Our role in the community

Quality of life

Philips' commitment to enhancing quality of life around the world is in keeping with its heritage and values, as well as its business principles, which state: "Philips wishes to be a responsible partner in society...".

In terms of community involvement, the previously mentioned survey identified initiatives spanning education and healthcare, as well as philanthropic support of sports and cultural activities, including music and art.

Using this information, we recently developed a more targeted approach to sustainability sponsoring with a budget of EUR 10 million in 2003. Other philanthropy falls under the purview of Global Brand Management.

Sustainability sponsorship initiatives will be linked with the company's scope of business, leveraging its capabilities to contribute to society. Through Philips

people, products, technology and innovation, projects will provide access to quality of life – supporting initiatives to improve people's lives with a focus on education and healthcare, particularly for the underprivileged. Additionally, projects should create customized solutions in partnership with other entities, including companies, communities and non-governmental organizations (NGOs).

While the sustainability sponsorship program was not in place in 2002, the following projects are in keeping with our focus on education and healthcare.



Tao Min Ecological Village

Nantou County in Taiwan experienced the worst earthquake in its history on 21 September 1999. Many lives were lost in what has been considered the quake of the century, which destroyed the 400 households of Tao-Min Village overnight.

In addition to the many challenges they faced, villagers were forced to abandon their traditional agricultural livelihood. The solution was to transform their home into an ecological tourism village to preserve the lost

village and strengthen local sustainable development efforts.

Philips Taiwan was an early supporter of the Tao-Min Ecological Village, donating lighting, broadcasting systems and electronics to more than 20 primary schools. Philips is also the sole sponsor of the Village's ecological tourism education program. In 2002, Philips lit the 921 Earthquake Memorial Museum that has become one of the landmarks in Tao-Min.



Access to education

Philips Employment Scheme

Every year long-term unemployed people are given the opportunity to gain work experience and training at Philips as part of the company's Employment Scheme in the Netherlands. The goal is not to get them a job with Philips, but to help them become more employable and gain a foothold in the labor market.

Having been established to provide work experience for youth in 1982, the Employment Scheme was incorporated in the Philips Collective Employment Agreement in 1986. The target groups identified were the long-term unemployed, women returning to work, ethnic minorities, people with disabilities and those with higher education but a weak position in the labor market. More recently, extra attention has been devoted to older people and those seeking to work again via reintegration.

All Philips organizations contribute on a pro rata basis to the annual cost of the Employment Scheme, and to providing suitable workplaces and the necessary supervision. Participants also attend training courses to increase their chance of finding work at the end of the one-year program, while the program for those with lower skills runs 18 months. In November 2001, the 10,000th participant joined the Employment Plan. In 2002, the number of participants amounted to 249, with 48% belonging to minority groups. As was the case in 2001, the majority of participants were poorly skilled and among the long-term unemployed. While the numbers have varied over the years, between 60-80% of participants find a job or enter education, with about 15% remaining with Philips.

The company expects 300 participants during 2003. At the request of the Dutch Ministries of Social Affairs and Immigration and Integration, the program will be expanded to include former dropouts from vocational schools.

Other countries are interested in the scheme, including Finland, Belgium, Denmark and Italy. Through a Dutch Ministry of Health initiative, the company is also working on a project to support the introduction of corporate social responsibility in Romania, and has met with the Israeli government to establish such programs.

Philips Educational Centers

The Philips, Education and People Program in the Philippines was established to help build educational centers in selected public schools throughout the country. In partnership with the Philippines Department of Education, 10 Philips Educational Centers will be completed by 2004.



In October 2002, the Barangka Elementary School in Marikina City celebrated the opening of its center, an electronic library for learning and data gathering for public school students furnished with Philips consumer electronics and lighting products. The Marikina facility is one of the three centers that had been inaugurated as of year-end 2002.

Access to healthcare

Children's health

Philips marked its 75th anniversary in New Zealand with a NZD 75,000 (EUR 38,000) donation to Cure Kids, the Child Health Research Foundation. Philips is a key Cure Kids partner, having supported the Foundation's work for more than 25 years. Cure Kids' work includes new advances in childhood leukemia and successful strategies for cystic fibrosis.

In Singapore, Philips is a pioneer donor of the National Kidney Foundation's Children's Medical Fund. The Fund was established to help children and young adults suffering from acute and chronic illnesses, and to provide financial subsidies for treatment, emotional and social support, and access to information resources.

High-tech healthcare on wheels

The Philips Image Diagnosis Truck has traveled throughout Argentina since 1999, bringing medical imaging technology to people who would not otherwise have access to these services.



To make this project come to life, Philips established partnerships with a nonprofit organization and with other companies. CEMIC, a nonprofit university institution devoted to healthcare, provides medical management and specialized staff for the mobile unit. Agfa-Gevaert Argentina supplied the printer imaging unit and Temis Lostaló provides the contrast medium necessary to perform highly specialized tests.

Since the launch of this computed tomography (CT) mobile unit, a total of 6,721 free diagnostic tests have been performed in communities and hospitals in urban and suburban areas, primarily in the interior of the country.

Saving lives

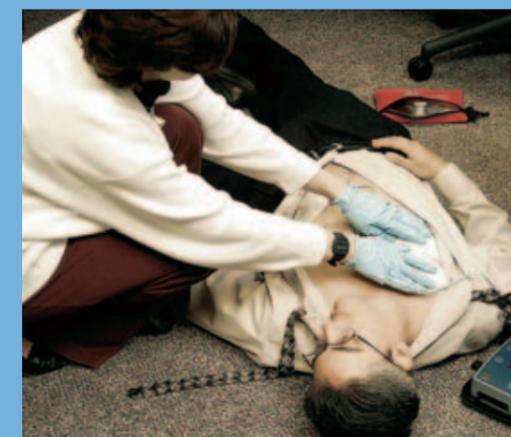
Philips Medical Systems in the United States has taken an active role to improve sudden cardiac arrest survival rates by championing public access defibrillation programs in cities around the country. While this does help build business, it is an example of how Philips can use its technology to make people's lives better.

Sudden cardiac arrest claims 220,000 lives annually in the United States, and the American Heart Association estimates that nearly 50,000 lives could be saved each year if defibrillators were widely available in public locations. With Philips' help, civic leaders are establishing public access defibrillation programs in hopes of reducing the number of sudden cardiac

arrest fatalities in their communities. Through these programs, automated external defibrillators are placed in a variety of public locations, including airports, airplanes, sports arenas, shopping malls, offices, health clubs and golf courses.

To raise awareness, Philips targeted hundreds of television and radio stations with a public service broadcast campaign focusing on sudden cardiac arrest and the value of public access defibrillation.

Working with the American Red Cross and the American Heart Association, Medical Systems created information packages on sudden cardiac arrest and the benefits of early defibrillation.



Philips offers a range of services to help implement successful community access defibrillation programs, including volume purchase discounts, placement planning and training collaboration.



We are daringly imaginative and will use our technology to help shape a richer future.

Shaping the future

Philips creates breakthroughs in how people experience technologies. We are a forward-looking company committed to providing consumers with technology that delivers on our promise to improve people's quality of life.

“Many of the innovations that Philips brings to people find their roots in the laboratories of Philips Research, where we continuously try to shape new technologies that meet the needs of consumers and society at large.”

Ad Huijser, Chief Technology Officer

Human experiences

Few companies touch as many lives, in as many different ways, as we do. True to our heritage, we will use our understanding of how people experience technology to provide them with innovations that enrich their lives at home, at work and on the move.

