



Building
knowledge,
exploring
opportunities

PHILIPS



Community spirit

Employees throughout the world are committed to reaching out to their communities.



Compelling solutions

We are applying our expertise to personalized healthcare, meeting the needs of patients around the world.



Living up to our heritage

Anton and Gerard Philips never lost sight of their employees or the community they came from ... and we continue to build on that heritage today.

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This document contains certain forward-looking statements with respect to the condition, results of operations and business of Philips and certain of the plans and objectives of Philips with respect to these items. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements.

Market share estimates contained in this report are based on outside sources such as specialized research institutes, industry and dealer panels, etc. in combination with management estimates. Rankings are based on sales unless otherwise stated.



Dear Stakeholder:

Over the past year we have made considerable progress on our journey to create One Philips – a single, focused and clearly identifiable company geared to sustained value creation in the key areas of healthcare, lifestyle and technology. Strict financial discipline, focused execution of our management agenda and resolute pursuit of our strategy have guided us in this endeavor.

In doing so, to us there can be no question that sustainable development is an integral part of our company strategy. As a result, we are taking sustainable development to a higher level, viewing it as a springboard for new business development.

It is gratifying to see that our efforts are well received by our stakeholders. We also are particularly proud to have been selected as the No. 1 company in our main industry sector in the Dow Jones Sustainability Index. We will do everything in our power to maintain that ranking in 2004.

Driving improvement

The theme of this report – ‘Building knowledge, exploring opportunities’ – reflects the progress we have made and will continue to make. We have been building knowledge and creating awareness of sustainability throughout the organization.

In keeping with our philosophy of continuous improvement, we have been working to strengthen our

We are building knowledge and exploring opportunities

performance against the triple bottom line, sharpening our focus on integrating economic prosperity, environmental quality and social equity.

In fact, the process of reporting on our sustainability performance has contributed to these efforts. This is the direct result of the learning gained as we gather and report data, and benchmark our performance against other companies.

Let me share with you an overview of our results.

Listening to stakeholders, fostering partnerships

In last year's report I said sustainability requires open, honest dialogue with stakeholders inside and outside the company, as well as partnership and cooperation.

Because we are firmly committed to communicating with – and truly understanding – our stakeholders, we have conducted a reputation study, carrying out interviews in eight countries around the world. Turning the results of this research into action plans per country will improve our understanding of stakeholders' perception of our company, enabling us to strengthen our efforts to make Philips a truly market-driven and responsible company, a respected business partner and an employer of choice.

We are fostering partnerships with a broad range of stakeholders – working closely with customers,

expanding alliances and partnerships to enter new markets, linking with content and service providers, developing partnerships for manufacturing and technology, and collaborating with leading institutes and universities.

Supplier management

We have made good progress in supplier management. In last year's report we indicated our intention to develop supplier requirements on sustainability issues. This is particularly critical as we continue to transform our company, and suppliers in the developing as well as the developed world will manufacture an increasing percentage of Philips products.

We developed a Supplier Declaration on Sustainability that outlines minimum expectations of behavior in the areas of environment, health and safety and labor conditions, including child labor. This document has been rolled out to our key suppliers. We consider a commitment to adhere to this Declaration an important factor in our decision to enter into or remain in a business relationship.

Diversity and inclusion

Another area is diversity and inclusion, which is essential to any company's success. In last year's report we set a target to raise the percentage of women in senior management in Philips to at least 10% within four to five years. This would more than double it from the 4%

level in 2002. We are indeed making progress as the number of women in top executive positions has increased to 5%. We have a long way to go, but believe we are off to a good start.

During the year we developed action plans to address the issue of diversity and inclusion in its fullest sense – beyond gender and ethnicity – which calls for an appreciation and respect of each unique individual.

General Business Principles

We have reviewed and further tightened our corporate governance, including reissuing our General Business Principles, which now include the Fundamental International Labour Organization (ILO) Conventions, as well as a section on payment and working hours.

EcoVision

We are continuing to move forward in the environmental area, working to meet the targets set forth in our latest four-year action program, EcoVision 2002-2005. We are pleased with our results overall, and are continuing to work on refining our EcoDesign procedures to increase process maturity throughout the company.

Financial performance

In terms of financial performance, we are pleased with the progress we made in a year that was characterized by the SARS outbreak in Asia, the war in Iraq, an increasingly weak US dollar, the fragile upturn in Europe and the recovery in the US. While we are still far from satisfied with the absolute level of our performance, our positive momentum does, however, give us reason for cautious optimism.

An exciting business challenge

I am personally challenging Philips employees to explore new business opportunities and new markets with sustainability as the key driver. We are particularly interested in helping bridge the digital divide, providing access to technology to the 4 billion people at the bottom of the economic pyramid.

To do that, we have developed a special program that we will roll out this year. Philips employees are asked to develop a business case for projects that will benefit people and contribute to our growth, thinking about their role as individuals and the role of their businesses in meeting this challenge.

To provide guidance to this exploration process,

Satisfying the unmet needs of 4 billion people is a worthy challenge

we have established a specific set of criteria for project proposals.

For over a century Philips has been committed to bringing meaningful technology to markets to improve the quality of people's lives, yet this is an exciting new start for us. Satisfying the unmet technology needs and aspirations of 4 billion people is an exciting and worthy challenge for all of us.



Gerard Kleisterlee,
President



We see some of the most significant opportunities for growth in the Asia Pacific region. During 2003 top management made collective working visits to India and China.

About Philips

At Philips, we are in the unique position to link our brand heritage to the challenge of improving the quality of people's lives. This is what Philips has done since our founders started the company. For Anton and Gerard Philips there was no difference between business and sustainable business. Putting people at the center was inherent to their way of doing business. You could say sustainability is in our DNA.



Anton and Gerard Philips

A rich heritage

We have long been integrating economic prosperity, environmental quality and social equity.

Sustainability is built into our heritage, our values and our commitment to improve the quality of people's lives.

Sustainable development is a necessity and the right thing to do. It's also our way of doing business – an investment that creates value and secures our future.

Where we come from

Royal Philips Electronics was founded in 1891, when Anton and Gerard Philips established a company in Eindhoven, the Netherlands, manufacturing incandescent lamps and other electrical products in their small factory.

Development in new lighting technologies fueled a steady program of expansion. In 1914, the company established a research laboratory to study physical and chemical phenomena to further stimulate product innovation. The beginning of diversification was marked by the introduction of the medical x-ray tube in 1918 and the first involvement in television in 1925.

Philips' first electric shaver was launched in 1939, followed by transistors and integrated circuits in the 1940s and 1950s. We introduced the Compact Audio Cassette in 1963, while the Compact Disc was launched in 1983.

The 1990s was a decade of significant change. A major restructuring program was carried out to return to a healthy footing. More recently, we have been concentrating on its core activities.

Where we are

We have been hard at work to create One Philips – a single, focused and clearly identifiable company geared to delivering sustained profitability in the key areas of healthcare, lifestyle and technology.

Royal Philips Electronics of the Netherlands is one of the world's biggest electronics companies and Europe's largest, with sales of EUR 29 billion in 2003. We are a global leader in color television sets, lighting, electric shavers, medical diagnostic imaging and patient monitoring, and one-chip TV products. Our 164,438 employees in more than 60 countries are active in the areas of lighting, consumer electronics, domestic appliances, semiconductors and medical systems.

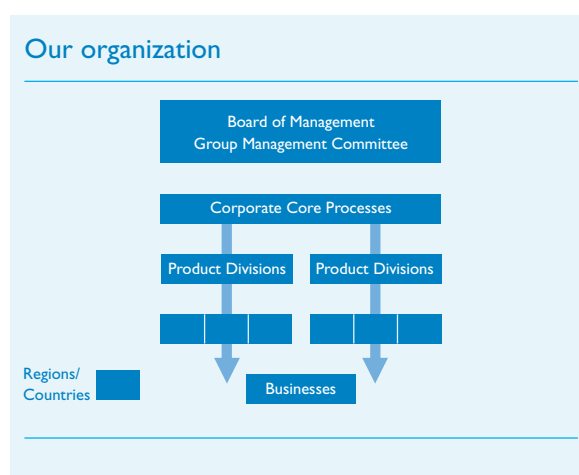
Our organization

The Philips group is organized in product divisions (reported as 'sectors' in our financial reporting), including approximately 80 businesses. In addition to worldwide business strategy, these divisions have bottom line responsibility.

The sector Miscellaneous comprises four main groups of activities: Corporate Technology (such as Philips Research, Intellectual Property & Standards, Philips Centre for Industrial Technology and Philips Design), Corporate Investments (such as Assembléon and Philips Enabling Technologies Group), Shared Service Centers and Other activities (such as Optical Storage and Navigation Technology).

Philips products are sold in about 180 countries, of which 60 have a national sales and service organization. The remaining countries are covered by independent distributors. Industrial activities are spread widely across regions, comprising 135 manufacturing sites in 32 countries as of year-end 2003. Philips product divisions have at their disposal development laboratories and implementation departments in more than 25 countries throughout the world. These centers fuel our technology base.

Region and country organizations support the Philips businesses.



Highlights

- Sales: EUR 29,037 million
- Multinational workforce: 164,438 employees
- Market capitalization: EUR 29.6 billion
- Net operating capital: EUR 8,071 million
- Stockholders' equity: EUR 12,763 million
- Net debt: Group equity ratio of 18:82
- Net income: EUR 695 million, or EUR 0.54 per common share
- Research and development expenditures: 9% of sales, or EUR 2.6 billion
- Number of patent filings in 2003: 3,035
- Worldwide patent portfolio: 100,000
- Licenses income (from patents): EUR 297 million

About Philips

Participations

Philips is involved in the following key joint ventures and participations:

- LG.Philips LCD: 50%
- LG.Philips Display: 50%
- Atos Origin: 45%
- LumiLeds Lighting: 50%
- SSMC (Systems on Silicon Manufacturing Company): 48%
- TSMC (Taiwan Semiconductor Manufacturing Co. Ltd.): 19%
- FEI Company: 26%
- InterTrust Technologies Corporation: 49.5%
- Philips Medical Capital: 40%

At year-end 2003, the Corporate Venturing portfolio comprised some 20 companies in which we have a minority stake and, in some case, an active business relationship.

These joint ventures and participations are not included in this report.

Industry leadership

Philips has leading market positions in many areas.

Our sales are predominantly under the Philips brand.

In the United States, our Domestic Appliances and Personal Care (DAP) division's products are sold under the Philips, Norelco and Sonicare brand names.

A minority of our sales in consumer electronics is non-Philips branded, while sales to OEM (Original Equipment Manufacturer) customers are significant for monitors and other IT-related peripherals.

Leading market positions

(Value based, 2002)	World	Europe	APAC*
Lighting	1	1	1
Consumer Electronics	3	2	4
Medical Systems	2	1	2
Monitors (branded)	5	3	3
Shavers	1	1	1
Steam irons	2	2	1
Dental care (electric toothbrushes)	2	2	2
Semiconductors	9	6	5
Mobile Display Systems	2	2	-
DVD recorders	1	1	1
CTV	3	1	11

* Excl. Japan

Our customers

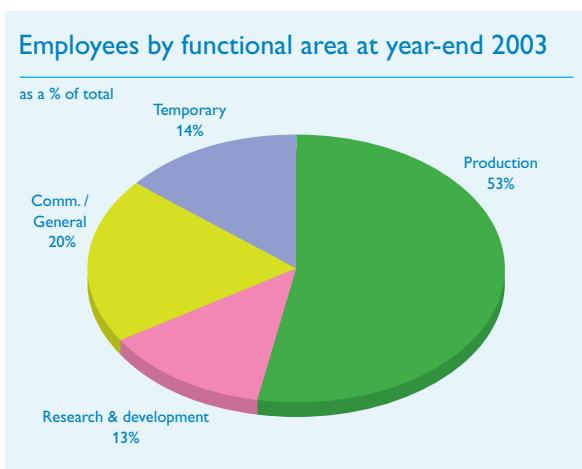
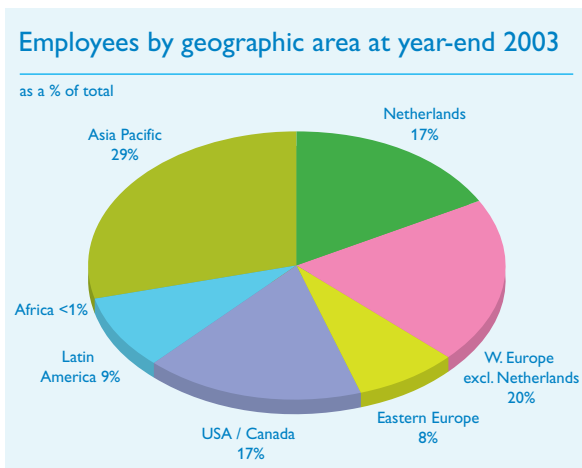
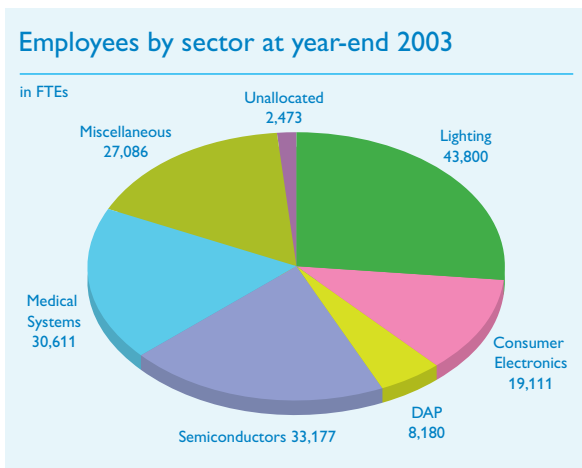
The chart below provides an overview of our main customers. Most of our consumer products are sold through specialized or general retailers, with wholesalers as our primary customers in some cases. In terms of our professional products and services, we deal with end-users or wholesalers. In our OEM business, we sell components and subassemblies to other industries for use in their end products.

Overview of main customers per product division

	consumers	small and large businesses	IT industry (PC + peripherals)	consumer electronics industry	telecommunications industry	building industry	governmental organizations	automotive industry	other industries	hospitals and clinics
Lighting	●	●				●	●	●	●	●
Consumer Electronics	●		●							
DAP	●									
Semiconductors			●	●	●	●		●	●	
Medical Systems										●

Our employees

The number of employees at year-end 2003 totaled 164,438. The following charts provide a breakdown of Philips' employees by product sector, geographic area and function.



Our legal and shareholder structure

Royal Philips Electronics common stock (1,280,686,130 shares in total) is listed on the Euronext Amsterdam, New York Stock Exchange, Frankfurt Stock Exchange and Euronext Paris.

The common shares are held by shareholders worldwide in bearer and registered form. Outside the United States, shares are held primarily in bearer form. As of the end of 2003, approximately 88% of the total number of common shares was held in bearer form. This means that we do not have information on the profile of our shareholders. We estimate that more than 50% of shareholders are US based. No person or group is known to the company to be the owner of more than 5% of the common shares.

As of the end of 2003, there were 10 authorized and issued priority shares, held by the Dr. A. F. Philips Foundation, and 3,249,975,000 preference shares authorized, of which none were issued. For a full description of the rights of the owners of these priority and preference shares, please see the separate booklet, 'Financial Statements and Analysis' of the Annual Report.

Corporate governance

For many years Philips has pursued a consistent policy to enhance and improve its corporate governance – including its disclosure practices – in line with US, Netherlands and international codes of best practices. In its transparent two-tier corporate structure, the executive management is entrusted to the Board of Management under the supervision of the independent Supervisory Board. Both the Supervisory Board and the Board of Management are accountable to the General Meeting of Shareholders for the performance of their functions. All outstanding shares carry voting rights. Continuously striving to improve relations with its shareholders, the company aims for a fair disclosure policy and follows an active investor relations approach.

Comprehensive internal procedures, compliance with which is supervised by the Supervisory Board and its Audit Committee, are in place for the preparation and publication of financial results and ad-hoc financial information. The annual financial statements, observing Dutch law and applying US GAAP, are presented for discussion and adoption to the shareholders meeting. A separate Form 20-F, incorporating the main part of the annual report, is filed with the US Securities and Exchange Commission. Apart from the certification

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by the CEO and CFO under US law, each individual member of the Supervisory Board and the Board of Management signs off on the annual financial statements under Dutch law.

The company has disclosed and maintains a policy of strict separation between the auditing and consulting functions of its external auditor, in line with US rules and regulations. The external auditor, which is assessed by the Supervisory Board and its Audit Committee, is appointed by the General Meeting of Shareholders. For several years, the company has provided extensive details on the remuneration of individual members of the Board of Management. Against the background of the continuous endeavors to improve the company's corporate governance, it requested – and received – in 2003 shareholders' approval for its Long-Term Incentive Plan, and it will submit the remuneration policy for members of the Board of Management to the 2004 shareholders meeting for approval.

Philips is fully compliant with the requirements of the Sarbanes-Oxley Act. The company is also in the process of adopting the recommendations of the new Dutch code on corporate governance, which was published on December 9, 2003. Philips addresses the way it intends to further implement its overall corporate governance structure in its 'Financial Statements and Analysis' of the Annual Report.

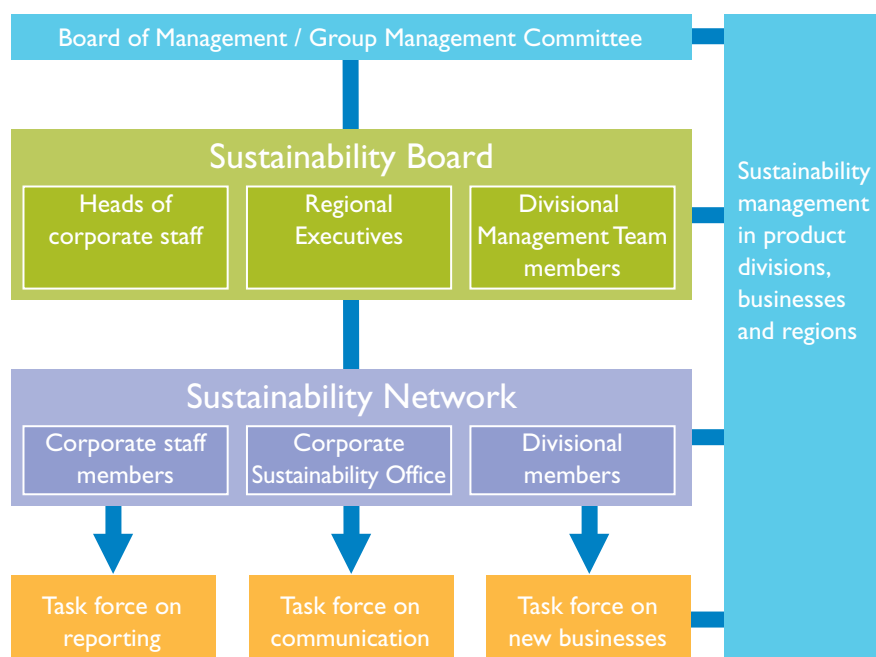
Shareholder meetings

A General Meeting of Shareholders is held at least once a year to discuss and resolve on the report of the Board of Management, the annual financial statements with explanation and appendices, the report of the Supervisory Board, any proposal concerning dividends or other distributions, the appointment of members of the Board of Management and Supervisory Board, important management decisions as required by Dutch law, and any other matters proposed by the Supervisory Board, the Board of Management, the Meeting of Priority Shareholders or shareholders in accordance with the provisions of the company's Articles of Association, including on capital.

The Board of Management and the Supervisory Board provide the General Meeting of Shareholders with all requested information, unless this would be prejudicial to an overriding interest of the company. If the Board of Management and the Supervisory Board invoke an overriding interest, explicit reasons must be given.

Business excellence

Our business excellence program BEST drives continuous process improvement, for instance through our unique set of process survey tools and the exchange of best practices across all our divisions.



Strengthened sustainability governance

In 2003 the company strengthened its governance structure for sustainability, which was established in 2002. A member of each product division's management team was appointed as a divisional sustainability champion. The Philips Sustainability Board, which is chaired by a member of the Group Management Committee, was expanded to include these sustainability champions.

Another addition to the Sustainability Board is the company's Chief Procurement Officer, who is a member of the Group Management Committee. Created in 2003 to reflect the company's continuing commitment to an increased focus on customer intimacy and best-in-class supply chain management, the Chief Procurement Officer at this level is a new position in Philips.

We established the position of Sustainability Support Manager at divisional level to support the sustainability champions. These managers report hierarchically to management level in their product division, and functionally to the head of the Corporate Sustainability Office, a Vice President who is a member of the Sustainability Board.

The sustainability network also includes employees in nearly all functional areas, including communications, global brand management, control, purchasing, forwarding, human resource management, mergers and acquisitions, design, strategy, quality and research.

Collaborating with the divisional Sustainability Support Managers and employees from other functions, the Corporate Sustainability Office drives the execution of the company's sustainability strategy and action plans, and provides coordination at a corporate level.

Review Committee General Business Principles

The Philips General Business Principles govern the company's business decisions and actions throughout the world, applying equally to corporate actions as well as the behavior of individual employees when on company business.

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 and the Sustainability Board.

Philips General Business Principles

The company's General Business Principles are the fundamental principles on which all Philips activities are or should be based.



Updated Principles

Philips introduced an updated version of the General Business Principles at the end of 2003. The new version incorporates input from non-governmental organizations (NGOs) and best practices from other companies. The principles set out general ethical standards, the practical implications of which are detailed in the General Business Principles Guidelines & Directives.

The topics addressed in the Fundamental International Labour Organization (ILO) Conventions are now included in the General Business Principles. There is also a section 'Right to organize,' 'Equal and fair treatment' and 'Wages and payment,' as well as a reference to human rights and a policy on the reporting of breaches. The Guidelines & Directives include a directive on money laundering. The dilemma-training casebook has been revised to support the rollout and embedding of this update throughout the organization. With a view to ensuring maximum transparency for

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shareholders and other interested parties, a section of our Internet site (www.philips.com/gbp) is devoted to the General Business Principles and specific issues of business ethics, such as political payments, military and defense contracts, and child labor.

Financial Code of Ethics

To ensure full compliance with the highest standards of transparency and accountability by all employees who perform important financial functions, in 2003 Philips formally adopted an extended Financial Code of Ethics. This code contains, among other things, standards to promote honest and ethical conduct and full, accurate and timely disclosure procedures to avoid conflicts of interest, as well as a procedure to report potential issues. All employees performing important financial functions must confirm adherence to this financial code.

Purchasing Code of Ethics

Philips sources a large volume of products and services externally, totaling 66% of sales. We introduced a Purchasing Code of Ethics in 2003, building upon best practice within Philips and in purchasing across the globe, to ensure that the company's purchasing community and supply base adhere to the highest standards of ethical business conduct.

Self-assessment questionnaire

In 2003 a self-assessment questionnaire was developed to help management complete the General Business Principles section of the annual Statement on Business Controls. In a letter accompanying this questionnaire, the President of the company reiterated the paramount importance of compliance with the General Business Principles in all actions and at all levels of the organization.

This mandatory self-assessment strengthens the monitoring process and substantiates the assurances given in the Statement on Business Controls with respect to compliance with the General Business Principles. Data is presented to the Review Committee General Business Principles, and Corporate Internal Audit monitors and verifies the output of the self-assessment process.

Standardized reporting of violations

To improve consistency regarding what has to be reported, the worldwide General Business Principles data collection and reporting system has been standardized, under the responsibility of the Review Committee and in close cooperation with Internal Audit. The process is in its final stages and will be rolled out in 2004.

The system covers all identified non-compliances with the principles and has the following characteristics:

- A standard worldwide approach for collecting and handling allegations of non-compliance;
- A standard workflow, applicable to all Compliance Officers (who have been appointed in every product division and country organization), for recording and reporting on all non-compliances;
- A common, integrated information architecture supporting the standard workflow described above.

Hotlines

In order to encourage reporting of violations, guaranteed-anonymity hotlines have been introduced in many countries. As of year-end 2003, such hotlines were in place in the Philips organizations in North America, Latin America and many countries in Asia Pacific and Europe.

Child labor

In the Sustainability Report 2002, we indicated that Philips would establish a policy in 2003 on child labor in relation to its key suppliers, and that the company would develop supplier requirements on other sustainability issues. We did that with the company's Supplier Declaration on Sustainability, launched in 2003, discussed in detail on page 34 of this report.

Internally, Philips conducted an in-depth survey in 2001, which indicated that child labor within the company is highly unlikely. We have monitored the situation over the years and strengthened that process with the self-assessment questionnaire discussed previously.

WBCSD member

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

Sustainability policy

More than 30 years ago, the Board of Management issued guidelines for environmental performance, followed by an environmental policy that was updated, keeping it a living document. Building on this firm foundation, the company developed its sustainability policy, which was released with the Sustainability Report 2002.

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:

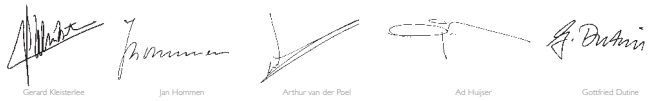
- Sustainability is the opportunity we embrace.
- Responsibility is the standard by which we should expect to be judged.
- Accountability is the obligation we assume.
- Partnership is the pathway we pursue.

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 Duitze

* 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.

PHILIPS

Our strategic direction

Sustainable development takes into consideration the fact that more and more people are striving to improve their quality of life – seeking human dignity, prosperity and life on a healthy planet. Along the way, societal partners will become increasingly interdependent and have to cooperate in a global economy. Much is asked of business, as it must strive to meet these needs while delivering short-term profits and planning for the future.



A scenario for the future

In the next 50 years, world population will increase from today's 6 billion to between 9 and 11 billion. This growth will necessitate an increased focus on sustainable development. For example, material consumption will grow substantially, putting additional strains on our ecosystems, thus demanding technological innovation.

At the same time, as the population increases, the needs of people in advanced markets, and even more in developing and emerging markets, can provide significant market potential for business. To succeed, business has

to understand the nature of change and respond to people's needs to improve their quality of life.

Technology will continue to make it easier than ever for new players to step onto the economic stage – new countries entering the global trading regime; new businesses and new partnerships among established businesses; non-governmental organizations (NGOs), which are assuming a greater role in public debate and decision making; and the media, with its power to sway public opinion.

We will be connected more closely and in more ways than ever before, both to our fellow human beings, the partners we work with, the environment we are part of and the economies we live in. Transfer of knowledge via technological connectivity will become the key factor in the development of democratically driven economies, and social and environmental improvements.

Along with that, we also will see the emergence of a global free market, sound legal systems and a respect for property rights. Companies will monitor their relationships with customers and suppliers more closely, and eliminate risk through cooperation, building trust, mutual learning and aiming for reliable partnerships. Indeed these trends are already happening.

In this interconnected world – a world striving for a proper balance between social, environmental and economic responsibility – Philips aims to continue to be a reliable partner and provider of technology, goods and services.

Philips 2004 – mission, vision, strategy, values

For over a century Philips has been providing people with meaningful technology that makes their lives easier, simpler and better. The company has pioneered major breakthroughs, for instance in lighting, television, optical technology, medical imaging and integrated circuits. We will continue to use our understanding of how people experience technology to deliver innovations that improve their lives.

We have embarked on a journey to create One Philips – a single, focused and clearly identifiable company geared to delivering sustained profitability in the key areas of healthcare, lifestyle and technology. In order to ensure that we remain on track to achieve this strategic objective, we continually ask ourselves the following challenging questions:

- Do we know what our customers really want from us and are we giving it to them?
- Are we creating technologies, products and services that will propel us towards leading market positions?
- Are we cost-effective while remaining an attractive and challenging employer?
- How can we further optimize our portfolio of businesses?
- Are we creating value while maintaining a strong financial position?

The answers to these questions provide us with the strategic framework on which to build for a future of sustained and profitable growth.

Our mission

We improve the quality of people's lives through the timely introduction of meaningful technological innovations.

Our vision

In a world where technology increasingly touches every aspect of our daily lives, we will be a leading solutions provider in the areas of healthcare, lifestyle and enabling technology, aspiring to become the most admired company in our industry as seen by our stakeholders.

Our strategy

We will:

- increase profitability through re-allocation of capital towards opportunities offering higher returns
- leverage the Philips brand and our core competencies in healthcare, lifestyle and technology to grow in selected categories and geographies
- build partnerships with key customers, both in the business-to-business and business-to-consumer areas
- continue to invest in maintaining world-class R&D and leverage our strong intellectual property portfolio
- strengthen our leadership competencies
- drive productivity through business transformation and operational excellence

Our values

Delight customers

Deliver on commitments

Develop people

Depend on each other

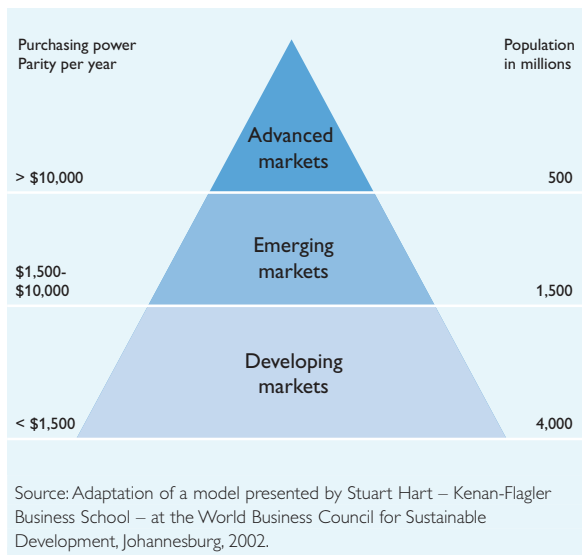
Our strategic direction

Living our vision

Today's world is characterized by the sharp line separating the digital haves and have-nots. It's all about access to technology.

The 'digital divide' is real – with 70% of the world's Internet users living in the 24 richest countries, which contain just 16% of the world's people. The number of people barred from the Internet because they cannot read or write is much larger than the privileged global community able to surf the web, email friends and colleagues, or enter online chat rooms.

The great bulk of the world's population – the 4 billion people at the bottom of the economic pyramid in low-income, developing countries – is excluded from the digitally linked community.



We are ever mindful that there are – and will continue to be – more and more people in the world striving for a better life. We also know that all of these people have different lifestyles and represent all tiers of the economic pyramid.

Healthcare

At Philips our healthcare activities traditionally have been focused in the business-to-business field, but we are increasingly applying our expertise and knowledge to the personal healthcare market. Whether we are developing solutions for hospitals and doctors, or for the growing number of health-conscious consumers, Philips is committed to bringing innovative solutions to the market that set the standard for future healthcare.



Philips is positioned to address the major trends that continue to shape the healthcare industry – rising costs, growing consumerism and an aging population in Western markets.

We are leveraging our combined expertise in an effort to:

- Accelerate expansion beyond our core imaging business into customer services and healthcare IT solutions
- Build on the strengths of One Philips by drawing on the company's consumer insights in domestic appliances, consumer electronics and lighting, as well as on our design expertise, and
- Further our strategy to work with industry partners to advance new technologies and markets, such as personal healthcare and molecular medicine.

Patients in the developed world are changing.

They're becoming discriminating customers who seek empowerment and want to know about their treatment and participate in it, helping to save money. They want treatment in the home, not the hospital.

It's what we call personalized healthcare – empowered consumers using an array of small user-friendly machines that straddle the world of medical diagnostics and consumer electronics.

We see a similar scenario in the developing world. The emergence of efficient telemedicine and personalized healthcare can be just as revolutionary in developing countries as in developed economies.

Affordable, accessible healthcare

To meet the needs of people at the bottom of the economic pyramid who are not served by the existing healthcare system, Philips India has developed a business plan for providing distance healthcare. Called Distance Healthcare Advancement (DISHA), this initiative will be piloted in two Indian states to help develop and refine realistic service delivery, and business and revenue models, while meeting the needs of the underprivileged. Working with state government, hospitals and other partners, these pilots will provide affordable, accessible healthcare via mobile vans equipped with medical equipment.

Lifestyle

People are at the heart of our activities. We are focused on enhancing convenience, pleasure, safety and health – both at work and at home – through a continuous stream of meaningful innovations.

The Connected Planet™ is the strategic vision behind a vanguard portfolio of consumer products and technologies enabling people to access and enjoy digital content anywhere and anytime in the home and beyond. Philips will apply its Connected Planet strategy across the broad spectrum of the company's total consumer electronics activities.

Today this is a developed world phenomenon, but before too long, it should be available to everyone.



The Connected Planet strategy will be applied across the broad spectrum of the company's consumer electronics activities, enabling people to access digital content anywhere and anytime.

Lighting the way

Lighting enhances safety and security around the world. Better lighting plays an important role in improving road conditions, for example. Our XenEco automotive headlamp sets new standards in the use of environmentally friendly materials, while offering the familiar Xenon benefits of twice as much light and the daylight color that helps shorten driver reaction time and combat driver fatigue.

In urban and rural areas alike, light provides the essential safety to move around, be it walking, cycling or motoring, while also deterring crime and vandalism.



Our strategic direction



Philips is testing a new business model in Brazil, designed to bring the urban and rural poor into the digital community.

Voices in Your Hand

In the field of connectivity and consumer electronics, Philips is involved in a pilot project to bring the urban poor of shantytowns – and even more isolated rural areas – into the digital community. People at the bottom of the economic pyramid – many of them are illiterate – need to be able to communicate with others and have access to information even though fixed line or wireless phones are beyond their economic reach.

Our solution is called Voices in Your Hand, which we introduced in our Sustainability Report 2002.

Using modified existing MP3 players, people can listen to personalized web casts of audio information offline in their homes, talk back and use voice email. Then they visit a public utility point to link their sets to the Internet. The customer here may be a family or a village, rather than an individual.

This project is being tested in Recife, Brazil, so we can determine the viability of the business model. Much work was done in 2003 to solidify relationships with local NGOs, influential national players and content providers, including radio stations.

Technology

We have a rich history of technological innovation. Since our beginnings more than 110 years ago, our company has nurtured a spirit of discovery that has driven us to develop many pioneering innovations, without which our world would be unthinkable. This spirit of discovery is as strong today as it has ever been.

After all, it is technology that enables the creation of healthcare and lifestyle products.

Smart connections

Our Nexperia platform is designed to address the challenge of digital convergence. Nexperia semiconductors, software and reference designs are bringing the next generation of multimedia experiences to people around the world.

A single Nexperia chip can process and display high-definition TV, digital photographs and Internet streaming media, as well as improve the quality of today's standard TV transmission. Another kind of Nexperia chip powers the new mobile telephones that support streaming video, MP3 audio and a digital camera.

Handshake solutions

To capitalize on the numerous opportunities to launch new business ventures based on novel technologies created by Philips Corporate Research & Development, we established the Philips Technology Incubator. The objective of the Technology Incubator is to assist project teams in transforming a research project into a new business.

Forming business structures around promising technologies allows a faster take-up by customers and strategic partners.



Water-purification installations based on our UV light solutions were opened in Moscow and Beijing in 2003 to provide the people of these cities with improved drinking water.



One of the technologies embraced by the Technology Incubator is Handshake Solutions – a clock-less design for microprocessors that dramatically reduces power consumption and the electromagnetic emission generated by digital systems.

Cool clear water

The World Bank has identified the availability of clean, safe drinking water as the largest single factor affecting the health, wealth and possibly the peace of humanity.