This human-focused approach is based upon in-depth research into people – their behavior, their relationship with technology, socio-cultural dynamics, evolving lifestyles worldwide – and upon applying the results of that research to the innovation process. We share that knowledge throughout the company to foster cross-business and cross-company synergies and, wherever possible, opening up new business opportunities for our company.

Driven by a shared understanding of the Philips brand and what it stands for, we will harness the passion and capability for innovation across the company by empowering employees, encouraging cooperation and fostering value-adding relationships inside and outside the company.

The following pages provide a glimpse into the future.

Our testing ground for a better tomorrow

We want to know and fully understand how people interact with technology so we can make sure our innovations work for them. That's what the Philips HomeLab is all about.

Based in Eindhoven, the Netherlands, HomeLab is a permanent, fully functional research facility on Philips' High Tech Campus, the epicenter of the company's global R&D activities, located in Eindhoven, the Netherlands.

Philips created HomeLab to test prototypes of intelligent technology in a real-world environment that looks and feels like a regular home, with modern furniture in every room and even a fully stocked kitchen.

Temporary 'residents' stay at the facility for anywhere from 24 hours to two weeks, depending on the type of research being conducted. During their residence, individuals or families go about life as usual, while interacting with new technologies.

What people don't see at Philips HomeLab is lots of bulky electronic equipment. In the home of the future, electronics will be seamlessly integrated – with built-in flat-screen monitors, wireless connections and voice or gesture recognition.

This is part of what Philips calls 'Ambient Intelligence', which means technology that can think on its own and react to (or possibly even predict) individual needs so people don't have to work to use it. HomeLab's prototypes can 'think' on their own and make life easier by acting with subtle or no direction.

What will the future look like?

Picture yourself relaxing at home on your couch. You're unwinding from a long day and want to play some music but you're too exhausted to move. Instead, you say "Music where are you?" and hum your favorite slow tune. Luckily for you, your smart home entertainment system understands your needs. Not only does it play the song you were humming, it dims the lights to provide a more relaxing environment.

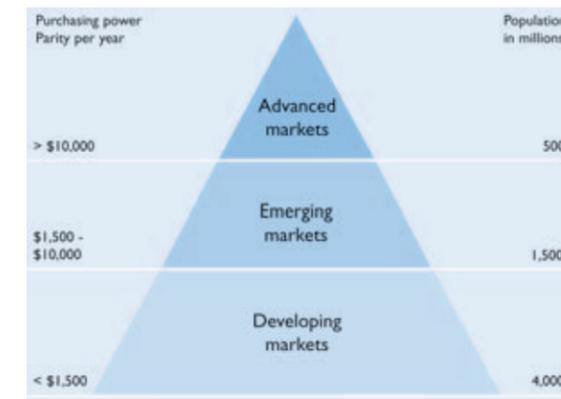
This may sound too good to be true, but it is already being tested at Philips HomeLab. This technology – and all of the prototypes being tested – is Ambient Intelligence because it puts people at the center of its functionality.

Philips believes that the concept of Ambient Intelligence – in the home, car and workplace – will be pervasive in people's lives by the year 2020.



A world of opportunity

At the 2002 Johannesburg World Summit for Sustainable Development, multinationals participated in discussions about new business models that encourage companies to focus more effectively on the needs of the poor, while simultaneously improving their bottom line.



Traditional business models target consumers at the upper tiers of the economic pyramid. Today, companies pursuing sustainable development see the opportunities for growth in the advanced and emerging markets, as well as in developing markets.

In terms of digital information and communication, the emerging global knowledge and service economy the gap between the 'haves' and 'have nots' is increasingly related to being connected and not connected. It is important to consider, for example, that while more than 500 million people use the Internet, half of humanity has yet to make a telephone call.

Better communication is the foundation for empowerment, but there are 800 million illiterate people in the world and masses unable to use information and communication technologies due to their minority language, dialects, writing scripts, unfamiliarity with computer machinery or the cost of access.

Giving people their own voice in the digital world

Philips is exploring new paradigms to help bridge the digital divide with solutions for those at the base of the pyramid. One example is 'Voices in Your Hand'

– a Philips-sponsored project to investigate the concept of creating a simple, voice-email handset and inexpensive audio services.

Part of the Reuters Digital Vision Fellowship Program at Stanford University, this project aims to develop a handset that would extend the reach of public Internet centers (telecenters) and bring the benefits of a simple, low-cost information and communication channel to the rural and urban poor.

Imagine the possibilities

Here's how it would work for someone like Maria, a 19-year-old single mother living in a shantytown in Recife, Brazil. Maria has three children, does not have a regular job and relies on the support of local NGOs for clothes, medicines and general assistance. Her family suffers from malnutrition, and her daughter Rosalie is often sick.

Normally, it takes six weeks to get an appointment with a doctor at the medical center in town. But if she had a 'Voices in Your Hand' device, Maria would be able to go to the closest public telecenter to get medical advice. She would simply record her questions in the handset and upload them on the telecenter's PC for quick delivery to a remote advice center. Later, she could download the doctor's reply.

To bring this vision to life, Philips' research fellow at Stanford has visited Brazil and is working to develop relationships with local NGOs, influential national players and content providers keen to collaborate.

While the 'Voices in Your Hand' project is focusing on Brazil, adaptations for testing the concept in other countries, including India and Thailand, are being considered.



Verifiers' assignment

We have asked KPMG to verify our Sustainability Report 2002 by performing the following activities:

- Assess the reliability of the reported financial and economic data.
- Assess the reliability of the data reported on energy consumption, water intake, total waste and ISO 14001 certification at our production facilities by analyzing the data at corporate level and visiting a number of production facilities worldwide.
- Assess the underlying evidence for the figures and graphs reported for other environmental data. As we realize that the quality of data collection at our manufacturing sites and data analysis and internal controls at PD and corporate level need to be further improved to produce reliable data, we have not asked KPMG to assess the reliability of these data. We will improve the quality of the data and we anticipate that we will have these data reviewed for reliability in future reporting.
- Assess underlying evidence for Green Flagship product examples in the environmental section and for the description of best practices in the areas of business ethics, society and the environment. We have provided KPMG with documents and other information to explain the relevance of these practices.

The opinion of KPMG on the reliability of selected data and the underlying evidence of other environmental data and best practices is provided in the Assurance Report on this page.

Assurance Report

Introduction

We have been engaged by Royal Philips Electronics. (Philips) to review the Philips Sustainability Report 2002 (further referred to as The Report). The Report is the responsibility of the company's management. Our responsibility is to issue an assurance report on The Report.

Context and scope

In The Report Philips has described its efforts and progress in relation to sustainability reporting. In the Verifiers' assignment on this page Philips has described the scope of our assurance engagement. Our verification was designed to provide the readers of The Report with a moderate level of assurance on whether:

- the data and graphs marked with  are reliable;
 - the sections marked with  are supported by underlying evidence.
- We have not assessed the completeness or the accuracy of the data and graphs in these sections.

Activities undertaken

Our assurance engagement, which was undertaken by a multidisciplinary team of sustainability experts and accountants, was based on the Standard on Assurance Engagements issued by the International Federation of Accountants, and comprised the following activities:

- For the data and graphs marked with  we obtained an understanding of the systems used to generate, aggregate and report these data. We assessed the completeness and accuracy of the data reported by visiting a number of reporting organizations (22 out of 179) in Europe, Asia, North and South America to review systems and data, performed a review of the data reported by all Eco-Vision reporting organizations, reviewed the calculations made at corporate level, and assessed the data trends in discussions with management.
- For the sections marked with  we assessed systems and processes and underlying evidence supporting the reported information. Our assessment included interviewing Philips staff, reviewing internal documentation such as surveys, policies, Philips Intranet and product benchmarks.