Traditionally, clean water means centralized systems, engineering skills, concrete, chemicals, distribution pipelines – and foreign investment. But it's possible to have affordable, effective, small-scale water treatment in the developing world at the low cost of 10 US cents per villager per year using the Ultra Violet Waterworks (UVW) technology. The secret is to combine solar power, direct current and UV purification on a decentralized basis. Philips has all these technologies.

Reinventing ourselves

To meet the challenges ahead, global enterprises need to become truly flexible organizations by adapting their design, marketing and technology capabilities to regions and markets. At Philips we are working differently to create a simpler, more responsive organization. Speed and innovation are essential to succeed in an increasingly competitive marketplace.

Our ongoing transformation will be supported by an increasing network of joint ventures, partnerships and alliances with third parties that provide expert knowledge to bring new business models to market, maximizing the value of investments in technology.

New business models

It is critical to develop new business models to meet the needs of people at both the top and bottom of the economic pyramid, and to achieve growth for the company. To be successful, we must nurture collaborative relationships, partnering with NGOs, governments, other companies and more.

Further, as developing countries provide a manufacturing base, they can also be viewed as new markets with new customers, not necessarily individuals but sometimes families, communities or even villages, by sharing devices or services. This may mean a different way of doing business, such as renting functionality on a pay-for-use basis, rather than the traditional ownership model.

Embracing an exciting challenge

To meet the needs of people around the world, Philips is challenging its employees to explore new sustainable business and new markets (see poster below). We are inviting employees to submit project proposals for new sustainable business in advanced, emerging and developing markets.

The Board of Management is encouraging new internal business practices that foster new patterns of production and consumption in promising markets, while also enhancing social value and decreasing the use of scarce environmental resources. That means new business opportunities that foster sustainability and medium/long-term growth for the company, while improving quality of people's lives.

Some of the most significant opportunities for growth for Philips are in the Asia Pacific region. The company's top management made collective working visits to India and China in 2003 to gain as much information as possible from decision-makers, and our partners and customers, to enable us to take the most effective approach to this region.



Measuring our performance

At Philips, we believe it is critical to report on our progress toward achieving our goals in the environmental and social arenas, in addition to our economic performance. The reporting process itself is an important part of our continuous improvement efforts. Additionally, we use the benchmark information and research of external indexes to help us strengthen our management systems and sustainability reporting.



Sustainability performance measurement

While financial reporting follows a generally accepted framework and has long been subject to strict regulations, sustainability reporting is voluntary and relatively new.

The GRI (Global Reporting Initiative) Sustainability Reporting Guidelines provide a framework for reporting scope that allows for consistency and comparability. This simplifies report preparation and assessment, helping both readers and companies themselves gain

greater value from sustainability reporting. However, there are no mandatory standards.

To ensure that our sustainability performance reporting is useful – for management and our stakeholders – we adhere to relevant GRI Guidelines and best practice standards.

We set high performance targets for ourselves and strive to reach our goals. We have had a disciplined approach to environmental improvement since 1994 when we set forth a series of measurable targets in our first four-year action program. Our results in this area have been subject to external verification since 1998.

We are taking what we have learned in the environmental area and applying this knowledge to the other areas of sustainability reporting. This will serve over the coming years as our roadmap for reporting and external verification.

In 2003 we conducted a study to gather an inventory of Key Performance Indicators (KPIs) related to sustainability that are in place throughout the organization. In 2004, the Sustainability Board will establish a task force to analyze this information in order to determine where we need additional KPIs and measurement systems.

Management indexes

The research of external indexes is a valuable management tool to help improve reporting. Indexes evaluate and rank company performance using a defined set of criteria and weightings. Standardized questionnaires completed by companies participating in the review are a major source of information.

DJSI

The Dow Jones Sustainability Index (DJSI) World named Philips market leader in corporate sustainability, ranking it No. 1 in the Cyclical Goods & Services market sector, which includes companies in the consumer electronics, leisure goods, home construction, apparel and airlines market sectors. Philips also came out on top in the DJSI STOXX index ranking of approximately 600 of Europe's leading companies.

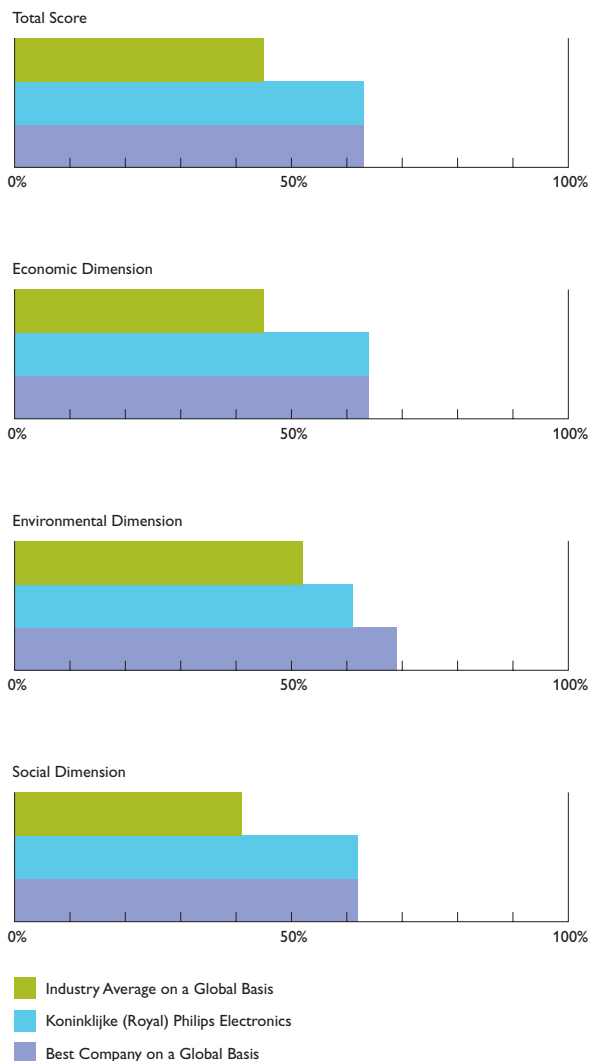
Dow Jones Sustainability Indexes track the performance of the leading sustainability companies worldwide, providing asset managers with reliable and objective benchmarks to manage sustainability-driven portfolios. The DJSI World covers the largest 2,500 companies by market capitalization in the Dow Jones Global Index. Only the top 10% of these companies (300 companies in 22 countries) are selected for the DJSI World Index, according to economic, environmental and social criteria.



In its sector, Philips was rated highest in corporate governance and measurement systems, and received a 100% rating on environmental reporting, 92% on environmental policy and 95% on product stewardship. Philips also scored higher than the industry average on corporate citizenship and philanthropy, labor practices and human capital.

We believe being recognized by Dow Jones as a category leader demonstrates that our values and actions as a company have put us on the right path to achieve our goal as a sustainable enterprise. Our objective is to maintain this ranking in 2004.

Sustainability Scores



FTSE4Good

The September 2003 review of the FTSE4Good Index Series again included Philips in the following key FTSE4Good indexes: FTSE4Good Europe (benchmark), FTSE4Good Global 100 (tradable), FTSE4Good Europe 50 (tradable) and FTSE4Good Global (benchmark).

FTSE4Good indexes have been designed to measure the performance of companies that meet globally recognized corporate responsibility standards, and to facilitate investment in those companies.

The following sections provide details on Philips' sustainability performance in 2003.



Social

responsibility

We are committed to living up to our heritage of social responsibility, using our capabilities to enhance the lives of our employees and society at large. We strive to balance the often-competing demands of various constituencies, as well as short- and long-term interests.

To understand the needs of our stakeholders, we are strengthening our approach to stakeholder dialogue. Knowing that our continued success depends on the people who make up the Philips family

around the world, we want to create an environment that reinforces teamwork, learning and inclusiveness – an environment that helps our employees reach their full potential.

Our role in the community extends to our business partners and customers, as well as to the people in the areas in which we live and work. We are continuing to build on our rich heritage of embracing social issues by investing in society to provide access to healthcare and education, particularly for the underprivileged.

Social responsibility

Listening to stakeholders

In the coming pages you will see examples of how Philips listens to various internal and external constituents.

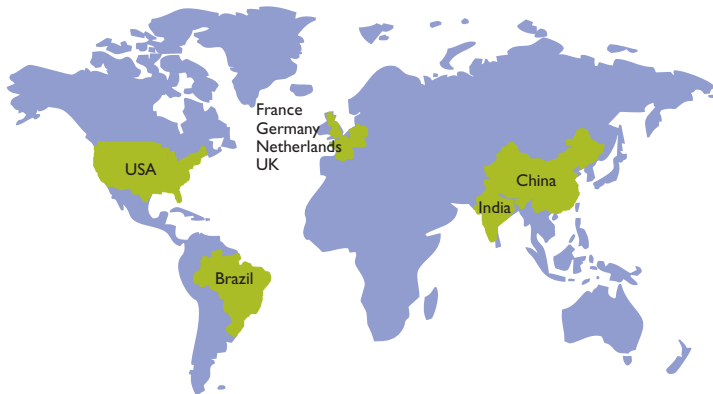
Reputation research

To better understand stakeholders both inside and outside the company, Philips conducted a reputation study, consisting of interviews in eight countries around the world.

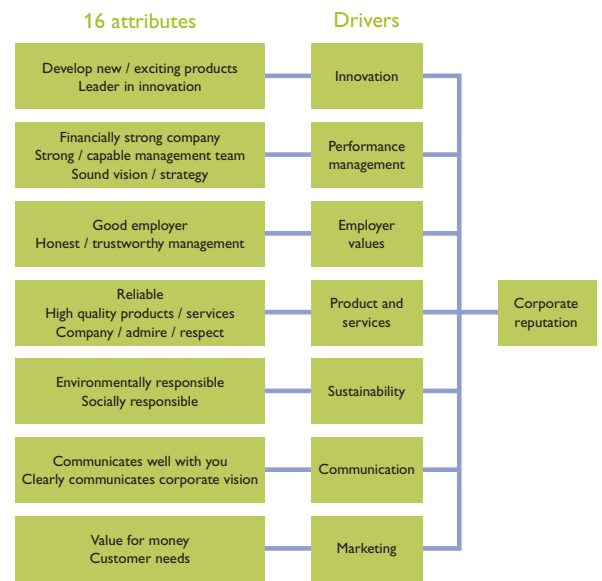
Interviews were conducted with a wide range of opinion leaders, as illustrated below. This will enable a variety of functional disciplines to learn from the results and develop appropriate improvement programs.

To enable us to better understand the elements that contribute to reputation, the research also focused on identifying seven key drivers for reputation as well as our performance against those key drivers, shown below.

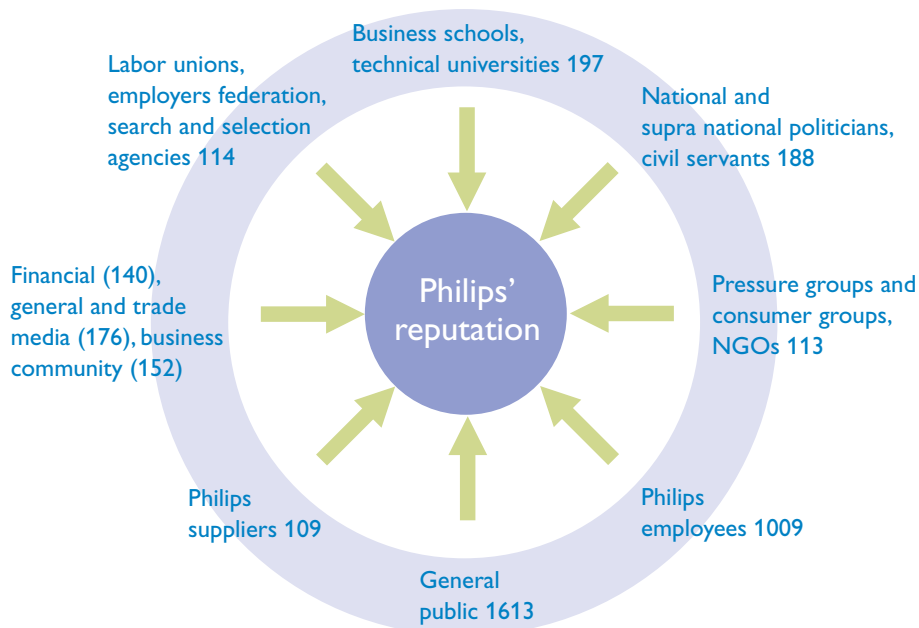
Where we conducted interviews



Drivers of reputation



Opinion leaders interviewed



Company opinion score

Philips results across stakeholder groups

	Employees	General Public	Employers	Journalists	Educational	NGO's	Financial	Senior Business	Government	Suppliers
High opinion										
7.1+	Philips Competitor B	Competitor B	Competitor B	Competitor B	Philips Competitor B		Competitor A Competitor B	Competitor A Competitor B Major multinational D		Philips Competitor B
6.6-7.0	Competitor A	Competitor A	Competitor A Philips	Competitor A Philips Competitor C Major multinational D	Competitor C Competitor A	Competitor B	Major multinational D	Philips Competitor C	Philips Competitor B Major multinational D	Competitor A Major multinational D
6.1-6.5	Major multinational D	Philips Competitor C Major multinational D	Competitor C Major multinational D		Major multinational D	Philips Competitor C	Philips Competitor C		Competitor A Competitor C	Competitor C
5.1-6.0	Competitor C					Competitor A Major multinational D				
Low opinion										

Analyzing the results

We are currently in the process of carefully evaluating the results, which are available by target audience and country. We have benchmarked ourselves against key competitors, a major multinational and a local comparator in each country. The chart above shows our results compared to key competitors and the major multinational.

Employees, suppliers and the educational community have high regard for Philips' products and services. In addition, employees give the company high scores on employer values and sustainability.

On the other hand, there is an opportunity for improved communication with the financial community, non-governmental organizations (NGOs) and the general public. Financial opinion leaders and NGOs also indicate concerns about performance management.

Results are being communicated within the company. Action programs will be established to drive improvement where necessary, enabling us to strengthen our efforts to make Philips a truly market-driven and responsible company, a respected business partner and an employer of choice.

Working at Philips

As Philips continues to reinvent itself, the company is ever mindful of how transformation affects its people.

There are myriad ramifications of moving toward a structure that is characterized by an increasing network of joint ventures, partnerships and alliances with third parties who can provide expert knowledge to help us bring new business models to market.

Such a bold move is not easy. Clearly, a sharp focus on people is critical to help manage this change and ensure high performance.

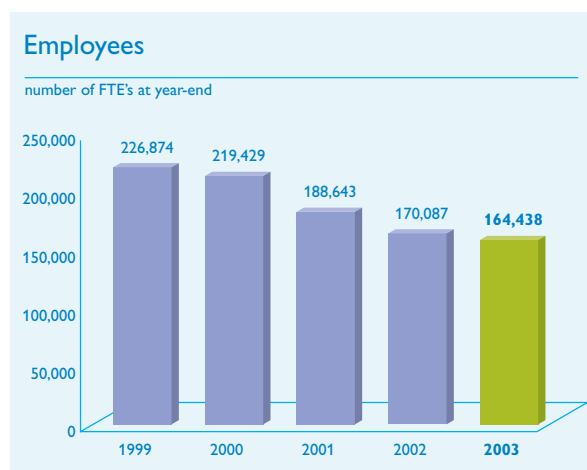
This requires creating an environment that fosters teamwork and collaboration, that motivates people and rewards them for their contributions, and that respects and values the contributions of each unique individual, allowing people with different backgrounds to feel truly included.

As the pace of change continues to accelerate – for the company, our industry and the world economy – speed and innovation will be more important than ever. That's why the company encourages employees to be continuous learners, proactively managing their ongoing education and career development. And Philips is committed to fostering learning across units, regions, businesses and functions.

Social responsibility

Changes in employment structure

The number of employees continues to decline, as a result of further divestments, additional outsourcing and continuing efficiency improvements.



The number of employees at the end of December 2003 totaled 164,438, a decline of 5,649 from December 31, 2002. In part, this reduction is attributable to various divestments, most of which occurred in Western Europe, affecting 1,630 employees.

Excluding these divestments, the decrease of 4,002 employees reflects further outsourcing and the ongoing drive for efficiency. The sectors Semiconductors and Lighting posted the most significant reductions, which were partly offset by a strong increase in Miscellaneous, due to expansion in the business unit Optical Storage.

Employment changes in 2003 by sector

in FTE's	position end 2003	portfolio changes	real changes
Lighting	43,800	(243)	(2,859)
Consumer Electronics	19,111	(861)	(751)
DAP	8,180	-	(560)
Semiconductors	33,177	(126)	(1,040)
Medical Systems	30,611	-	(686)
Miscellaneous	27,086	(400)	2,113
Unallocated	2,473	-	(219)
Philips Group	164,438	(1,630)	(4,002)

The level of employment declined in Western Europe and the United States, which included the closure of Semiconductors facilities in San Antonio, Texas, and Albuquerque, New Mexico. In contrast, the number of employees rose in Eastern Europe and Asia Pacific.

Employment changes in 2003 by geography

in FTE's	position end 2003	portfolio changes	real changes
Netherlands	27,688	(217)	(1,408)
W. Europe excl. Netherlands	32,822	(942)	(2,204)
Eastern Europe	13,352	-	1,111
USA/Canada	28,111	(300)	(3,629)
Africa	409	-	(41)
Latin America	14,714	-	(846)
Asia Pacific	47,342	(171)	3,015
Philips Group	164,438	(1,630)	(4,002)

The production area posted the strongest decrease in permanent employees, which was offset by a sharp rise in temporary employees, particularly in the production environment. This change reflects the need for flexibility, particularly in more volatile markets.

Employment changes in 2003 by function

in FTE's	position end 2003	portfolio changes	real changes
Production	88,230	(1,171)	(7,809)
Research & development	20,670	(246)	(1,443)
Commercial / General	32,996	(165)	(1,990)
Temporary	22,542	(48)	7,240
Philips Group	164,438	(1,630)	(4,002)

Responsible transformation in Europe

As discussed earlier in this report, Philips is continuing to undergo a transformation. The need to transfer some of the company's manufacturing activities is balanced by investments in what many call the knowledge economy. This impacts areas such as design, research activities and development work, many of which are already centered in Europe, and leads to the creation of new jobs and market opportunities outside Europe.

We recognize that this need for change can mean that many current employees in Europe are faced with job insecurity, which can affect their well-being and performance.

With this in mind, the company reviewed the way in which inevitable job losses would be carried out. As

part of this process the company published in June 2003 a position paper titled 'Responsible Transformation within Europe.'

The core message is that any decisions about restructuring are never taken lightly and once such decisions are taken, Philips will act responsibly, safeguarding the interests of our employees.

Philips' focus on re-education of its employees and professional development initiatives can empower employees with the resources and skills they need to find their next position or further develop their skills.

In a move to sharpen the focus on this important area, Philips appointed a Manager of Industrial Relations & Labour Affairs for Europe, effective January 2004.

Shared services

The company created three shared service centers – Accounting & Reporting Services, People Services and IT Services – during the year, in addition to the centers for Global Real Estate and Non-Product-Related Purchasing. More than a cost-cutting exercise, this is an essential part of the program to create a simpler, more responsive organization.

Merging of these activities avoids duplication, enhances the level of expertise and allows us to benefit from global economies of scale. We aim to make these shared service activities world-class service providers.

A successful re-employment plan

In mid-2001 Philips began restructuring in Le Mans, France – a process that took two years and resulted in more than 90% of the 1142 affected employees finding new jobs. The company worked hand in hand with local authorities and trade unions to attract new firms to the area and generate new jobs.

Thanks to the effective relationships between all parties, a greater percentage of Philips employees were re-employed compared with those who have been unemployed by other companies in the Pays de la Loire area.

While French law makes it compulsory for an organization undergoing restructuring to attract other companies to the area in order to create the same number of jobs being eliminated, Philips embarked on this re-employment process before it was mandated in 2002.

The Philips Way – Our values in action



We delight our customers



We deliver on commitments



We develop people



We depend on each other

Living our values

Philips' values (shown above) provide a solid foundation for all our actions. To ensure we are living our values to the fullest, in 2003 we used existing and new initiatives to further integrate the values into the organization.

The values are an important part of our employee development activities and were included in focus groups conducted with employees. The exchange of best practices is facilitated through employee magazines and the intranet.

Further, to acknowledge employees who are seen as role models by their peers and management, several groups implemented recognition or award programs clearly tied to the values. Lighting UK's 4D award was presented to four employees – each of whom truly reflected the spirit of one of the values throughout 2003. Consumer Electronics Europe launched a similar program in 2003, recognizing two employees for living the values. In Philips North America, the employee magazine launched a series of articles featuring individuals and teams who are helping the organization meet its goals by exhibiting One Philips thinking or one of the Philips values.

Social responsibility

Listening to employees

Euroforum

The European Philips Forum – Euroforum – was established in 1998 as the highest consultation platform in the region. This group meets with Philips management twice a year to discuss business developments of significant importance to employees of the Philips Group companies in the European Union, plus Switzerland and Norway.

Topics on the 2003 agenda included an update on the company by Philips President Gerard Kleisterlee, and a discussion on the importance of having the correct procedures and mindset to deal with the employees

and local communities affected by the transformation in Europe. This is reflected in the company position paper “Responsible Transformation within Europe,” established as a result of dialogue with Euroforum members.

Management and Euroforum representatives will discuss this document and its implications at local and national levels, highlighting the necessity and benefits to the company and employees.

Employee engagement

Corporate Human Resources management conducted several studies in 2003 that have helped us understand how committed and engaged the Philips workforce is, and how we are performing in the market as an employer.

In a series of 29 internal focus groups conducted in eight countries across three Philips regions, it was clear that higher levels of regular recognition, as well as more transparent and supported career opportunities, would increase employee engagement. These findings were corroborated in structured interviews with a sample of current and former executives and leadership potentials, as well as a global sample survey of 3,500 employees. The results of these surveys form the basis to continuously improve overall engagement levels year over year.

To measure engagement more effectively, Philips executives concluded that an employee survey infrastructure that meets the needs of the businesses – while maintaining standardized sets of questions for Philips at large – would be preferable to the previous biannual company-wide Employee Motivation Survey. Surveys must be conducted at least every two years.

The Philips Software Competence Center in Bangalore, India, is an example of an organization dedicated to continuous improvement in terms of employee engagement. The Software Center launched several initiatives in 2003, including mentoring and employee care, provided by a counselor who has been appointed to help employees with personal and professional issues. *Business World* magazine rated the Philips Software Competence Center the fifth best place to work in India.

Making connections

Philips India needed a way to connect the company's leadership with the 4,000 employees who work in 35 locations, spread across a country roughly the size of Europe. The Let's Chat program does just that. One of five projects aimed at making employees feel they are part of one Philips, Let' Chat is a 210-minute live interactive webcast – divided into three 70-minute sessions to make it easier for people to attend.



Philips India's Let's Chat initiative encourages employees to talk to senior managers in regular, informal sessions that promote internal communication and cooperation.

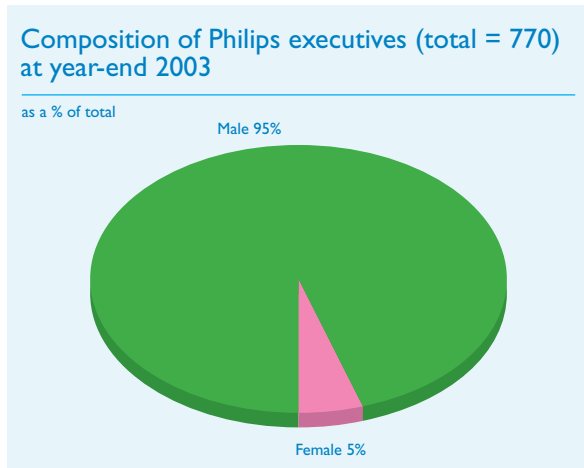
Members of the Philips India Management Team begin the sessions with brief presentations on issues in the organization. Next, they answer questions from employees – both those submitted in advance and those emailed during the three sessions.

Available at 16 sites, the program covers more than over half of Philips' employees in India (the limiting factors are technical and cost-related). The Philips Board of Management used this effective tool to address 2000 employees live during their visit to India in September 2003.

MIS magazine honored the Let's Chat program with an Innovation Award 2003 in the Telecommunications and Networking category.

Diversity and inclusion

In the company's Sustainability Report 2002, Philips announced that it wants to increase the percentage of women and non-Dutch nationals in key executive positions. The company is working to increase the number of women in senior management. We want to raise the percentage to at least 10% within four to five years, more than doubling our 4% level in 2002. The percentage increased to 5% in 2003.



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.

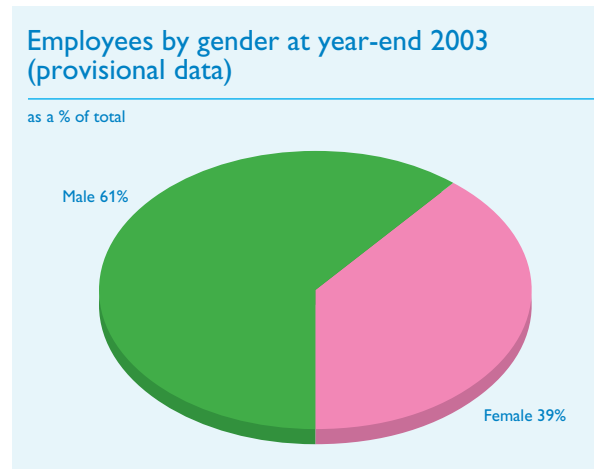
Changing this not only involves a review of succession plans and recruiting outside the organization, it requires changing the corporate culture.

In terms of global representation within management, the company stated its intention in the Sustainability Report 2002 to "improve the balance across the regions," noting that "particularly, in the Asia Pacific region, the number of Asians in senior management positions is considered unsatisfactory." We are determined to strengthen our highest management ranks with top Asian talent.

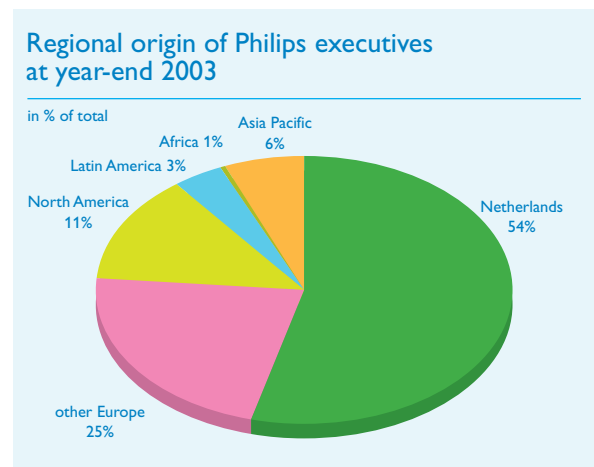
These stated aspirations do not mean that other groups within the workforce will be ignored. Philips leadership believes that the culture change necessary to increase the percentage of women and Asian executives will create an environment of inclusion that recognizes people regardless of their background, benefiting employees and the company.

Further, we recognize that diversity and inclusion is broader than gender and ethnicity. It's about respecting each unique individual and recognizing people, allowing people with different backgrounds to feel truly included.

Reliable data on the overall male/female composition of our employees is not yet available. However, the information available from our health and safety monitoring system (see page 31), which is based on an 83% response rate, indicates that the percentage of females is approximately 39%.



This varies significantly by region and country. The percentage of female employees stands at a high of 49% in Asia and a low of 31% in the EMEA (Europe/Middle East/Africa) region, including 18% in the Netherlands. Females represent 39% of total employees in North America, and 35% in Latin America.



Social responsibility

Global diversity and inclusion action plans

The Board of Management has approved an action plan created to ensure the company achieves its ambitions and is working to find the best way to engage all managers and employees in diversity and inclusion.

This global initiative has three core objectives for 2004: to establish an organization structure to ensure accountability, implement strong education and communications mechanisms, and provide access to key developmental experiences to foster professional connections.

Among the actions slated for 2004 to accomplish these objectives are:

- Setting up a Global Diversity Steering Committee

- Defining and deploying key metrics and goals, and articulating the Philips business case
- Intensively engaging the top 50 business leaders and their HR business partners
- Engaging local champions
- Enabling target group members to launch and maintain networks/affinity groups
- Auditing principal HR processes
- Communicating to educate and engage the workforce.

Historically, the Philips country organizations have had the responsibility to ensure compliance with local legislation for fair employment practices. During 2004 the company-wide diversity and inclusion initiative will tie into the activities already ongoing within the countries and businesses.



From rhetoric to action

Making diversity and inclusion a competitive advantage

By Michael L. Wheeler

Diversity is the global performance factor for the new millennium. Building leadership and organizational capability for making diversity and inclusion a competitive advantage requires commitment, skills, knowledge, competence and proactive efforts.

Diversity and inclusion

Diversity is a global demographic fact no different than the growing global economy, changing technology and the changing marketplace. Issues of race, gender, ethnicity, physical ability, religion, thinking styles and socio-economic status all too often become the basis of exclusion and inclusion.

When these factors are systemic barriers to individual growth, contribution and performance, they also block organizational

growth, performance and capability. Inclusion is the process by which gaps are closed, differences are truly seen as a competitive advantage and respect is a matter of business.

Building individual and organizational competence and capability

Diversity must be integrated into, and aligned with, the strategy of an organization relative to talent, the work environment and business performance.

A visibly diverse workforce from the top down ensures that the perspectives, talents and ideas are there to lead the company into the future. Closing historical gaps in representation is one reason companies like Philips make proactive efforts in this area.

An inclusive work environment is essential, and characterized by employees and leaders who demonstrate respect and behavior that support inclusion. It is reflected in positive employee perceptions and corporate image.

Leveraging diversity is an organizational commitment that surpasses the attitude of compliance. It is evidenced in a workplace where the status quo can be challenged, where new ideas are embraced and where teams are truly diverse on all dimensions – from the boardroom to the mailroom.

Diversity creates work and discomfort

Learning about diversity – gaining the skills and capabilities – requires work, change and discomfort. But this is a business imperative. Competitive intelligence requires investigation. New technologies require the development of new skills. Changing markets require understanding and new strategies for success. Diversity is no different.

Diversity creates rewards

The rewards are intrinsic and extrinsic – lower turnover, better morale, enhanced problem solving, stronger communities, greater innovation and even an increase in shareholder value. Diversity is a bottom-line performance factor.

Philips recognizes that diversity is not only the right thing to do; it is the right thing for business.

Michael L. Wheeler is President of OEStrategies, Inc., and a strategic management consultant and business writer specializing in the area of workforce diversity. Mr. Wheeler has authored several publications on corporate best practices in diversity and work life, which have been distributed globally. He is the program director for The Conference Board's Annual Diversity Conference and Workshops.



A 'singular' opportunity

Philips Brazil is raising employee awareness of diversity and inclusion through a program called Singulars. During the second half of 2003, employees attended a series of activities held in all Philips locations in Brazil. Employees watched films, engaged in debates and acted in plays to explore the

richness and potential of diversity, focusing on gender, ethnicity and physical disability.

The name Singulars was chosen because it has a dual meaning in Portuguese – 'unique and special, that which distinguishes each remarkable individual.'

Health and safety

Policy

In 2003 we reviewed our health and safety policy, benchmarking it against competitors' policies and international standards.

Taking a bottom-up approach we contacted employees working in the health and safety area via our Yellow Pages database, and included input from respondents representing 23 countries and all four regions.

The updated policy will be finalized this year and included in next year's report.

Health and safety monitoring system

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. These reporting parameters were identified by means of a benchmark study with a number of companies experienced in this field, mainly in base industry. We also took the US Occupational Safety & Health Administration (OSHA) regulations into account, as definitions and that type of reporting is becoming standard in many industries worldwide.

This provides us with the opportunity to benchmark in a later stage internally between different product sectors, as well as externally with aggregated benchmark data, for example in different sectors in the USA.

While we intended to report verified data for 2003 on these parameters, the collected data does not yet meet our standards of reliability.

We are adding two self-assessment tools in 2004 for our reporting organizations – one on the quality of their health and safety management systems and another on data reporting. We will use what we have learned in 2003 and these self-assessments to help improve the reliability of the data.

Employee development

People Performance Management

At Philips, People Performance Management (PPM) is about improving business results by setting individual performance targets based on business objectives, and measuring this contribution accordingly. Performance is linked not only to whether people meet their targets, but also to how they meet them. This is accomplished by incorporating the Philips values into the PPM process, through self-evaluation as well as assessment by colleagues and managers.

To ensure a fair and realistic view of performance, and sufficient differentiation between employees, the PPM process includes calibration. This shared understanding is used to compare and evaluate employees who report into the same management team.

Rolled out in phases starting in 2002, a total of 9,000 employees currently participate in the PPM process. Using the lessons learned during the initial rollout, the company has made several changes, including a clear link to business planning to ensure effective target setting by employees.

The ultimate goal is to improve people and the business by having the PPM process in place for a large population and at the center of other HR processes like reward and development.

Philips learning paths

With its new One Philips approach to learning, the company aims for consistent quality through a common learning offering that allows employees and managers a clear view of what is available and how to enroll, no matter where they are.

Some learning, of course, cannot be standardized, namely courses that relate to specific businesses and locations. These will continue to be organized locally. But for those that can be standardized, learning will be divided into three areas – Generic, Talent and Functional Learning Curricula.

The Generic Learning Curriculum deals with commonly required skills that apply to any function or division. For example, modules cover topics like team leadership and emotional intelligence. This Generic Curriculum was launched with a limited release in November 2003, paving the way for full-scale implementation in early 2004.

The Talent Learning Curriculum targets high- and top-potentials, and will be implemented in the first half of 2004.

Finally, the Functional Learning Curriculum, as the name suggests, relates to all employees within a functional area like marketing or IT. This path will be implemented in the second half of 2004.

Beginning in 2004, employees will see the values in every course of the Learning Curricula. Additionally, all new hires will be introduced to the values in a module dedicated solely to this important subject. This special training session gives new employees the opportunity to discuss with management the expected behaviors and results associated with living the values.

To help drive sustainable development thinking throughout the organization, as of 2004, all new employees will go through the Chronos e-learning tool developed by the World Business Council for Sustainable Development in cooperation with the University of Cambridge.

Employability and knowledge management

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

myriad opportunities for challenge. One example is the company's web-based Career Center, which helps employees manage their careers by providing the ability to view and search through all available Philips jobs worldwide, thereby facilitating internal mobility.

Increasing employee mobility – both internal and external – raises the issue of how to capture knowledge and accelerate learning. The company's ability to learn and apply knowledge faster than its competitors is becoming more and more critical as the pace of change accelerates, particularly in the technology arena.

Knowledge sharing is governed by the Philips Quality Policy Board, which is chaired by a member of the Group Management Committee and includes executive representatives from all product divisions. This board governs our business excellence program BEST. Knowledge sharing is a vital part of the BEST management agenda for 2004.

A team has been assigned to develop ways to accelerate learning, incorporating an outside perspective through contact with universities and other large multinationals.

Building a knowledge network

To enhance sharing and collaboration, a number of systems, both physical and virtual, are available and in use throughout Philips. These range from standard email and intranet to virtual team rooms, newsgroups and personalized information systems.

One example is our intelligent Yellow Pages system – which stores profiles of Philips people complete with their knowledge and experience. Participation is



The COMBI approach provides training for employees and the long-time unemployed.

Training while retaining

The COMBI approach shows that it is possible to give employees vocational training while offering the long-time unemployed a chance on the job market – without disrupting the production process.