Considerations and limitations

Environmental, health, safety and social performance data are subject to more inherent limitations than financial data given their nature and the methods used for determining, calculating and estimating such data. It is important to view the performance data in the context of the explanatory information provided in the Appendix on page 55.

Opinion

Based on our assurance engagement, which provides a moderate level of assurance, nothing came to our attention to indicate that the following statements are not correct:

- The data and graphs marked with  are reliable.
- The sections marked with  are supported by underlying evidence.

KPMG Sustainability B.V.

Eindhoven, 28 February 2003

Appendix

Auditor independence

Philips has established an unambiguous policy with regard to the role of its external auditor, maintaining strict separation between the auditor's consulting and auditing arms.

Philips reports its financial performance on the basis of maximum transparency and openness – this comprehensive policy goes beyond external requirements.

The policy, effective from July 15, 2002 can be summarized as follows:

- clear definition of exactly which services the external auditor is entitled and not entitled to provide;
- establishing that a tender process must be carried out for non-audit services expected to generate fees of above EUR 250,000;
- formal advance approval by the Audit Committee of the Supervisory Board for any work expected to generate fees of above EUR 2 million;
- rotation of the lead external audit partner after a maximum of five years and rotation of the key audit partners after a maximum of seven years;
- appointment of the external auditor for a period of three years, upon which the Supervisory Board will assess the performance against measurable criteria, inform the shareholders on the outcome at the next general meeting, and submit a proposal to the meeting on the appointment of the external auditor;
- clear definition of the responsibility of the external auditor and its independence, with annual assessment by the Audit Committee;
- restricted hiring agreement between Philips and the external auditor.

The Annual Report provides disclosure on the auditor independence policy and all audit and non-audit fees incurred for professional services provided by the external auditor during the reporting period.

Explanatory notes

This appendix includes additional information about the environmental data referred to in this report in the section Environmental Responsibility.

Basis for reporting

The environmental data in this report have been provided by environmental reporting organizations. The following consolidation criteria have been applied:

- performance data are reported by each manufacturing activity, owned, rented or leased and managed by Royal Philips Electronics, with 50 people or more working in production, and which is consolidated by Royal Philips Electronics;
- Research & Development, logistic and service centers and head offices have not been incorporated in the definition of manufacturing activities;
- data from companies acquired are included in the report as from the year following the year of acquisition;
- data from companies disposed of are excluded in the year of disposal.

Comparability

- Comparability of absolute data is affected by changes to the portfolio of reported sectors. These changes have been taken into account in comparisons made on an absolute basis.
- Reported relative performance in 2002 has been established by making the reference year 2001 comparable with 2002. Newly acquired sites not present in 2001 were added to that reference year with the same contribution in absolute terms as in the reporting year 2002, thus resulting in no contribution to overall relative performance from newly acquired activities in their first reporting year.
- Relative performance is based on comparing the absolute data, after correcting these data for activity fluctuations by means of an index. This index reflects the increase or decrease of an activity compared to the reference year.
- Emissions of (H)CFC's in cooling systems have been investigated and reported for the first time in 2002 (in total 2 tons). As these emissions are not defined as part of the production process, they are not incorporated in Category I or II emissions.

Accuracy

- In the year 2002 additional efforts have been made to further improve the correct interpretation of definitions and completeness of the data specifically in the categories emissions and packaging, both in the reporting year 2002 as well as the reference year 2001. On Philips Group level this resulted for the year 2001 in adjustment of emissions in category I by 4%, category II by 9% and category III by 8%. Packaging data 2001 have been adjusted by 24%, mainly as a result of an omission in 2001 reporting data for Consumer Electronics.
- The methods of determining environmental data carry inherent limitations in respect of accuracy. In a number of cases, reporting organizations also had to estimate data.
- For CO₂ calculations, related to energy consumption, conversion factors have been used. For CO₂ calculations resulting from electricity consumption, a 'global' conversion factor derived from the Dutch situation has been applied. As fuel mix for electricity generation may differ, conversion factors per country will be used in the 2003 report, to improve the accuracy of the calculations.

Completeness

For the year 2002 all environmental reporting organizations delivered their data.

General Business Principles

Introduction

The aim of Philips' General Business Principles is to set the guiding principles of Philips' ethics in business conduct. They have been adopted by the Board of Management of Koninklijke Philips Electronics N.V. and approved by its Supervisory Board. They govern Philips' business decisions and actions throughout the world and apply equally to corporate actions and to individual behavior of employees in conducting Philips' business. They are subject, however, to due observance of the applicable rules of the law of the countries in which the act or conduct occurs.

The General Business Principles are not all-encompassing, but formulate minimum requirements of behaviour. They leave product divisions and country management free to specify further local rules of business conduct.

The General Business Principles will be reviewed on a regular basis and revised if necessary.

1. General commitment

1.1 Philips wishes to be a responsible partner in society, acting with integrity towards its shareholders, customers, employees, suppliers, competitors, governments and their agencies and others who can be affected by its activities. Philips is committed to act fairly and responsibly. It endeavours continuously to assess its interests and those of affected persons or entities to ensure a healthy, long term relationship with them.

1.2 Ethnic and cultural differences throughout the world enrich society. Philips endeavours to adjust itself to local situations so as to choose a proper approach in coping with possible problems within the bounds of applicable law and responsible conduct. In this respect Philips supports the principle of dialogue and cooperation with all parties involved rather than taking a confrontational stance.

1.3 Philips companies are encouraged to promote, defend and support their legitimate business interests in the countries in which they operate with due regard to the law and the interests of society.

1.4 Philips supports the principle of fair competition as a basis for conducting its business and observes applicable competition laws and regulations.

1.5 Philips aims at continuously supplying high quality products and services.

1.6 In conducting its activities Philips gives due regard to the environment and continuously pursues opportunities to further reduce an adverse impact of its activities and products on the environment.

2. Commitment towards shareholders

Philips focuses on increasing shareholder value by achieving a satisfactory return on equity, with a goal to maintain a sustainable dividend payment to shareholders, while at the same time retaining sufficient funds in the company to generate profitable growth.

3. Commitment towards employees

3.1 Philips values its employees as a key resource. An atmosphere of good employee communication, involvement and responsibility is of central importance, and an employee's personal development and optimum use of talents is encouraged.

3.2 Philips provides healthy and safe working conditions for its employees.

3.3 Within Philips, every employee has an equal opportunity for personal recognition and career development, regardless of personal background or belief. The same policy applies to recruitment of employees. No form of discrimination or harassment will be tolerated. An important part of this policy is selecting, rewarding and promoting people who demonstrate entrepreneurial behaviour and show individual initiative in combination with a high degree of knowledge and experience of the product, local market and culture.

4. Commitment of employees

4.1 Philips assets and resources

Each employee is responsible for the proper use, protection and conservation of Philips' assets and resources. This includes Philips' properties, assets, proprietary interests, financial data, trade secrets, corporate information and other Philips' rights. Philips' assets and resources as well as corporate opportunities are to be used solely to pursue and achieve Philips' goals and not for personal benefit. A person who believes he or she might have a conflict of interest should discuss the issue with the person's immediate superior.