The first pilot at the Philips Domestic Appliances and Personal Care shaver factory in Drachten, the Netherlands, was a rousing success, satisfying all parties – the operators who received vocational training, the long-time unemployed who gained work experience, the company that can keep the skills of its workforce at the required level, and municipal authorities who have an

opportunity to effectively combat long-term unemployment.

Here's how it works. The long-time unemployed follow a six-month vocational training course. When they obtain their diplomas, they team up with operators to gain work experience for six months. After this time, the operators start on a vocational course. The job seekers taking part in COMBI fill their places. The diploma from the vocational course gives operators more skills and increases their employability. Armed with a diploma and work experience, job seekers can look for a job within Philips or elsewhere.

voluntary and users maintain information themselves. This data allows users to find people via searches of member profiles. Employees can pose questions and get answers from colleagues.

By posting interesting links, best practices and experiences, each member shares knowledge with the rest of the corporate community. Currently more than 26,000 people are members, and in a typical week 100 members join.



Sharing knowledge

For Philips Research, sharing knowledge with society has always been a basic principle of operation. We encourage our scientists to participate in the international scientific community.

We also encourage partnerships. In fact, approximately 45% of all research projects in 2003 were carried out in cooperation with a university or NGO.

A substantial number of senior scientists hold part-time professorships at universities. We host graduate and PhD students who work in our laboratories. We also offer opportunities for secondary schools to visit us to learn about working in an industrial laboratory. In this way we intend to counteract the decreasing numbers of students studying math and science in Western Europe.

Development programs for Research employees include international job rotation, cross-disciplinary projects, sabbatical leaves at universities, and career paths from research to development positions and back.



Toward a knowledge-based economy

Driving innovation

By Pieter van Geel

Minister for Sustainable Development of the Netherlands

Innovation and a knowledge-based economy are crucial to create a more sustainable society. The European Council summit on employment, economic reform and social cohesion held in Lisbon in March 2000 set a goal for the European Union to become the 'most dynamic and competitive knowledge-based economy in the world by 2010.'

Nearly four years into this agenda it's clear that investment in knowledge sectors is too low and we have a lot to do to achieve our objective. Innovation, therefore, is a priority for the present Dutch government, and will be high on the agenda as the Netherlands takes the presidency of the EU in 2004. We will seek alliances for cooperation with the member states to drive this process further.

Companies sometimes perceive sustainability as a burden. Practice shows that the biggest part of investments of a sustainable nature provides companies with positive financial results due to increased efficiency. Beyond that, I see innovation as an engine for economic growth, competitiveness and jobs.

Working toward innovations that contribute to sustainable development requires partnerships and cooperation between countries, academia, government, industry and non-governmental organizations alike. It also means long-term commitment and investment. To support this process, the Dutch government is building an organization to support frontrunners in this area, to help them navigate their way through regulatory requirements.

Philips is taking an important step in this regard with its business challenge to seek opportunities to develop new markets and new sustainable business. As a leader in the Dow Jones Sustainability Index, I expect the company will live up to its reputation as a leader in innovation.

Social responsibility

Our role in the community

Supplier management

With its own deep commitment to sustainability, Philips encourages active cooperation and initiatives from its supply base to show their commitment as well. An integrated approach through the supply chain in managing sustainability has become a prerequisite for customers and other stakeholders who are increasingly interested in how, and under what conditions, products are being manufactured.

As Philips continues its transformation, suppliers in the developing as well as the developed world will manufacture an increasing percentage of Philips products.

As the total amount of products and services purchased in 2003 was EUR 19.2 billion, or 66% of our total sales, it is clear that supplier management is of significant importance.

To manage this effectively, we have extended our sustainability efforts to include our key supplier partners, as set forth in our sustainability policy, which states: 'Philips expects its business partners to be committed to sustainable development.' In the Sustainability Report 2002, we said the company would establish a policy in 2003 on child labor in relation to key suppliers, as well as requirements on other sustainability issues.

We developed a Supplier Declaration on Sustainability (shown on page 72). This document outlines minimum expectations of behavior in the areas of environment, health and safety, and labor conditions, including child labor. We consider a supplier's commitment to adhere to this Declaration an important factor in our decision to enter into or remain in a business relationship.

Rolled out first in our Consumer Electronics division in March 2003, the Declaration was introduced in all divisions in January 2004 and will be published on our Internet site.



A closer look at supplier management

An interview with Barbara Kux

Chief Procurement Officer and member of the Group Management Committee

Q: Why is supplier relationship management such a hot topic in business today?

A: In the electronics industry the importance of supplier management is fueled by the increasing percentage of components and products that are purchased rather than manufactured in-house. This creates an interdependency that needs to be managed well to benefit both the company and our suppliers.

Q: Sounds challenging.

A: It is. On the one hand, we need to avoid risks related to reputation, cost management, legislative compliance, time-to-market, availability of qualified suppliers and production disruption. On the other hand, we need to tap into the many opportunities

of partnering with suppliers to build on their expertise to improve products and production methods, as well as develop new solutions that serve market needs.

Q: How does supplier management tie into Philips' commitment to sustainable development?

A: The outsourcing of manufacturing activities means extending ethical, social and environmental standards related to those activities toward our suppliers. We place high value on responsible conduct with respect to our own business behavior, and, with that, comes the need to address such behavior within our supply chain.

Q: But suppliers are not employees.

A: That's true, of course, but where our products are concerned, we can exert a high level of control through our specifications. Specifically, our specs call for incorporating our quality control processes, as well as our environmentally conscious product design methodology – what we call EcoDesign at Philips.

In terms of manufacturing processes, services or ethical behavior in general, we believe that the way to lasting results is through dialogue, rather than by mere contractual imposition of our standards. This approach will create an environment built on

Suppliers are asked to deploy these requirements in their organizations, as well as throughout their own supply base. We will regularly review supplier performance against these requirements.

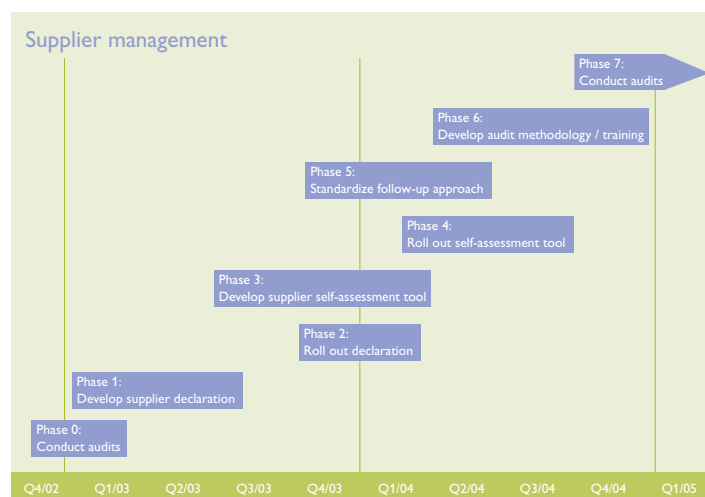
Further, our suppliers will be asked to indicate via a self-assessment their performance in the areas specified in the Declaration. The results will be used as input to develop and implement an audit methodology.

Monitoring supplier management

As explained in the Sustainability Report 2002, the Philips EcoVision 2002-2005 program includes supplier management of environmental issues, because purchased materials can influence the environmental performance of Philips' products and processes. EcoVision calls for the use of a maturity grid to assess progress in supplier management.

Because this environmental program was developed before the issuance of the company's sustainability policy, we are revising the maturity grid to incorporate

other sustainability elements. Therefore, we are not yet ready to report results in this area. We will follow up with information on our progress in next year's report.



trust and confidence – the kind of environment that is essential to foster effective partnerships.

Q: How does the Philips Supplier Declaration fit into this approach to supplier management?

A: In the Sustainability Report 2002, we said the company would establish a policy on child labor in relation to key suppliers, as well as requirements on other sustainability issues. Our Supplier Declaration outlines minimum expectations of behavior in the areas of environment, health and safety, and labor conditions, including child labor.

To ensure that this is integrated into our overall way of doing business, these elements are becoming part of our supplier management agenda on the strategic, tactical and operational levels.

Q: With more than 50,000 suppliers around the world, how do you manage that?

A: That does present a dilemma. We had many discussions about scope versus manageability. While we expect all of our suppliers to be committed to sustainable development, we've decided to actively manage sustainability issues with those suppliers that are already part of our existing management review systems. In

addition, we expect these key suppliers to cascade the sustainability requirements throughout their organizations, just as they do with other business requirements.

At the same time, we realize that if we were to find instances of non-compliance, they probably would not occur among this group of key suppliers. So we have decided to add suppliers in countries we perceive to have a higher risk factor, given earlier studies done in the area of child labor. This enables us to keep our efforts manageable while strengthening our approach to sustainability as business as usual.

Q: How would the company respond if a supplier has a view of sustainability issues that is not in keeping with Philips standards?

A: To ensure a balanced and uniform approach, we are finalizing a corporate-wide guide that sets out how purchasing managers are expected to deal with the variety of situations that might arise. The overall approach is one of finding solutions through open and honest discussions with the supplier, but if no satisfactory solution can be found, suppliers can expect that this will affect the business relationship.

Social responsibility

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.

To leverage best practices and develop a consistent approach, the company will explore product safety in depth with the product divisions in 2004. We will provide details on our progress in this area in our next report.

Privacy

Philips believes strongly in protecting the privacy of personally identifiable information provided by consumers and employees.

In 2003, Philips focused primarily on finding ways to create consumer trust in matters related to personal data. In view of new regulations in Europe and the United States, Philips issued guidelines and training for its website owners, call center operators and marketers

on how to implement the Philips Privacy Policy, how to deal with privacy questions and how to avoid spamming.

In addition, we issued standards for security and confidentiality obligations to be incorporated in purchasing contracts with suppliers and service providers with respect to consumer or employee data.

Philips played an active role in the European Commission's review last year of the European Data Protection Directive 95/46. One of the key issues addressed was the transfer of personal data by multinational companies to their group companies located in countries where there is no adequate level of legal protection for personal data.

To address this, Philips promoted the use of binding corporate rules, which the European Commission accepted as a viable solution. Philips has drafted a Code of Conduct that creates a Safe Harbor for personal data within Philips worldwide – taking a leadership position as one of the first companies in the world to do so.

Face-to-face with consumers

Philips Domestic Appliances and Personal Care (DAP) hosted a special one-day event, dubbed 'Break Away & Excite Day,' that saw employees around the globe rubbing shoulders with consumers.

In a company first, more than 3,600 consumers in 38 countries were invited to take part in the September 2003 event to increase Philips DAP's external orientation.

As each location began the day, employees were split into groups and asked to come up with ideas about how DAP could break away from the competition and excite consumers. Then each location voted on the best idea of the day, resulting in solid ideas that can help improve our interaction with consumers.

In the afternoon, consumers joined the groups and told local DAP employees what kinds of products, technologies and initiatives would make a difference to their lives. Participants were also asked how DAP could improve its impact on society.

Ideas varied from country to country, and some focused on ways in which DAP can become a better corporate citizen. Consumers in Vietnam, for example, said they'd like to see DAP develop a robot for the home to take over many household chores. Consumers in Chile and Peru came up with the idea of making silent domestic appliances to reduce noise pollution.

In Malaysia, the idea was to have buses ferry employees to work, reducing traffic congestion. A group in the Netherlands proposed making a donation to charity every time a product is sold, with the design of the product related to the chosen charity.

A Philips jury at an International DAP platform in December voted on the 10 best ideas. The division's Executive Management Committee is assessing how to integrate the winning ideas into DAP's processes. Further, information has been collected and distributed to the responsible business managers. Results and feedback are also available to all Philips employees.



Philips Domestic Appliances and Personal Care (DAP) welcomed consumers on Break Away & Excite Day with fun activities, creating a relaxed atmosphere conducive to open, honest discussion, in a location specially selected to encourage a 'break away' mindset.

Boating was the activity of the day for consumers from Croatia, Slovenia, Serbia and Romania (top). Consumers in Korea (bottom) enjoyed a jazz dance session.

This code has been submitted for approval to the various data protection authorities in Europe.

At the 25th Privacy and Data Protection Commissioners Conference in Sydney, Australia, Philips presented its views on privacy and building community trust. In addition to announcing the introduction of a global Privacy Code of Conduct, Philips addressed privacy in relation to the use of Radio Frequency Identification Chips.

As discussed in the Sustainability Report 2002, Philips allows consumers to provide their choice about how we may use their data, using the 'soft opt-in' principle for sending direct marketing information to consumers. This principle requires Philips to seek the consumer's consent via notice and choice (opt-out) before sending unsolicited commercial communications. The consumer is able to object to such communications at any time. The Philips Privacy Policy is available on the web in 22 languages.

Investing in society

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..."

To sharpen the focus on social investment initiatives, we employ a targeted approach to social investment, linking initiatives with the company's scope of business.

Regional projects are selected based on their potential to improve people's lives by providing access to education and healthcare, particularly for the underprivileged. Additionally, projects should create customized solutions in partnership with other entities, including companies, communities or non-governmental organizations (NGOs).

In this way, we can leverage our capabilities to contribute to society through our people, products, technology and innovation. We invested EUR 9 million in 2003 on such projects, some of which are highlighted in this report.

Volunteerism

In keeping with our General Business Principles, Philips encourages employees to participate in local activities. While the company does not have a corporate policy on volunteerism, Philips employees throughout the world are committed to reaching out to their communities. In response to growing demand from our employees to

contribute to local initiatives, employee involvement will become a cornerstone in implementing our social investment projects.

Access to education

Getting off to a good start in Malaysia

Philips Malaysia founded two kindergartens in rural areas of the country where pre-school is non-existent. The schools are running successfully with Philips' financial support and collaboration with the local authorities.

The first school was opened in 1996 in Batu Arang, 45 minutes south of the capital city of Kuala Lumpur. Now managed by a Lions Club on behalf of the company, the school has an annual enrollment of 25 children.



Philips Malaysia took children, teachers and parents to Putrajaya, the new seat of Malaysia's government, for the 2003 National Day celebrations to thank the then Prime Minister, Tun Dr Mahathir Mohamad, for his 21-year leadership of the country.

With the success of this first school, Philips opened another in the small, rural village of Kampung Senggang in 1998. The District Office of Kuala Kangsar donated the land and Philips raised funds for the school building with a charity dinner. Serving 30 children a year, this school is called Tabika KEMAS-Philips and is managed by the Community Development Division (KEMAS) under the purview of the Ministry of Rural Development of Malaysia.

Catering to children from families whose monthly income does not exceed about EUR 200 a month, the kindergartens provide free school books, uniforms, shoes and socks, and one hot meal a day. To date, 400 children have gotten their schooling off to a good start.

Social responsibility

Computer education on the move

Philips Turkey sponsored two mobile education units operated by the Turkish Education Volunteer Foundation, which serves children ages 7-14. These classrooms on wheels provide the setting for children around the country to gain basic computer knowledge.

In addition to the computer room, the trucks include an activity room with a Philips TV, DVD and audio player so the children can watch educational films, play games, and develop their reading and social skills. Children learn in this room, while others work in the computer room.

The 7,500 children who participated in 2003 received a minimum of 12 hours of training and were awarded a certificate of accomplishment. This program is slated to run again from March 2004-2005, and is expected to reach about 9,000 children.



Children learn how to use computers during six days of training in one of Philips Turkey's two mobile classrooms outfitted with Philips monitors.

Adopting an elementary school

Philips Semiconductors Philippines is helping children adapt to technology at the Casile Elementary School (CES) in the remote Cabuyao district.

The school did not have a single computer until Philips got involved in the Adopt a School program. The computer-to-student ratio in Cabuyao is 1:300. With Philips' support, Casile Elementary School's ratio is an impressive 1:14, putting it ahead of the rest of the district.

The program provides basic computer instruction and educational television. To ensure progress is sustainable, the program also includes teacher training under the supervision of Philips employees.



The Philips Adopt a School program in the Philippines focuses on providing basic computer instruction.

Philips also has arranged lectures on environmental safety, sanitation, emergency response and first aid. Doctors and a dentist have provided care for the children and other residents of this isolated hill town.



Philips China has donated funds to establish HOPE schools and libraries nationwide.

Providing hope

In an effort to raise awareness about the need to improve education in remote, rural areas of China, Philips organized a media tour in the summer of 2003, visiting disadvantaged children in Xinjiang Province.

As an active supporter of Project HOPE since 1998, Philips China has donated funds to establish HOPE schools in 16 provinces and train more than 200 teachers, helping 442 children attend school. Additionally, Philips China has contributed to the building of more than 300 HOPE libraries nationwide.

Launched in 1989 by the China Youth Development Foundation, a non-governmental, non-profit organization, Project HOPE helps disadvantaged children resume their educations.

Access to healthcare

Fighting SARS

During the SARS crisis early in 2003, Philips helped fight the disease across Asia.

Philips China joined the fight against this disease with several initiatives. Employees donated a day's salary to a SARS charity, most of which was donated to the Red Cross Association of China to support the front-line medical staff.

The company contributed approximately EUR 330,000 worth of medical equipment – including portable patient monitors and mobile x-ray machines – to the Chinese Ministry of Health. Philips also provided 40 mobile phone sets so World Health Organization officials could communicate better during their stay in China. Another EUR 21,000 worth of products – including air cleaners, color TVs, DVD players and irons – were donated to front-line hospitals.

To protect employees, a China-wide contact structure was established for communication and emergency. Precautionary measures included a designated reception area for visitors, travel control, office disinfection, flexible hours or work-at-home arrangements, and supplies of masks and thermometers.

Singapore's efforts to combat the illness and help victims included supporting SARS-designated hospitals by providing additional equipment at no cost, a customized training document to educate healthcare workers, and 24-hour teleconference consultation with a clinical specialist on a specially designed screen for the hospital. Employees raised funds for the SARS clinical consortium, which is comprised of 15 medical and scientific institutions that conduct research on accurate diagnosis and treatment of the disease.

In the case of Hong Kong, initiatives included employee donations and product auctions for the We Care Education Fund, which offers financial support to children who have lost parents to SARS.

Helping families of sick children

Philips has refurbished an apartment in Madrid, near La Paz and Ramon y Cajal Hospitals in Spain.

This apartment serves as a temporary home for families of children being treated for cancer.

Often these young patients must stay in the hospital for an extended period of time. Families may have to travel far to obtain medical care. Being near their children would be impossible for many families who do not have the financial resources to rent an apartment or hotel room near the hospital.

Philips employees volunteer their time in the apartment and hospitals, visiting the families and providing entertainment for the children. They also help the children stay connected to their homes and schools by providing access to the Internet.



Philips helps children stay connected to their homes and schools when they are living in this temporary home in Madrid for families of children being treated for cancer.



Environme

ntal responsibility

With a tradition of sound environmental policy for more than 30 years, we are guided by the basic principle that prevention is better than cure, striving always to avoid problems at the outset.

We have long regarded environmental improvement as an opportunity for innovation, and we work continuously to minimize the impacts of products, processes and services. To meet this challenge, we began establishing solid action programs 10 years ago.

The targets set forth in these four-year action programs help us drive progress, as we challenge ourselves to meet targets that are measured against improvements achieved with previous programs.

And, perhaps most importantly, we monitor our progress and have been reporting our results since 1998. Over the years we have worked to improve our internal controls and data collection. We are using this experience to jump start measurement in other areas of sustainability reporting.

Environmental responsibility

Continuous improvement

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.

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 is measured against the reference year 2001.

Comparable changes

We report our environmental data both in absolute and comparable changes to provide clarity for our readers. Absolute changes are unambiguous and offer insight into the direct environmental impact of the activities of our consolidated operations. Comparable changes reflect the true changes, as they have been corrected for production fluctuations and changes in the organization. Since Philips started reporting on environmental data for the year 1998, both absolute and comparable changes have been provided. For a further explanation of our methodologies, please refer to page 59.

ISO implementation and certification

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.

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:

Waste

Hazardous substances

Energy consumption

Packaging

Recycling and disposal

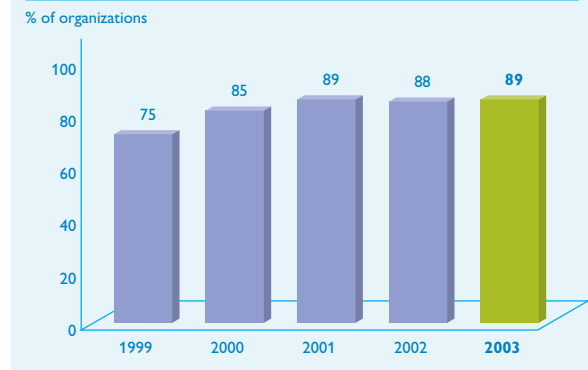
	Mandatory target	Recommended target
EcoDesign ¹	Level 6 on maturity grid	Level 8 on maturity grid
Green Flagship products ²	One per product division per year	One per business per year
Packaging	Maintain performance	10% reduction
Supplier management ¹	Level 6 on maturity grid	Level 8 on maturity grid

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 incorporate correction for production fluctuations.
² A Green Flagship is defined as a product or product family that has gone through divisional EcoDesign procedures and, after investigation in three or more Green Focal Areas, has proven to offer better environmental performance in one or more of these areas, compared with its predecessors or closest commercial competitors.

Percentage of reporting organizations ISO 14001 certified



The percentage of certified units at year-end 2003 increased slightly to 89% in 2003. This change includes four reporting organizations whose certificate expired, five units that were divested and 10 units that were certified for the first time.

EcoVision monitoring

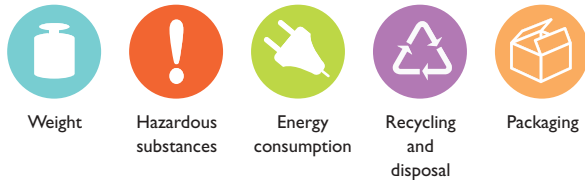
The Philips EcoVision monitoring system is a computer-based system to gather information and measure worldwide progress on the EcoVision program's product- and production-related targets. Since its installation in 1998, Philips has worked to enhance this monitoring system.

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

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.

To support the EcoDesign process, Philips' EcoVision program requires focusing on the following five Green Focal Areas when developing products.



EcoDesign

To step up our efforts in EcoDesign, as part of EcoVision 2002-2005 we introduced the use of a maturity matrix that focuses on product creation process maturity to determine what we need to do to reach world-class status.

As we used this new measurement, we clearly saw where we could improve this valuable tool. We have worked to clarify the definitions of the different levels to achieve better calibration between comparable business units within each division. The new EcoDesign maturity matrix can be found on page 66.

Green Flagships

Our top EcoDesigned products achieve Green Flagship status. This means that after having gone through divisional EcoDesign procedures, a product or product family 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 improvement compared to the average of the competitors' performance in the investigated focal areas.

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 Green Flagships from each of the product divisions except Domestic Appliances and Personal Care, which has committed to developing a Green Flagship in 2004.

Driving improvements through EcoDesign

To drive the EcoDesign process through the organization, a team in the Philips Consumer Electronics Environmental Competence Center developed a framework to objectively measure environmental performance of products. Scientific input for this framework has been derived from the Philips-sponsored EcoDesign research at the Technical University Delft.

Using a structured benchmarking process, Consumer Electronics analyzes product performance against the Philips Green Focal Areas – weight, hazardous substances, energy consumption, recycling and disposal, and packaging.

This enables Philips designers to make fact-based comparisons between competitors and gain insights into industry trends. Armed with this information, the division charts its roadmap to achieve best-in-class environmental improvements in next-generation products.

This disciplined approach combined with aggressive targets – including a requirement that its products be 10% more energy efficient than competitor products – has led to strong results. Consumer Electronics currently averages about eight Green Flagship products a year. The products on this page are an example of recent Green Flagships.

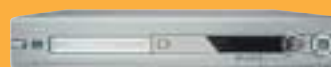
Philips also is actively involved in setting the pace for the industry, for example by driving voluntary initiatives on energy saving in the European Union and developing eco-efficient end-of-life strategies for electronics with Technical University Delft.



Philips 170S4F LCD Monitor



Philips 109S Monitor



Philips DVD625



Philips DVDR75



Green flagships



Smart technology mix

Measuring only 64 mm², the BGY284 is an ultra-small GSM power amplifier module.

The BGY284 uses a number of different component technologies, each selected for optimal implementation of a given function within the power amplifier.

The result is an optimized combination of cost, size functionality and performance.

Compared with its predecessor, the BGY282, the BGY284 weighs 67% less, uses 25% less energy and eliminates the hazardous substance lead.



Getting the lead out

Philips' commitment to provide the best image quality at the lowest dose is evident through the DuoDiagnost's DoseWise features – a unique approach that ensures the highest image quality while exploiting every possible opportunity to reduce dose.

The new DuoDiagnost features a redesigned column – a purchased product – developed in collaboration with the company's supplier. EcoDesign requirements were written into the product specifications.

Thanks to its spring-balanced column, which replaces the lead counterweight of the original, the redesigned DuoDiagnost eliminates this hazardous substance. In addition, it weighs 36% less and uses 23% less packaging than its predecessor.





Masterful performance

Philips invented the compact fluorescent lamp, and in 20 years they have become ever more efficient, smaller and lighter in weight. Today Philips sets a new benchmark of performance in the professional market with products like MASTER PL Electronic lamps.

They last 15 times longer than incandescent lamps, reducing the number of replacement lamps, cutting materials and energy consumption in manufacture, as well as transport and packaging.

Compared to the average of its two closest competitors, the MASTER PL Electronic 11W lamp uses 53% less packaging and 62% less hazardous substances.* All MASTER PL Electronic lamps carry the European A energy-saver label.



Painting the perfect picture

Based on the latest LCD technology, the Philips 30PF9975 FlatTV™ features Active Control, which determines how much light is in the room and controls light output accordingly, helping save on energy while enhancing the viewing experience.

Compared with the average of its three closest commercial competitors, this Flat TV model uses 33% less energy and weighs 31% less.*

The European Imaging and Sound Association (EISA) awarded this 30-inch FlatTV 'European LCD TV of the Year 2003-2004.' It also was honored for its exceptional environmental qualities with an International Consumer Electronics Show (CES) 2004 Innovations Design and Engineering Award.

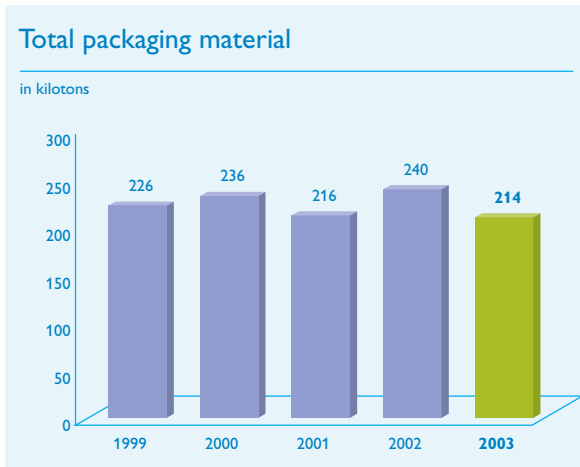


* For additional information see page 67.

Environmental responsibility

Packaging

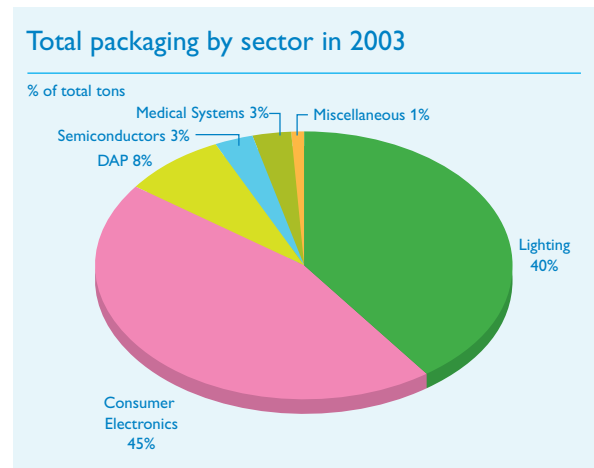
Wherever possible Philips' product packaging must be reusable or recyclable. According to the EcoVision requirements, the company must maintain packaging at 2001 levels, while the recommended target is a 10% reduction for period 2002-2005.



In 2003, the total amount of Philips' packaging materials was 214 kilotons, an absolute decrease of 11% from 2002. In comparable terms versus 2002, the use of packaging materials was reduced by 11%.

The improvement is particularly attributable to the Lighting division, whose 21% comparable improvement is realized through less products sent overseas, for which more packaging material is needed, and decreased sales in a specific product group. Part of this figure has been identified as unclear and will be investigated in the first

half of 2004. The comparable consumption of packaging material from Consumer Electronics, our most important division for packaging, rose slightly with a 1% increase. A comparable increase of 5% was posted in Semiconductors, caused by the sharp growth of color screens in the Mobile Display Systems business, which demand extended packaging. The overall comparable decrease at company level based on the above data versus the base year 2001 is 9%.



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.

A perspective on the complexities of take-back and recycling

Balancing competing demands

Consumers want superior functionality and energy efficiency. At the same time, many countries, primarily in Europe, have take-back laws that assign responsibility for organizing the disposal of end-of-life products and packaging to manufacturers. For consumer electronics companies, balancing these demands requires creativity and innovative thinking.

At Philips we start by incorporating design-for-recycling into the overall EcoDesign process. This is critical to reduce the cost of recycling a product at the end of its useful life. Since most consumer electronics products contain large amounts of glass (TVs) and/or plastics (audio/video products) the cost of taking them apart can

be higher than the value of the glass or plastics. But when working to reduce this cost, designers must also keep other environmental issues under control, including materials use and energy consumption.

Beyond our own EcoDesign activities, we are working to develop and improve systems to support take-back and recycling requirements. This includes the organization of take-back logistics as well as treatment and the reapplication of secondary materials. The primary aim is to achieve maximum environmental gains at minimum cost to society.

Philips advocates a cooperative approach, working with competitors, for example. This allows for economies of scale, and the not-for-profit structure of such collaboration is – for consumer electronics products – a more eco-efficient option than going it alone. We are active in developing and improving systems to support take-

Production

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

Energy

Philips measures energy use and applies efficiency measures worldwide. Because energy generated by burning fossil fuels causes the emission of CO₂, a greenhouse gas that contributes to global warming, and energy reduction can generate cost savings, EcoVision 2002-2005 calls for a 10% reduction in energy use.

As part of our continuous drive to improve the reliability of our data, we have changed the conversion factors applied for converting the use of fossil fuels into petajoules (PJ) and CO₂ emission calculations. We now use the conversion factors employed by the United Nations, rather than Dutch conversion factors. This allows for greater accuracy as the UN protocol has been refined over the years and provides country-by-country conversion factors.

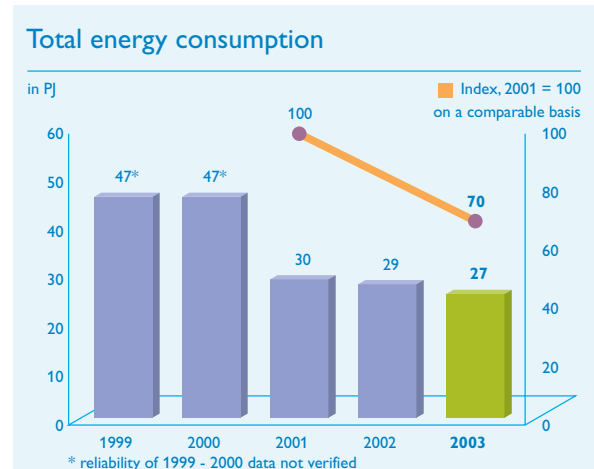
In previous years we had incorporated in our energy figures the energy content of so-called technical gases, which in 2002 and 2003 amounted up to 7% of the total energy figures. For reasons of comparison, both inside and outside the company, we have decided to focus on reporting the primary energy carriers – electricity and fossil fuels. The absolute figures from 2002 and 2001 have been adjusted accordingly.

back and recycling requirements in Europe and the United States, for both consumer electronics and lighting.

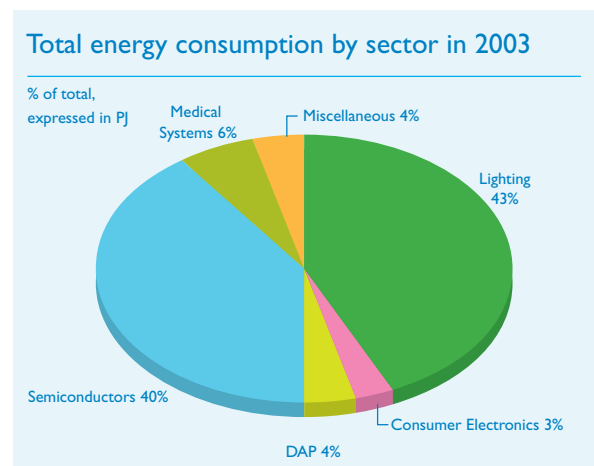
For lighting products in Europe, the company believes the common flat visible fee systems, which are up and running in several countries, provide the best solution for all stakeholders.

In the USA, Philips has made contributions to the Environmental Protection Agency (EPA) Region II Recycling Activities and the state of Maine's Pilot Recycling Project, as part of the company's efforts to develop a distributor-recycler network. In addition, the joint National Electrical Manufacturers Association (of which Philips is a member), the Association of Lighting and Mercury Recyclers and the Solid Waste Management Association have received an EPA grant to develop and implement an outreach program to increase the rate of lamp recycling.

In 2003, energy consumption amounted to 26.7 PJ, a 9% decline from 2002 in absolute terms.

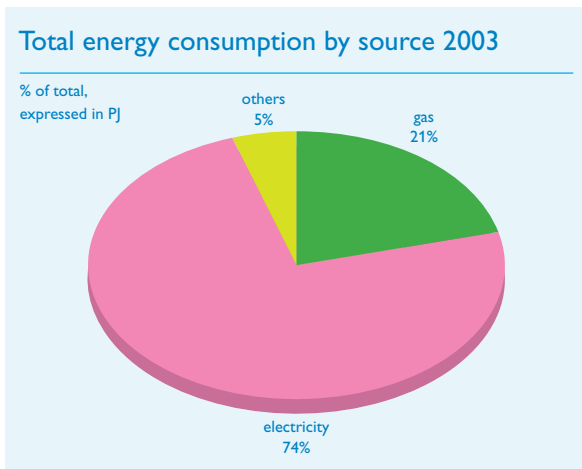


Lighting and Semiconductors account for more than 80% of the total energy used in our total production processes. The absolute decline of 9% at company level was mainly caused by shutting down a furnace for alteration and stopping glass production in one of Philips Lighting's factories for three months, as well as the closure of two of Philips Semiconductors' factories. The comparable decrease in energy consumption was 10%, against 2002, and 30% versus 2001. These comparable changes are mainly due to improved efficiency achieved with the strong increase in Semiconductors' production volume, as well as the effect of the changes in Lighting described above.



Environmental responsibility

In 2003, 74% of total energy consumption was purchased as electricity.