4.2 Information security

Philips regards information for the purpose of its business as a corporate asset which must be protected against loss of availability, infringement and improper disclosure. Accordingly, Philips has adopted policies to ensure, as far as reasonably practicable, that information is protected. The information security policy also applies to intellectual property of Philips (inventions, trade secrets, technical information, product design, manufacturing expertise).

4.3 Insider trading rules

Non-public information which might influence the market price of Philips shares should be kept in strict confidence until publicly released by authorized management in accordance with applicable legal requirements and stock exchange regulations.

Any person who has sensitive information concerning Philips which could influence the price of Philips shares and related rights must refrain from directly or indirectly executing transactions in Philips shares or such rights. The communication of such information to any person - other than in compliance with a statutory obligation or in normal exercise of one's function - is prohibited for as long as this information has not been made public.

These insider trading rules similarly apply to sensitive information concerning publicly traded companies:

- in which Philips has a participating interest, irrespective of its extent, or
- with which Philips is conducting negotiations or maintains contacts whereby such information concerning that other company is acquired by Philips employees.

5. Specific commitments

5.1 Integrity of records

Records of transactions should be maintained in an accurate, complete and timely manner in accordance with Philips accounting principles. No unrecorded funds or assets should be established or maintained. Consultancy arrangements as well as discounts on sales should be recorded in a proper form and documented in the same way as sales contracts.

5.2 Bribery

Bribes in any form are unacceptable. Employees should immediately reject any demand or offer for such a bribe.

5.3 Gifts and favours

In general personal gifts or favours of any material commercial value may not be made or accepted by any Philips employee. An exception may be made by a recipient's superior on the rare occasion when refusal of the gift or favour would be to the detriment of the legitimate business interests of Philips. In determining if the exception should be made, local customs and traditions will be taken into account.

5.4 Interests outside Philips

Philips expects its employees to be fully dedicated to the proper fulfilment of their jobs and to avoid any conflict of their personal or business activities and financial interests with such commitment. Any engagement outside Philips and any financial interest (direct or indirect such as via a family member or acquaintance) which could give rise to a conflict of interest should always be promptly disclosed to the next level of management. Employees are not allowed to have a direct or indirect financial interest in a supplier or competing company with the exception of a financial interest in a publicly traded company.

5.5 Community activities

In their capacity as citizens Philips employees are encouraged to participate in community activities unless such participation is inconsistent with employment duties to Philips.

6. Observance of the General Business Principles

Philips considers it essential that all employees understand and comply with the General Business Principles in order to foster collective responsibility towards society in achieving Philips' business goals. Due observance of and compliance with the General Business Principles by all Philips employees is mandatory.

Philips requires compliance with the General Business Principles at all levels. Violation may lead to disciplinary action up to and including discharge.

In these General Business Principles the expressions "Philips" and "Philips companies" are used for convenience and mean the Philips group of companies comprising Koninklijke Philips Electronics N.V. and its subsidiary companies.

Sub-Policies to the Code of Conduct of Business Principles

Third edition, November 2001

A. Reporting Structure; Review Committee

1. Role of Review Committee

- The mandate of the Corporate Review Committee General Business Principles (Review Committee) is in general:
- a. to create awareness and to advise the Board of Management of Koninklijke Philips Electronics N.V. on the deployment of the General Business Principles, on changes to the General Business Principles and on ethical issues and issues of sustainable development;
 - b. to play a coordinating role (with final responsibility) in respect of the Company's actions on ethical issues and issues of sustainable development;
 - c. to promote compliance with the General Business Principles;
 - d. to review questions submitted by PDs and country organizations;
 - e. to act as contact point and dialogue partner for external organizations (such as NGOs) in respect of the Company's policies and actions on ethical issues and issues of sustainable development.

2. Recording of reported breaches

All breaches reported to the compliance officer should be properly recorded in chronological order in a register. The register of reported breaches is reviewed at least once a year by the local Internal Audit organization. The report on this review is sent to Corporate Internal Audit with a copy to the relevant management. Corporate Internal Audit discusses these reports with the Review Committee. The reported breaches must also be included in the twice-yearly report by the compliance officer on compliance with the General Business Principles to be submitted to the Review Committee.

3. Relationship between PD and country compliance officers

The compliance officer at country level should always be informed of breaches reported to a PD compliance officer. In the case of a breach reported to the compliance officer at country level with respect to a matter involving a PD, the relevant PD compliance officer must be involved. In the case of disagreement between PD management and country management about the follow-up to a reported case, the Review Committee can be contacted for advice and a recommendation regarding the action to be taken. Country management and PD management inform the Regional Executive about the reported cases.

4. Compliance Officer

It is recommended that the legal officer of the country organization and the legal officer of the product division should be appointed as compliance officers. In this capacity they report to the country management and the management of the product division respectively.

B. Sub-Policies

5. Gifts

The acceptance of gifts or personal favors of commercial value is not acceptable. It is to be made clear to third parties that personal favors can only influence the business relationship negatively and that business decisions are based solely on benefits to the Company and not on considerations of past or future personal gain. In general, a gift (the value of which does not exceed USD 50) may be accepted if given voluntarily and if there is no reasonable likelihood that it will influence your judgement or actions in performing duties for Philips. When refusing a gift would be discourteous, the gift must be promptly turned over to the compliance officer. Philips usually donates such gifts to charitable institutions. If you have any doubts in a given situation, please discuss with your management or the compliance officer.

Some other guidelines with regard to gifts:

- Personal financial assistance of any kind provided by a supplier or another business contact, other than a financial institution acting in the ordinary course of business, is prohibited.
- Attendance at sport events, restaurants, bars, shows, etc. as the guest of a business contact is permissible only up to two times a year per business contact and only if the hosting company representative is present.
- Travel and overnight accommodation paid for by a (potential) supplier is not allowed.

6. Engagement outside Philips

Financial reward given for services rendered to third parties (including giving a lecture) should be handed over to the Company, with the exception of compensation to the employee for additional work that for a substantial part has been carried out in his private time if such compensation is approved by management in advance. This provision does not apply to services rendered by a person in his private time if they are not related to his professional activities for Philips.

7. Commission payments to third parties

7.1 General

Commission payments to third parties is too difficult and complex a topic to be addressed exhaustively in specific guidelines. The objective is to make sure that the hard rule laid down in the General Business Principles on the prohibition of bribes in any form is not circumvented by commission payments. Against this background, the acceptability of a commission payment has to be determined on the basis of a thorough evaluation and assessment, by responsible management, of all relevant information in respect of the proposed commission as well as the third party to whom it is to be paid. In this respect, it is recommended that PD management consult with country management. Consultation of the Legal department at country or PD level is required to determine whether the proposed payment, or the contract in respect thereof, complies with local and international laws and regulations and with the General Business Principles. In the event of reasonable doubt as to such compliance, and if this doubt cannot be eliminated after consultation with a higher level of management in consultation with the legal department at country or PD level, the payment should not be made and the contract should not be concluded.

Any commission payment to a third party should be justified by clear and demonstrable services rendered by that party to Philips. In the event of the commission payment also covering a substantial part of the activities that are generally included in cost of sales, the level of the commission may vary from country to country, since the PD sales infrastructure of a country may have an impact on the time spent by the third party. In this respect it is recommended that management compare the selling price of the order with quotations offered by competitors. If the Philips price differs substantially from that of the competitors, management has to make sure that the difference is not due to a difference in the amount of commission to be paid. A commission payment equaling a double-digit percentage is not

acceptable, except in the event of extreme circumstances and without prejudice to the above.