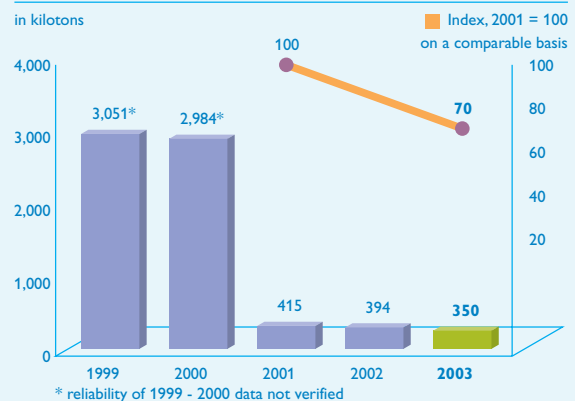
CO₂ emissions

Philips reports data on its carbon dioxide emissions from production caused by burning fossil fuels. Known as direct emissions, these are emissions we can control. In previous years we also included indirect emissions, which are generated by the power plants we purchase electricity from. For reasons of comparison, both inside and outside the company, we have decided to report only direct CO₂ emissions. The absolute figures of 2002 and 2001 have been adjusted accordingly.

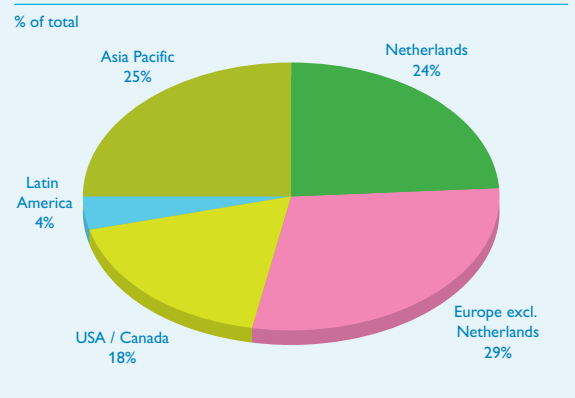
Based on the UN conversion described in the paragraph on energy, the calculated amount of CO₂ emissions from production in 2003 is 350 kilotons, compared with 394 kilotons in 2002. This is an absolute decrease of 11% and is in line with the 9% decrease in absolute energy consumption. The absolute energy and CO₂ reductions are not completely parallel, due to a different mix of types of energy (electricity, gas, others) used in 2003 versus 2002. The comparable CO₂ decrease in 2003 versus 2002 is 13%, and 30% versus the base year 2001.

Like CO₂, Per Fluorinated Compounds (PFCs) are considered greenhouse gases that contribute to global warming. There are seven types of PFCs, each with their own global warming contribution factor. Philips registers and reports the emissions for the entire group of PFCs in Category II emissions. In 2004 we will change our data systems to incorporate a more detailed way of reporting on these substances by subcategory, and will report the effects in CO₂ equivalents in our next report.

Total CO₂ emissions

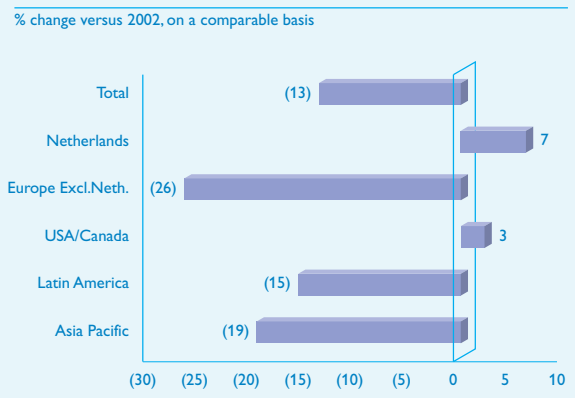


Total CO₂ emission by geographic area in 2003



Europe, excluding the Netherlands, has significantly contributed to the comparable decrease in CO₂ emissions in 2003 versus 2002. The comparable increase of CO₂ emissions in the Netherlands in 2003 was mainly due to an increase of energy consumption in production in two major sites. The increase in USA/Canada was caused by newly acquired companies.

Changes in CO₂ emission by geography in 2003



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 2003, Philips disposed of 166 kilotons of total waste, virtually unchanged from the year 2002, both in absolute and comparable terms. Improvements realized in Lighting, Consumer Electronics and Semiconductors were offset by reverse trends in the other divisions. The comparable decrease versus the 2001 base year is still 19%, due to the results achieved in 2002.



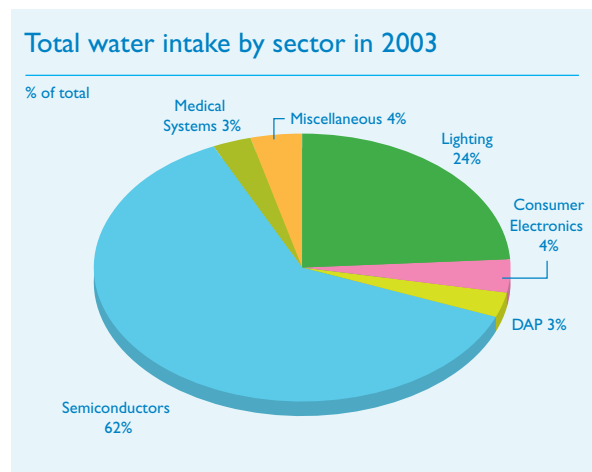
Total waste is composed of 123 kilotons delivered to recycling companies and 44 kilotons of actual waste, which was delivered either for landfill or incineration. Actual waste is comprised 34 kilotons of non-hazardous waste and 10 kilotons of hazardous waste.



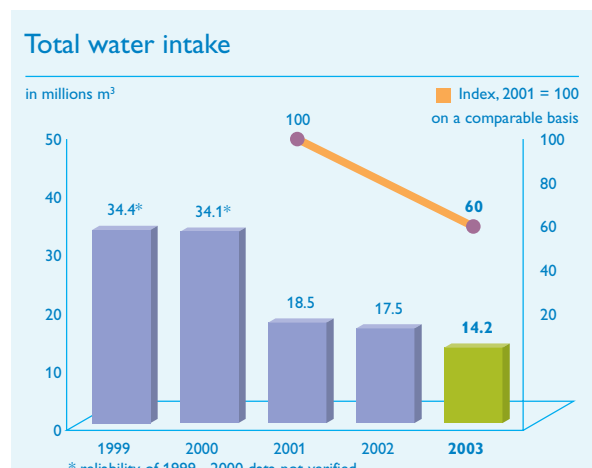
Water

Water plays a critical role in electronics production processes, particularly in the production of semiconductors, 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.

Water consumption varies in the company. Philips Semiconductors, for example, represents over 60% of the water usage, followed by Lighting, with 24% of the total. In other divisions, water is not used in production processes, but mainly relates to employee usage.



In absolute terms 14 million m³ of water were used at Philips' facilities in 2003, amounting to a 19% decrease compared with the prior year. The closure of two of Semiconductors' sites accounts for 9% of this decrease. The remaining 10% is mainly due to water saving projects, particularly within Lighting. In comparable terms versus 2002, the company improved its water efficiency by 15%. The comparable decrease versus the base year 2001 is 40%.



Sharing a best practice

Philips Domestic Appliances and Personal Care (DAP) in Drachten developed an alternative filtration process to treat electrolyte solutions, which are used in the electro-magnetic machining process for making shaver heads for Philishave electric razors. During machining, metal hydroxides pollute the electrolyte solution.

To improve the filtration process, the Drachten team conducted a feasibility study on alternative technologies to remove this chemical waste. Their new filtration process has reduced total cost of ownership 27%. The project team is working with the Philips Enabling Technologies Group to share this knowledge.

Management of chemical substances

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 because they are considered most harmful to the environment. 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. These substances have the smallest impact on the environment, but in most cases these substances are emitted in the largest quantities.

All substances in each category are listed in full on page 78.

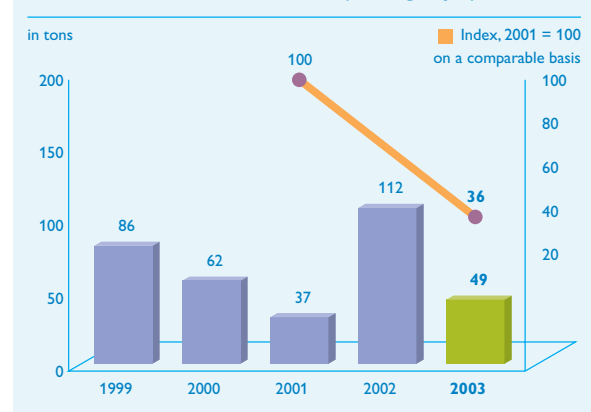
Emissions to air and water

Philips conducts investigations to reduce the quantity of harmful substances in use to an absolute minimum without adversely affecting product specifications.

Philips' 2003 production activities resulted in the following emissions:

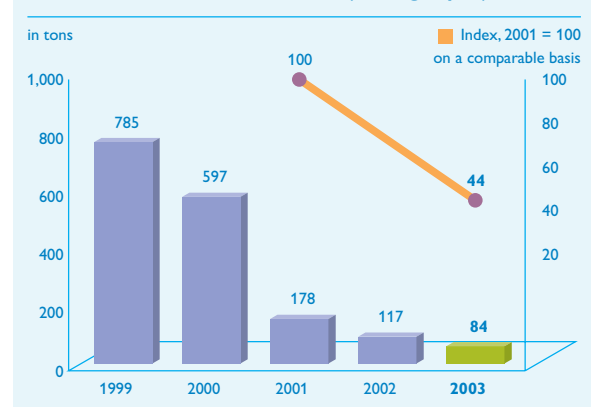
- 49 tons of substances in Category I, which Philips characterizes as restricted. In absolute terms this a reduction of 56%, compared to 2002. The comparable decrease was 64%, versus the base year 2001. This is mainly the result of the actions undertaken regarding HFCF 141a in a factory in China as was stated in last year's report.

Total restricted substances (Category I)

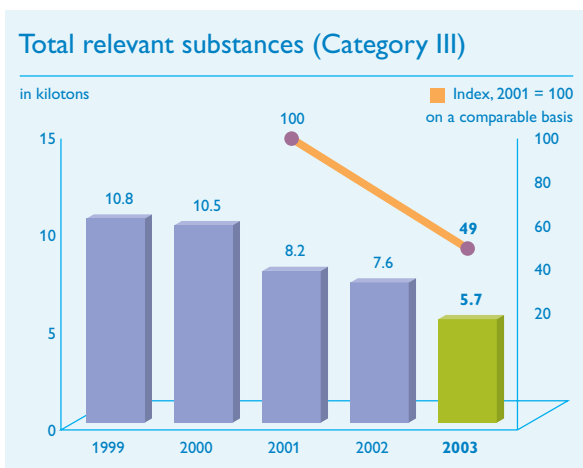


- 83 tons of materials in category II, which Philips characterizes as hazardous. In absolute terms, this is 29% less than the amount released in the year 2002. In comparable terms, the emissions of hazardous substances were 28% lower. The improvement is particularly related to Lighting where emissions decreased 80%, mainly due to the phase-out of xylene in a factory in China. Semiconductors' emissions, accounting for 74% of the Philips total, achieved a modest 4% reduction. The comparable decrease against the base year 2001 is 56%.

Total hazardous substances (Category II)



- 6 kilotons of Category III substances, those Philips characterizes as relevant. In absolute terms, this is a decrease of 25%, compared with 2002. The comparable decrease in 2003 versus 2002 is 28%, and 51% compared to 2001.



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.

After a pilot in 2002, we began measuring energy, waste and water, as well as emissions to air and water where relevant in 2003, with the intention of reporting environmental data from non-industrial facilities. There is, however, a substantial learning curve for these new reporting organizations, and we have established that, compared to the reported data from our manufacturing organizations, the data are not yet reliable enough to report. To help accelerate the learning process, we will continue working to clarify definitions in this area and are providing the necessary support to reporting units.

Legal compliance

Compliance issues are resolved through local management with legal counsel.

For information about provisions for environmental remediation please refer to page 93 of the 'Financial Statements and Analysis.'

In 2003 Philips incorporated the registration of fines related to non-compliance issues in its reporting systems. An amount of EUR 16,922 was reported.

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.

In 2003, 15 incidents were reported in six categories. They were related to waste (one), water (two), soil (four), noise (one), fire (four) and emissions of category III substances (three).



Economic

responsibility

During the economic downturn of the last years, we focused on cost and asset management, and on improving our fundamental business processes. As a result, we see better operating margins.

Income from operations benefited from performance improvements at Medical Systems, Consumer Electronics (including Licenses) and Semiconductors, as well as significant cost savings, more than offsetting higher pension costs. Our unconsolidated companies, in particular TSMC and the LG.Philips LCD joint venture, also made a strong contribution. Group net income rose sharply to

EUR 695 million. Cash flow from operating activities came to EUR 2 billion, thanks to our improved operating performance combined with our undiminished focus on supply management and tight capital management.

Though we are pleased with the progress we made in a year, we are not satisfied with the absolute level of our performance. Our positive momentum does, however, give us reason for cautious optimism.

Our priority is to create sustainable value for all of our stakeholders.

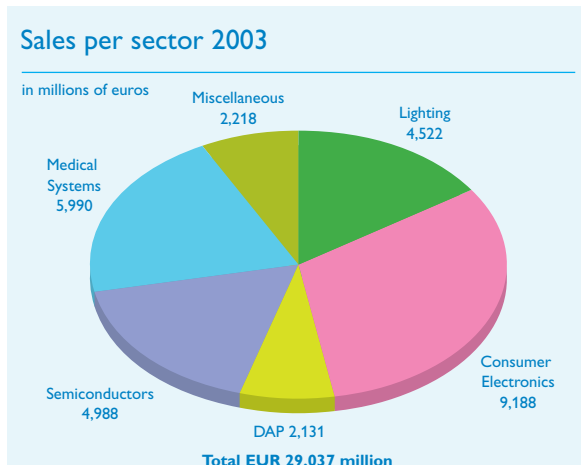
Economic responsibility

Customers

Sales of the Philips Group

The markets in 2003 showed clear signs of recovery, led by the United States. The revival was more modest in Europe, after a depressing first half of 2003. Due to the depreciation of the US dollar in 2003, the improving market trends were not reflected in nominal sales: slightly more than half of our business is done in dollar and dollar-related countries.

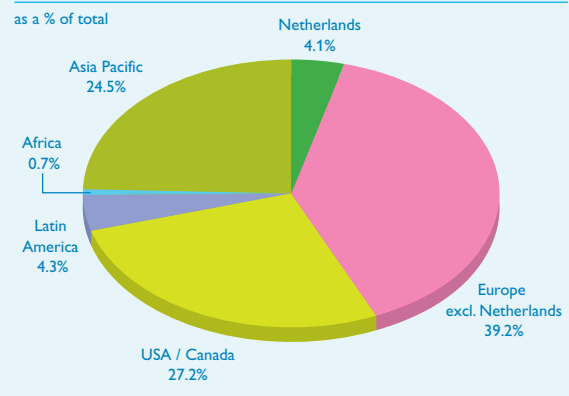
Nominal sales in 2003 totaled EUR 29,037 million, 9% less than in 2002. Weaker currencies caused a downward effect of 10%. Various divestments had a negative effect of 3%. On a comparable basis, so excluding the effects of currencies and divestments, sales increased 4%, reversing the downward trend of the previous two years. Sales growth accelerated, particularly in the second half of 2003. Sales in all sectors except Miscellaneous expanded, predominantly in Semiconductors and Medical Systems.



Geographic sales distribution

On a comparable basis, excluding the effect of weaker currencies (e.g. the pound sterling) and divestments, sales were marginally lower (1%) in Europe in 2003. Semiconductors and Medical Systems recorded substantial sales growth, offset by weaker sales in Consumer Electronics and Miscellaneous. A strong rise was recorded in Eastern Europe, offset by lower sales in The Netherlands, Germany and the UK. Sales in North America increased 5%. This was attributable to all sectors except Semiconductors. Sales in Latin America were slightly higher (1%). Sales in Asia Pacific increased by 16%. The growth in the region was headed by soaring sales in China (34% higher). All sectors except DAP contributed to the sharp rise.

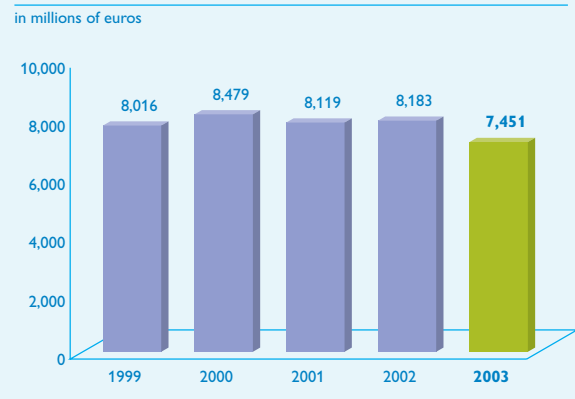
Sales by geographic area 2003



Employees

The structure and development of our workforce has been addressed in earlier sections already. The total wage bill in 2003 amounted to EUR 7,451 million, a decrease of 9% compared with the year before.

Total wage bill development



The wage bill in 2003 was composed of the following elements:

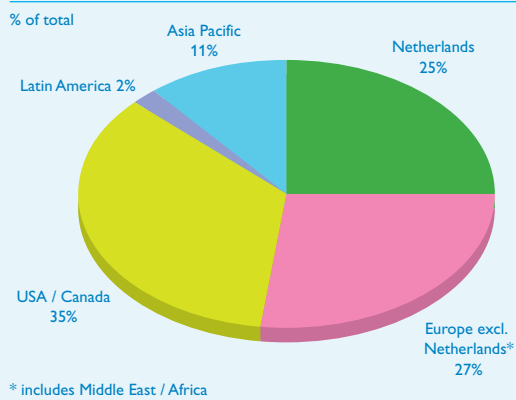
	mln. euros
Direct salaries and wages	6,020
Pension costs	442
Other social security and similar charges	
Required by law	851
Voluntary	138
Total	7,451

The decrease of the wage bill (9% in total) was impacted by various factors with opposite effects. Increased pension costs had an upward effect of 4%. Weaker currencies had a downward effect (nearly half of our wages are paid in the USA and dollar-related areas), as did the 9% decrease in the average number of

employees. Excluding these effects, the average wage bill per employee increased approximately 3%, which reflects the relative shift towards activities with a higher added value.