7.2 Agents, distributors, commissioners

The remuneration of an agent, distributor, commissioner and the like (hereinafter: Agent) may not exceed the normal and reasonable commercial rates for the legitimate service rendered by the agent. An Agent shall be appointed by virtue of a service contract in writing, which shall always incorporate a reference to the General Business Principles. All such contracts shall be registered with the PD management in the country. The background of the Agent must be reviewed thoroughly by the person proposing the Agent in close cooperation with the country management; evidence of such review must be available in the file. An Agent may not be a Government official. A record will be maintained of the names and terms of engagement of all Agents. The record with all relevant information about the Agents is kept at the commercial department and the Legal department of the country and/or PD organization and is available for inspection by Internal Audit at any time.

7.3 Payments

Any payment for a company's products or services must be made to the company, not to an individual. All payments must be properly and fairly recorded in appropriate books of account available for inspection by Internal Audit. There must be no 'off the books' or secret accounts. No payments will be channeled through an Agent. All payments made to an Agent should be intended for the Agent itself. Cash payments are not permitted; all payments should be made to a bank account designated in writing. Payments to a so-called numbered account with a bank are not permitted. Philips only makes payment to the provider of goods or services received. A request to divert a payment to an entity or person offshore shall always be rejected.

8. Facilitating payments

Facilitating payments are small payments made in money or in kind (for instance company products) which have to be made, in accordance with publicly known and widely followed local custom and practice, in connection with the performance, by officials in documentation, customs clearance and other matters, of their normal duties.

A characteristic of facilitating payments is that the service obtained as the result of such payment represents the legitimate function of the official concerned and does not render undue advantage to the payer in comparison with other companies. Facilitating payments do not fall within the scope of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. In some countries, however, the legislation to implement the Convention also covers facilitating payments, as a consequence whereof an officer (or, under certain circumstances, the company) who has made such payments abroad, could be prosecuted in his home country. In general, Philips is opposed to the making of facilitating payments. The Company will promote measures to eliminate such practices; at all events applicable laws and regulations should be complied with.

9. Contributions to political parties

Philips companies shall not make payments or donations, in money or in kind, to political parties, political organizations or individual politicians. Subject to applicable laws and regulations, exceptions to this prohibition may be made – where legally permissible – only if explicitly approved by the Regional Executive. In those exceptional cases where payments or donations are made, all requirements regarding public disclosure of such payments or donations shall be complied with in full.

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 its tradition 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 adopted by the world business community at the 2002 Johannesburg World Summit for Sustainable Development:

- Sustainability is the opportunity we embrace.
 - Responsibility is the standard by which we should expect to be judged.
 - Accountability is the obligation we assume.
 - Partnership is the pathway we pursue.
- Therefore, Philips will:
- Develop meaningful technology driven by the needs of society.
 - Behave responsibly, living up to the Philips values, brand promise and General Business Principles.
 - Continue to build and maintain trust through transparency and accountability.
 - Depend on and work with stakeholders inside and outside the company.

Policy

- Philips maintains 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 innovations, business strategy and operations by setting financial and non-financial targets and maintaining constructive relationships with stakeholders.
- Philips expects its business partners to be committed to sustainable development.
- Philips is active in the community, supporting initiatives to improve people's lives, and is focusing on education and healthcare, particularly for the underprivileged.
- Philips measures and verifies its sustainability performance and publishes results annually.
- Philips engages governments, non-governmental organizations (NGOs) and companies to explore new businesses and emerging markets to improve quality of life.

Gerard Kleisterlee

Jan Hommen

Arthur van der Poel

Ad Huijser

Gottfried Dutine

* 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.

EcoVision 2002-2005

Environmental action program

Product improvements

Philips product developers follow EcoDesign principles and focus on one or more of the following Green Focal Areas



	Mandatory target	Recommended target
EcoDesign ¹	Level 6 on maturity grid	Level 8 on maturity grid
Green Flagship products ²	One per product division per year	One per business per year
Packaging	Maintain performance	10% reduction
Supplier management ¹	Level 6 on maturity grid	Level 8 on maturity grid

Process improvements

	Mandatory target	Recommended target
Energy	10%	20%
Waste	20%	30%
Water	15%	20%
Emissions to air and water		
Restricted substances (category I)	70%	90%
Hazardous substances (category II)	30%	50%
Environmentally relevant substances (category III)	15%	30%
Packaging	Maintain performance	10% reduction
Supplier management ¹	Level 6 on maturity grid	Level 8 on maturity grid
ISO 14001 certification	All manufacturing sites	All facilities

¹ Maturity grids range from 0-10, with 10 representing world class.
N.B.: All targets are to be achieved by 2005 compared to reference year 2001, except where noted. Targets are relative and results have been corrected production fluctuations.

² A Green Flagship is defined as a product or product family that meets divisional EcoDesign criteria and, after investigation in three or more of the Green Focal Areas, has proven to offer better environmental performance in two or more of these areas, compared with its predecessors or closest commercial competitors.

PHILIPS

List of substances

List of Category I substances

- Asbestos (all types)
- Benzene
- Beryllium and compounds (Be)
- Cadmium and compounds (Cd)
- DBBT (monomethyl-dibromo-biphenylmethane)
- Dibenzofurans
- Dioxins
- Halogenated hydrocarbons, like CHCs, CFCs, HCFCs according to the UD-D 1787 standard
- Mercury and compounds (Hg)
- Polybrominated biphenyl ethers (PBBEs)
- Polybrominated biphenyls (PBBs)
- Polycyclic aromatic hydrocarbons
- Polychlorinated biphenyls (PCBs) & Polychlorinated terphenyls (PCTs)
- Polyvinylchloride (PVC and PVC blends in packaging materials for consumer end products)
- Radioactive substances
- Ugilec 121 (or Ugilec 21: monomethyl-dichloro-biphenylmethane)
- Ugilec 141 (monomethyl-tetrachloro-biphenylmethane)
- Vinylchloride (monomer)

List of Category II substances

- Acrylonitrile (monomer)
- Antimony and compounds (Sb)
- Arsenic and compounds (As)
- Azo dyes
- Chromium(VI) compounds (Cr-VI)
- Cobalt and compounds (Co)
- Cyanides
- Diethylamine & dimethylamine
- Epichlorohydrine (monomer)
- Formaldehyde (monomer)
- Halogenated organic compounds (other than mentioned in Category I restricted substances)
- Hydrazine
- Lead and compounds (Pb)
- Metal carbonyls
- 2-methoxy or 2-ethoxy-ethanol, and 2-methoxy- or 2-ethoxy-ethyl acetate
- N,N-dimethylacetamide (DMA) & N,N-dimethylformamide (DMF)
- Nitrosamide & Nitrosamine
- N-methylacetamide (NMA) & N-methylformamide (NMF)
- Organic tin compounds (Sn)
- Pentachlorophenol & Phenol (monomer)
- Per Fluorinated Compounds, PFCs
- Phthalates (all)
- Picric acid
- Selenium and compounds (Se)
- Tellurium and compounds (Te) & Thallium and compounds (Tl)
- Toluene
- Xylenes

List of Category III substances

- Boron and -compounds (B)
- Hydrofluoric acid (HF)
- Hydrochloric acid
- Nitrates
- Nitric acid & sulphuric acid
- Nitrogen oxides (power stations/boilers)
- Nitrogen oxides (processes)
- Phosphates
- Phosphoric acid
- Rare earth metals (lanthanum and heavier)
- Sulphur oxides (processes)
- Transition 'heavy' metals (e.g. Ag, Ba, Cr, Cu, In, Mo, Ni, Pd, Sn, Ti, V, W, and Zn)
- VOCs (=Volatile Organic Compounds, like acetone, cyclo-hexanone, isopropyl alcohol, methanol, methylethylketone, and styrene)

Maturity Grid, EcoDesign in Product Creation Process (version 1.0)

0	The development department delivers products without regard for their environmental consequences; no programs or tools exist to address this issue.
1	Environmental issues are taken into account only incidentally and mainly driven by individual initiatives. Environmental risks to the business are not identified or assessed. There are first signs of methods and tools; remedial features are introduced to correct unwanted environmental effects.
2	A procedure for dealing with EcoDesign in PCP is available in the Development Center. Principles of respect for the environment have been adopted; for all new products, at least a description of the environmental impact is drawn up. There is some evidence of environmental risks taken into account in projects. Tools used contribute to environmental care in isolated cases.
3	The ITM (Innovation To Market) development process deals with environmental responsibilities and requirements, assesses [potential] risks, makes checklists and sets initial targets in individual projects. Current [and relevant] environmental norms [internal and external] are known and available. Environmental effects in the development process and in manufacturing are identified and addressed in isolated cases. Though the structure is in place, it does not yet cover all projects. The targets set are typically not yet fully met.
4	An EcoDesign procedure is available and in use in the Development Center. Environmental targets are integrated in a roadmap or other long-term plan. The environmental issues and requirements are fully integrated in the specification, design and execution processes. An employee has been given the role of local environmental coordinator. Risks assessed are handled with appropriate tools. Deviations from procedures are corrected. Employees are trained to comply. The known owner of technology platforms releases platforms with well-documented specifications and environmental preconditions for downstream usage of the platform.
5	Attention is paid to environmental issues in a structured way in all normal aspects of the ITM process. Performance indicators monitor progress. Environmental successes in the output of the innovation process are communicated widely and made fit for reuse.
6	A mandatory EcoDesign procedure is in place in the Development Center. A management system like ISO 9001/14001/14062 is in place (not necessarily certified). The environmental targets from the road map [or other long-term plan] are used as input for the PCP. The ITM process is monitored [by performance indicators], improved and kept up to date continually on environmental issues so as to: 1) integrate forthcoming rules and standards proactively in new designs, 2) check the activities against [changing] society requirements, 3) handle the interfaces between the building blocks/functions of the platforms developed. Environmental responsibilities and authorities are well distributed among [all] employees [including e.g. platform architects] and are no longer the responsibility of a single coordinator. The environmental know-how/experience created is collected on business unit level.
7	Products' 'eco' specifications are aimed at brand image. Key suppliers and key customers are actively involved as partners in environmental issues. Annual reviews on environmental aspects [integrated in the regular annual reviews] are followed-up structurally and immediately. The added value of EcoDesign is recognized by Corporate Management, even in cases where the project is cancelled [for other reasons]. Environmental know-how and design contents are regularly benchmarked internally.
8	The Development Center has ISO 9001/14001/14062, with a mandatory EcoDesign procedure integrated. The environmental targets from the road map [or other long-term plan] are updated in the ISO 9001/14001/14062. Definition of products and other parts specifications is a cross-functional responsibility. Environmental protection is guaranteed for each product's entire lifecycle. Key products are benchmarked with competition on environmental aspects. Environmental know-how and design content are benchmarked externally whenever possible. A ranking among the top five companies is achieved.
9	The position in the top five is confirmed by external reports, activities, prizes won etc. The organization knows what steps have to be taken to reach the top position. Plans are ready and in place to reach that position.
10	Recognition from competitors and others for best practices. Self-learning organization focused on sustained business excellence, fully integrated with partners.

Explanation of EcoDesign in Product Creation Process maturity grid

- The maturity grid 'EcoDesign in PCP' has been developed in line with the Philips BEST assessment methodology.
- The maturity grid is complementary to the existing process survey tool 'Product Creation Process' [Innovation To Market process].
- The maturity grid is developed in conjunction with the product divisions. The maturity of the reporting organization/entity must be assessed using this maturity grid.
- The maturity of the reporting organization/entity must be assessed using this maturity grid.
- Scoring is on a strict 'step' principle, i.e. the conditions for step 1 must be completely satisfied before moving to step 2.
- The maturity grid focuses on process maturity and not results. Targets in the EcoVision program refer to the grid levels to be reached in the future (2005).
- The assessment criteria listed in underlined letter types are SMART (Specific, Measurable, Acceptable, Realistic and Time-bound) and can be used for progress checks and for verification purposes.

Maturity Grid, Purchasing and Supply Management (version 1.0)

0	No or little evidence of any environmental criteria in purchasing procedures.
1	Some evidence exists, e.g. the purchasing and/or supply chain management policy addresses some of the environmental aspects.
2	Guidelines and requirements in respect of hazardous substances exist in purchasing and/or supply chain management procedures.
3	Procedures for checking the requirements in respect of hazardous substances are in place and used.
4	All suppliers comply with the hazardous substances requirements. Suppliers guarantee that incoming materials are free of banned substances.
5	A system of categories of suppliers exists (key suppliers and co-developers are defined). 10% of key suppliers are ISO 14001 certified.
6	Environmental requirements (i.e. focal areas) exist for finished products and parts. In the case of co-development EcoDesign arrangements exist between Philips and co-developer. 25% of key suppliers are ISO 14001 certified.
7	Procedures for checking the environmental requirements (i.e. focal areas) for finished products and parts are in place and used. The existing EcoDesign arrangements between Philips and co-developer are checked. 50% of key suppliers are ISO 14001 certified.
8	Environmental requirements (i.e. focal areas) are included in all purchasing contracts on finished products and parts. EcoDesign arrangements are included in all purchasing contracts on co-development. 75% of key suppliers are ISO 14001 certified.
9	The organization is the benchmark (top five) for environmental issues in purchasing procedures. The top five is confirmed by external reports, activities, prizes won etc. The organization knows what steps have to be taken to reach the top position. Plans are ready and in place to ensure that. 85% of key suppliers are ISO 14001 certified.
10	The organization is considered the benchmark for comparable organizations. Recognition from others for best practices. Self-learning organization focused on sustained business excellence, fully integrated with partners.

Explanation of the Purchasing and Supply Management maturity grid

- The maturity grid 'Purchasing and Supply Management' has been developed in line with the Philips BEST assessment methodology.
- The maturity grid is complementary to the existing process survey tool 'Purchasing and Supply Management'.
- The maturity grid is developed in conjunction with the product divisions.
- The maturity of the reporting organization/entity must be assessed using this maturity grid.
- Scoring is on a strict 'step' principle, i.e. the conditions for step 1 must be completely satisfied before moving to step 2.
- The maturity grid focuses on process maturity and not results.
- Targets in the EcoVision program refer to grid levels to be reached in the future (2005).
- The maturity levels are SMART (Specific, Measurable, Acceptable, Realistic and Time-bound) and can be used for progress checks and for verification purposes.

EMS: percentage of ISO 14001 certified reporting organizations

	1998	1999	2000	2001	2002
Lighting	57	83	95	96	92
CE	36	66	83	89	93
DAP	100	100	100	88	88
Components	50	74	80	100	100
Semiconductors	100	93	100	100	85
Medical Systems	56	56	63	88	53
Miscellaneous	42	54	79	73	88
Total	52	75	85	92	88

CO₂ emissions (tons)

	1998	1999	2000	2001	2002
Lighting	950,758	947,046	978,027	853,101	838,640
CE	177,814	176,359	164,176	126,540	42,885
DAP	50,796	53,611	54,562	59,440	63,423
Components	1,125,433	1,132,207	1,031,635	73,751	97,578
Semiconductors	561,970	662,476	673,204	890,537	830,100
Medical Systems	26,900	26,348	27,169	43,278	96,639
Miscellaneous	54,720	53,350	55,043	60,222	56,271
Total	2,948,391	3,051,397	2,983,816	2,106,869	2,025,536

Emissions from restricted substances (tons)

	1998	1999	2000	2001	2002
Lighting	69.5	11.7	13.4	6.0	4.2
CE	18.7	6.8	0.0	0.0	0.0
DAP	8.8	0.2	0.2	0.2	0.0
Components	82.8	5.5	2.0	18.0	103.9
Semiconductors	43.2	41.6	32.2	9.4	0.9
Medical Systems	2.3	1.8	2.0	1.2	1.5
Miscellaneous	24.3	17.9	12.0	2.3	1.5
Total	249.6	85.5	61.8	37.1	112.0

Packaging (tons)

	1998	1999	2000	2001	2002
Lighting	101,786	97,101	96,712	106,222	102,992
CE	49,732	57,196	68,603	78,886	93,069
DAP	23,809	23,490	22,517	16,248	22,270
Components	39,201	38,879	37,975	3,629	6,960
Semiconductors	5,521	5,905	6,818	5,310	5,068
Medical Systems	2,271	2,200	2,255	3,095	4,946
Miscellaneous	1,115	1,042	1,550	1,678	1,542
Total	223,435	225,813	236,430	215,068	236,847

Total waste (tons)

	1998	1999	2000	2001	2002
Lighting	114,668	107,556	109,333	95,470	92,516
CE	52,468	41,396	45,251	41,832	28,979
DAP	5,265	5,492	5,100	7,649	7,463
Components	112,424	97,500	98,751	7,135	6,193
Semiconductors	15,884	18,249	22,853	19,283	17,125
Medical Systems	2,831	2,877	2,708	2,831	6,474
Miscellaneous	12,280	8,991	9,628	5,456	6,270
Total	315,820	282,061	293,624	179,656	165,020

Emissions from hazardous substances (tons)

	1998	1999	2000	2001	2002
Lighting	108.9	111.6	45.7	76.9	35.8
CE	21.0	22.5	22.4	0.1	0.0
DAP	3.5	3.2	3.1	2.9	2.8
Components	599.2	590.7	454.0	16.9	11.7
Semiconductors	52.6	51.2	64.4	79.8	63.9
Medical Systems	0.6	0.5	0.9	0.8	0.4
Miscellaneous	6.1	4.9	6.9	7.0	3.1
Total	791.9	784.6	597.4	184.4	117.7

Energy consumption (PJ)

	1998	1999	2000	2001	2002
Lighting	15.9	15.3	15.5	14.0	13.6
CE	2.6	2.6	2.5	1.9	0.7
DAP	0.8	0.8	0.8	0.9	1.0
Components	16.5	17.0	16.0	1.1	1.4
Semiconductors	8.2	9.7	10.5	13.0	12.1
Medical Systems	0.4	0.4	0.4	0.6	1.5
Miscellaneous	0.8	0.8	0.9	0.9	0.8
Total	45.2	46.6	46.6	32.4	31.1

Water intake (10³ m³)

	1998	1999	2000	2001	2002
Lighting	8,383	7,714	6,735	4,959	4,440
CE	1,375	1,313	1,195	835	506
DAP	495	401	434	404	411
Components	13,744	13,752	13,954	646	951
Semiconductors	8,362	10,001	10,666	11,494	10,274
Medical Systems	274	247	204	227	449
Miscellaneous	981	994	881	557	471
Total	33,614	34,422	34,069	19,122	17,502

Emissions from relevant substances (tons)

	1998	1999	2000	2001	2002
Lighting	4,268	3,401	3,631	3,978	4,007
CE	1,607	1,435	1,405	1,458	822
DAP	84	96	92	112	129
Components	3,876	3,193	2,746	350	332
Semiconductors	2,625	2,591	2,563	2,484	1,949
Medical Systems	9	10	11	29	67
Miscellaneous	139	122	93	35	126
Total	12,608	10,848	10,541	8,446	7,433

Global Reporting Initiative (GRI)

Guidelines - General

	Indicator number		Page	Remark
Vision and strategy				
	1.1	Statement of the organization's vision and strategy regarding sustainable development	7, 59	
	1.2	Statement from the CEO describing key elements of the report	3	
Profile				
Organizational profile	2.1	Name of reporting organization	cover	
	2.2	Major products and/or services, including brands if appropriate	cover	inside cover
	2.3	Operational structure of the organization	13	
	2.4	Description of major divisions, operating companies, subsidiaries and joint ventures	cover	inside cover
	2.5	Countries in which the organization's operations are located	21	
	2.6	Nature of ownership; legal form	cover	inside cover
	2.7	Nature of markets served	20	
	2.8	Scale of the reporting organization	20	
	2.9	List of stakeholders, key attributes of each, and relationship to the reporting organization	16	
Report scope	2.10	Contact person(s) for the report, including e-mail and web addresses	cover	inside cover
	2.11	Reporting period	cover	inside cover
	2.12	Date of previous report	3	
	2.13	Boundaries of report (countries/regions, products/ services etc.) and any specific limitations	cover	inside cover and page 55
	2.14	Significant changes in size, structure, ownership	22	
	2.15	Basis for reporting on joint ventures etc. affecting comparability from period to period	cover	inside cover and page 55
	2.16	Explanation/nature of any re-statements of earlier reports (e.g. mergers/acquisitions)	55	
Report profile	2.17	Decisions not to apply GRI principles/protocols in the preparation of the report	66	in this column
	2.18	Criteria/definitions used in accounting for cost/benefits	20	
	2.19	Significant changes in measurement methods	20, 55	
	2.20	Policy and internal practices to enhance accuracy, completeness and reliability	15, 55	
	2.21	Policy and current practice on independent assurance	55	
	2.22	Means by which report users can obtain additional information	cover	inside cover

	Indicator number		Page	Remark
Governance structure and management systems				
Structure and governance	3.1	Governance structure of the organization (incl. major committees)	13	
	3.2	Percentage of the Board of Directors (Supervisory Board) that are independent/non-executive directors	13	
	3.3	Process for determining the expertise board members need to guide strategic direction	14	
	3.4	Board-level processes for overseeing economic/ environmental/social risks and opportunities	12, 13	
	3.5	Linkages between executive compensation and achievement of non-financial goals		Not inventorized
	3.6	Organizational structure/responsibilities for oversight, implementation and audit of relevant policies	13, 14	
	3.7	Mission/values/codes of conduct/principles and status of implementation	9, 56	
	3.8	Mechanisms for shareholders to provide recommendations to Board of Management	16	
Stakeholder engagement	3.9	Basis for identification and selection of major stakeholders	16	
	3.10	Approaches to stakeholder consultation in terms of frequency of consultations by type	16, 43	
	3.11	Type of information generated by stakeholder consultations	16, 43	
	3.12	Use of information resulting from stakeholder engagements	16, 43	
Overarching policies and management systems	3.13	Explanation of how the precautionary principle is addressed by the organization's policies	27	
	3.14	Subscription to externally developed/voluntary charters/principles/initiatives	59	
	3.15	Principal industry and business association membership	16	
	3.16	Policies/systems for supply chain management and product stewardship	39	
	3.17	Approach to managing indirect impacts resulting from activities		Under investigation
	3.18	Major decisions regarding locations or changes of operations	45	
	3.19	Programs and procedures for improvement programs/actions	14, 60	
	3.20	Status of certification of environmental, labor, social accountability management systems	28	

Global Reporting Initiative (GRI)

Guidelines - Core Indicators

	Indicator number		Page	Remark
Economic performance indicators				
Customers	EC1	Net sales	20	
	EC2	Geographic breakdown of key markets	20	
Suppliers	EC3	Cost of all goods, materials and services purchased	23	
	EC4	Percentage of contracts paid in accordance with agreed terms		Under investigation
Employees	EC5	Total payroll and benefits broken down by country/region	22	
Providers of capital	EC6	Distribution to providers of capital broken down by interest/dividends on all classes of shares	23	
	EC7	Increase/decrease in retained earnings (ROACE)	24	
Public sector	EC8	Total sum of taxes per geographic region	25	
	EC9	Subsidies received per geographic region		Not inventorized
	EC10	Donations to community/civil society, broken down in terms of cash/in-kind	47	
Environmental performance indicators				
Materials	EN1	Total materials use, other than fuel and water, by type		Not inventorized
	EN2	Percentage of materials used that are waste from sources external to the reporting organization		Not inventorized
Energy	EN3	Direct energy use segmented by primary source	33	
	EN4	Indirect energy use		Not inventorized
Water	EN5	Total water use	36	
Biodiversity	EN6	Location and size of land owned, leased or managed in biodiversity-rich habitats		Not applicable
	EN7	Description of the major impacts on biodiversity in terrestrial, freshwater and marine environments		Not applicable
Emissions, effluents and waste	EN8	Greenhouse gas emissions	34, 37	
	EN9	Use and emissions of ozone-depleting substances	37, 55	
	EN10	NO _x , SO _x and other significant air emissions by type	38, 61	
	EN11	Total amount of waste by type and destination	35	
	EN12	Significant discharges to water by type	38, 61	
Products and services	EN13	Significant spills of chemicals/oils/fuels in terms of total number and total volume	39	
	EN14	Significant environmental impact of principal products and services		Not inventorized
	EN15	Percentage of weight of products sold reclaimable/reclaimed after use		Not inventorized
Compliance	EN16	Incidents of and fines for non-compliance associated with environmental issues	38	

	Indicator number		Page	Remark
Social performance indicators				
Labor practices and decent work				
Employment	LA1	Geographical breakdown of workforce, where possible by region/country/status	21	
	LA2	Net employment creation and average turnover segmented per region/country	21	
Labor/Management Relations	LA3	Percentage of employees represented by independent trade union per region/country		Not inventorized
	LA4	Policy and procedure on information, consultation with employees (e.g. restructuring)	16	
Health & Safety	LA5	Practices on recording/notification of occupational accidents/diseases (relation to ILO)	45	
	LA6	Description of formal joint H&S committees/ proportion of workforce represented in committees	45	
	LA7	Standard injury, lost day and absent rates and work-related fatalities	45	
	LA8	Description of policies or programs (for the workplace and beyond) on HIV/AIDS	46	
Training & Education	LA9	Average hours of training per year per category of employee		Not inventorized
Diversity and opportunity	LA10	Description of equal opportunities policies or programs	45	
	LA11	Composition of senior management and corporate governance bodies (including board of directors)	44	
Human rights				
Strategy and management	HR1	Description of policies, corporate structure on human rights and monitoring mechanism and results	56	
	HR2	Evidence of consideration of human rights (investment/procurement/suppliers/contractors)	12	
	HR3	Description of policy on human rights for supply chain and contractors; monitoring systems/results	12	
Non-discrimination	HR4	Description of global policies preventing all forms of discrimination and monitoring systems/results	56	
Freedom of association/ collective bargaining	HR5	Description of policies on freedom of association and programs	56	
Child Labour	HR6	Description of policy excluding child labor, monitoring systems and results	11	
Forced and compulsory labor	HR7	Description of policies on forced and compulsory labor, monitoring systems and results	12	
Society				
Community	SO1	Description of policy on community impact, programs and monitoring systems and results		Not inventorized
Bribery and corruption	SO2	Description of policy on bribery and corruption, and compliance mechanisms	56	
Political contributions	SO3	Description of policy for managing political and lobbying contributions, and compliance mechanisms	58	
Product responsibility				
Customer health and safety	PR1	Description of policy on customer health and safety through products and services, and results	12	
Products and services	PR2	Description of policy on product information and labelling, and compliance mechanisms		Not inventorized
Respect for privacy	PR3	Description of policy and management system for consumer privacy, and compliance mechanisms	12	

Glossary

BEST	Philips business excellence model 'Business Excellence through Speed and Teamwork'
CFC	Chlorofluorocarbon CFCs are considered deleterious to the ozone layer.
CHC	Chlorohydrocarbon
CO ₂	Carbon dioxide This is the most prevalent greenhouse gas.
Eco-Indicator	Life Cycle Analysis-oriented tool which expresses environmental impact in a one-figure score (points, millipoints)
Environmental Management System	That part of an organization's general management system which includes organizational structure, responsibilities, planning activities, method development, work practices, processes and resources for developing, implementing, evaluating and maintaining the organization's environmental policies. An environmental management system makes it possible to formulate clear goals for environmental work, systematic follow-up of results and documentation of practices and activities.
GJ	Gigajoule The Joule (J) is the basic energy unit of the International System of Units (SI). It is ultimately defined in terms of the meter, kilogram and second. Giga is the metric prefix indicating 10 ⁹ times base unit (1 followed by 9 zeroes).
Global warming	The increasing temperature of the atmosphere due principally to the burning of fossil fuels like coal, gas and oil in power stations and vehicles.
HCFC	Chlorofluorocarbon with one or more hydrogen atoms HCFCs are an alternative to CFCs, with approximately one tenth of their ozone-depleting properties and greenhouse effect.
ILO	International Labour Organization
ISO 14001	International standard that forms the basis for setting up, auditing and certifying environmental management systems. It has been formulated by the International Standardization Organization (ISO).
KPI	Key Performance Indicator
NGO	Non Governmental Organization
NO _x	Nitrogen oxides These gases contribute to the greenhouse effect and possibly to the deterioration of the stratospheric ozone layer. At local level, they can lead to the creation of smog.
OECD	Organization for Economic Co-operation and Development
PJ	Petajoule The Joule (J) is the basic energy unit of the International System of Units (SI). It is ultimately defined in terms of the meter, kilogram and second. Peta is the metric prefix indicating 10 ¹⁵ times base unit (1 followed by 15 zeroes).
SMART	Targets that are Specific, Measurable, Acceptable, Realistic and Time-bound.
SO _x	Sulphur oxide These gases contribute to the acid rain effect. At local level, they can lead to the creation of smog.
Sustainable Development	The concept of Sustainable Development was first conceived in 1987 by Gro Harlem Brundtland, the premier of Norway. She led the World Commission on Environment and Development and its report 'Our Common Future' defined Sustainable Development as 'meeting the needs of the present generation without compromising the ability of future generations to meet their own needs.'
VOC	Volatile Organic Compound
WBCSD	World Business Council for Sustainable Development

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