Europe (including the Middle East and Africa) accounts for 52% of the total wages we pay, while 44% of our employees are working in this region. It should be noted here that pension costs particularly are related to the European region in particular. At 35%, the US share of our total wage bill is twice the US share of our total workforce. This reflects not only the relatively high wages in the USA, but also the high number of employees working in our Medical Systems division with high added value. In Asia Pacific, the share of our total wage costs is relatively low (11%), compared to the share of our workforce (28%). This reflects the lower wage levels in that region, and the relative emphasis on manufacturing and assembling activities in spite of our increasing activities in areas with a higher added value, such as research & development.

Wage bill per geographic area in 2003

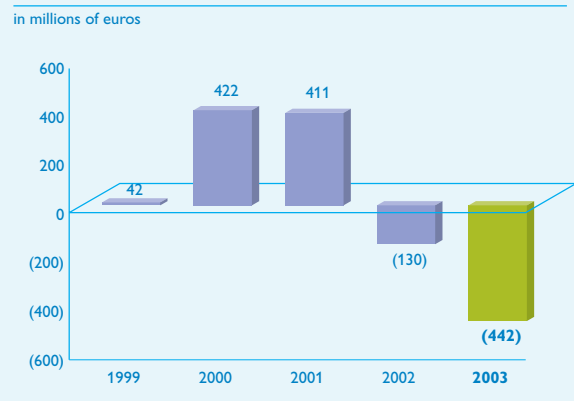


Employee pension plans have been established in many countries in accordance with the legal requirements, customs and the local situation in the countries involved. The majority of employees in Europe and North America are covered by defined-benefit plans. The benefits provided by these plans are based primarily on employees' years of service and compensation near retirement. Philips makes contributions, as necessary, to provide assets sufficient to meet the benefits payable to defined-benefit pension plan participants. In addition, we also sponsor defined-contribution and similar plans, with a total cost of EUR 46 million in 2003, for a significant number of employees. Our policy is to aim for a more balanced distribution of the financial risks related to pensions between the company and our

employees. Therefore, we aim to gradually move from defined-benefit plans to defined-contribution plans where possible, for instance for new employees and for new pension plans that are being developed.

The total cost of pensions has risen sharply during the last two years. In 2000 and 2001 pensions represented a substantial benefit for the company.

Total pension (costs) / benefits



In addition to providing pension benefits, our company also provides other postretirement benefits, primarily retiree healthcare benefits, in certain countries. The total cost of the net period cost of postretirement benefits other than pensions amounted to EUR 67 million in 2003, of which EUR 27 million relates to the Netherlands.

Suppliers

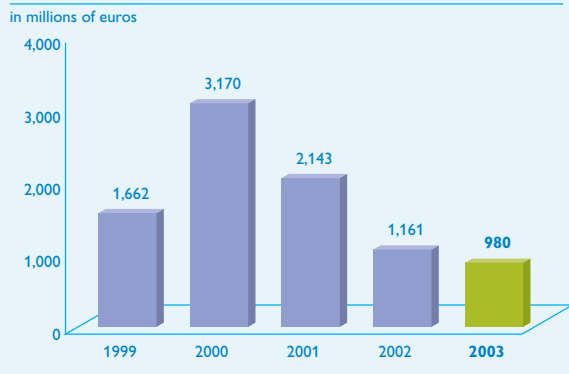
The total amount of products and services purchased in 2003 was EUR 19.2 billion, representing 66% of our total sales, which highlights the enormous importance that our suppliers have in our business model.

Our accounting system does not yet allow for a breakdown by main categories, except for capital expenditures on property, plant and equipment.

Total capital expenditures decreased further in 2003 to EUR 980 million. On the one hand this reflects the reduced growth in markets that we serve, particularly the semiconductors industry, which in the past represented a large part of our total capital expenditures. On the other hand it reflects the structural shift towards increased outsourcing (by expanding our relationship with external business partners) and the greater use of leasing instead of owning buildings, machinery, assets and other equipment.

Economic responsibility

Capital expenditures on property, plant and equipment



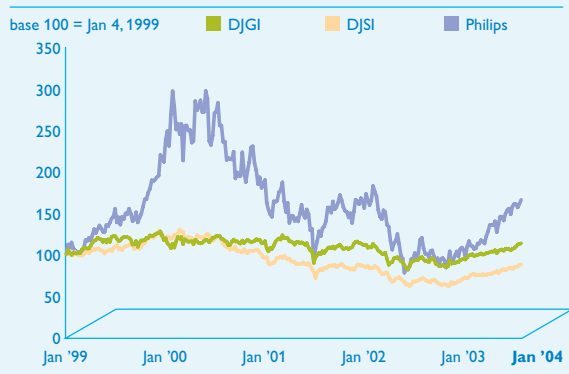
Providers of capital

The amount of interest expenses (net) totaled EUR 328 million in 2003, a decrease from the year before when the amount was EUR 384 million. The reduction is mainly due to the reduction of our average debt position.

Share price

In the Euro-zone our share price gained almost 40% in 2003, while US dollar investors witnessed a rise of over 60%. We have also outperformed the Dow Jones Global Index (DJGI) and the Dow Jones Sustainability Index (DJSI) over the last five years. And we are particularly proud to have been selected as the No. 1 company in our main industry sector in the Dow Jones Sustainability Index.

5-year relative performance: Philips, DJGI and DJSI

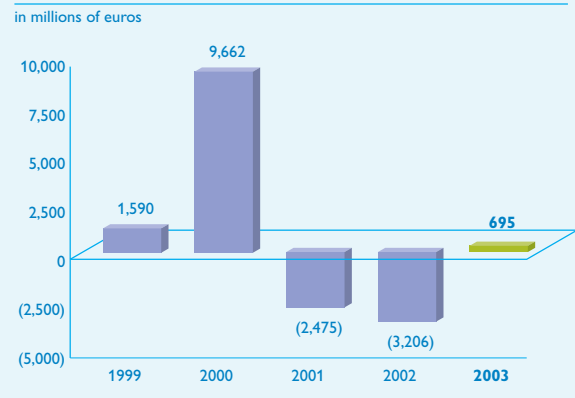


Financial performance in 2003

Net income improved to EUR 695 million in 2003. This follows a loss of EUR 3,206 million in 2002, which 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. The upturn in 2003 is to a large extent attributable to our unconsolidated companies, in particular TSMC and the LG.Philips LCD joint venture. The LG.Philips Displays joint venture had a more difficult year.

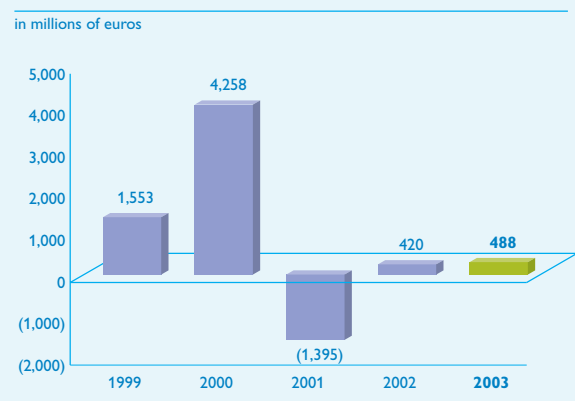
Net income (loss)



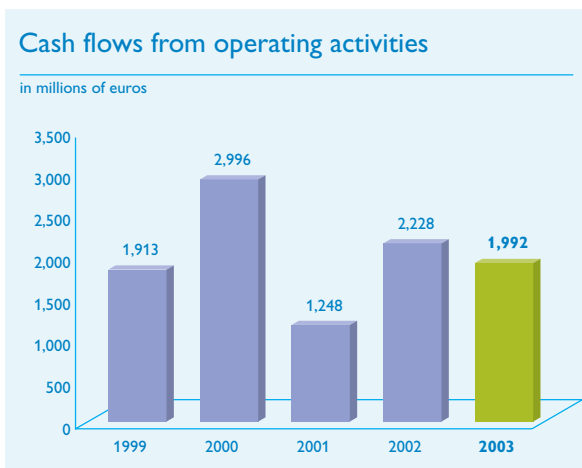
Income from operations increased significantly on the back of cost savings, which surpassed our ambitious target of EUR 1 billion savings within a two-year program. These savings were realized through a reduction in overhead costs, post-merger integration savings at Medical Systems, and other initiatives designed to lower our overall cost base, e.g. in the fields of non-product-related purchasing and R&D. This cost-reduction program is an essential part of our drive to create a simpler, more responsive organization, with more to come from the roll-out of shared services in Finance and HRM.

The improvement was partly offset by an increase in pension costs amounting to EUR 312 million and special charges of EUR 431 million, while in 2002 net charges totaled EUR 40 million.

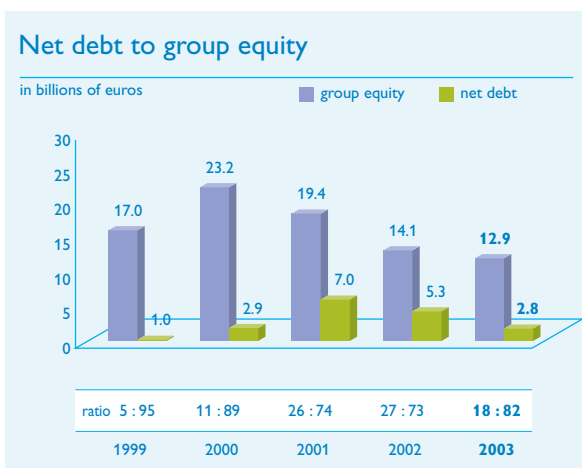
Income (loss) from operations



We generated EUR 1,992 million cash flow from operating activities in 2003, thanks to our improved operating performance combined with our undiminished focus on supply chain management and tight capital management. The limited decrease compared with 2002 was mainly attributable to a lower level of improvement of working capital, which had already been reduced substantially in 2002.



The net debt to group equity ratio was further improved to 18:82, compared with 27:73 at the end of 2002. This brings our balance sheet in line with financial community's expectations for companies in the electronics industry.

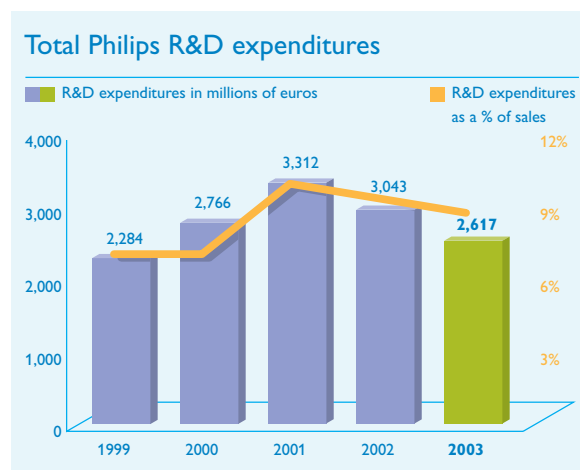


Public sector

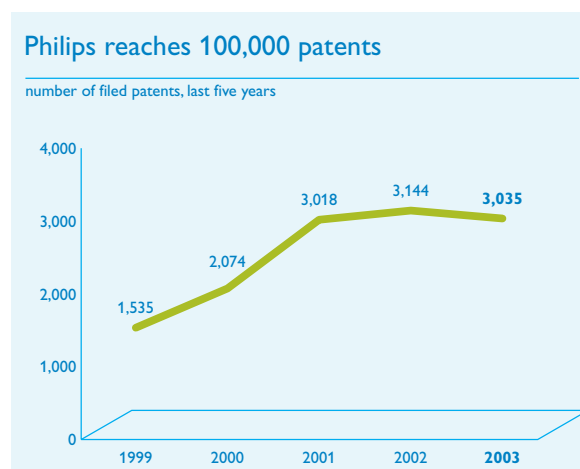
In 2003 there was an income tax benefit of EUR 15 million, compared with an expense of EUR 27 million in 2002. Excluding non-tax deductible impairment charges and non-taxable gains, the tax benefit in 2003 corresponds to an effective tax benefit of 6% compared with a projected effective tax charge for 2003 of 25%.

Technology

Total expenditures on R&D totaled EUR 2,617 million, representing 9% of our sales.



In spite of lower R&D expenditures we were able to maintain our high level of first filings of patents. The high level of patent filings over the last three years has resulted in a portfolio which in 2003 surpassed the level of 100,000 patent rights worldwide.



Verifiers' Assignment

We have asked KPMG to review our Sustainability Report 2003. KPMG decided to perform the following activities to provide the readers of the Sustainability Report 2003 with a moderate level of assurance:

- Reviewing the reliability of the data and graphs on employment, total energy consumption, total water intake, total waste and total CO₂ emissions for the years 2001 to 2003 based on:
 - visits to 21 reporting organizations in Europe, Asia and North America to review systems and data; and reviews of:
 - the data reported by all EcoVision reporting organizations;
 - the data validation processes at corporate and product division level;
 - the calculations made at corporate level;
 - the data trends in discussions with management;
 - the changes in the data management systems for the reporting organizations that were visited in the previous three years; and
 - the systems used to generate, aggregate and report these data.
- Reconciling the data and graphs on financial performance in the sections of the Sustainability Report 2003 listed below with the audited 2003 financial statements of Royal Philips Electronics.
 - the sections 'Highlights' on page 7 and 'Participations' on page 8
 - the section 'Economic Responsibility', excluding the graph '5-year relative performance: Philips DJGI, DJSI.'
- Reviewing the underlying evidence for the other information in the report by:
 - review of the systems and processes used to generate this information;
 - review of internal documentation and intranet sources; and
 - interviews with staff for the information on Green Flagships, Maturity Grids, General Business Principles, knowledge management and People Performance Management.

As we realize that building sustainability into our business processes is an ongoing process and that the quality of data collection at our manufacturing sites, and data analysis and internal controls at product division and corporate level need to be further improved to produce reliable data for all parameters, we have not asked KPMG to review the reliability of the information in this report, except for the data and graphs on employment, total energy consumption, total water intake, total waste and total CO₂ emissions for the years 2001 to 2003. We have asked KPMG to perform the activities as listed in the first bullet to provide us recommendations for the improvement of the quality of our packaging, category I, II and III emissions, and health and safety data, graphs and data management systems. We will continue building sustainability into our business processes and improving the quality of information, including following up KPMG's recommendations on the quality of packaging, category I, II and III emissions, and health and safety data, graphs and data management systems. We anticipate that we will have the reliability of all information independently reviewed in the future.

Assurance report

Introduction

We have been engaged by Royal Philips Electronics (Philips) to review the Philips Sustainability Report 2003 (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 describes its efforts and progress in relation to sustainability and reporting. In the section 'Verifiers' Assignment' on this page Philips describes the scope of our engagement, which was designed to provide the readers of The Report with a moderate level of assurance on whether:

- The data and graphs on employment, total energy consumption, total water intake, total waste and total CO₂ emissions for the years 2001 to 2003 are reliable;
- The data and graphs on financial performance, as specified in the section 'Verifiers' Assignment' on this page, are properly derived from the 2003 financial statements of Royal Philips Electronics;
- The other information in The Report is supported by appropriate underlying evidence. For the reasons specified in the section 'Verifiers' Assignment' on this page we have not reviewed the completeness and accuracy of this information.

Standards and criteria

There are no generally accepted international standards for the review of environmental or social performance information. We therefore adopt an approach that reflects emerging best practice, using a framework based on the relevant principles of the International Standard for Assurance Engagements as issued by the International Federation of Accountants and emerging standards such as AA1000s.

Activities undertaken

Our assurance engagement, which was undertaken by a multidisciplinary team of sustainability experts and accountants, comprised the activities as described in the section 'Verifiers' Assignment' on this page.

Considerations and limitations

Environmental, health, safety and social performance data are subject to inherent limitations 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 on page 59.

Conclusions

- Based on the activities undertaken, which were designed to provide a moderate level of assurance, nothing came to our attention to indicate that the following statements are not correct:
- The data and graphs on employment, total energy consumption, total water intake, total waste and total CO₂ emissions for the years 2001 to 2003 are reliable;
 - The data and graphs on financial performance, as specified in the section 'Verifiers' Assignment' on this page, are properly derived from the 2003 financial statements of Royal Philips Electronics, for which the independent auditors issued an unqualified audit opinion dated February 6, 2004;
 - The other information in The Report is supported by appropriate underlying evidence.

Amsterdam, 26 February 2004

KPMG Sustainability B.V.

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 our environmental reporting organizations. The following consolidation criteria have been applied:

- 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 acquisitions;
- data from companies disposed of are excluded in the year of disposal.

Definition of comparable change

Due to continuous changes in market demands, production activities fluctuate accordingly. Most environmental parameters we measure in an absolute way go up and down over time in parallel with these changes. Therefore, in making comparisons between different periods, we take these production fluctuations into account. When comparing aggregated data at divisional, regional and company level we also have to deal with the changing composition of our company in different reporting periods. This means that through investments, divestments or organizational changes at divisional, regional or company level, the composition of the aggregated levels may differ from year to year. To establish comparable changes for a certain parameter at aggregated levels, Philips has defined the term comparable change. Used throughout this report, comparable change is the percentage of change for the current reporting year, versus an earlier year, including production fluctuations and organizational changes. To describe trends the wording comparable increase, comparable decrease or comparable reduction are used throughout this report. They all are equal to the above defined comparable change.

Accounting for production fluctuations

Production fluctuations are taken into account by expressing the absolute value divided by a factor that characterizes those fluctuations. The production index is defined as the ratio of these factors in two reporting years. Philips reporting organizations are obliged to determine which factor is most reliable to express their production fluctuations during the action program EcoVision 2002-2005:

- Number of products
- Number of employees
- Sales figures or added value
- Total m² build surface at the premises

In high volume manufacturing activities such as those of our Lighting or Consumer Electronics divisions, the number of products is usually the common choice. On the other hand, in a business like Medical Systems, the number of employees is often chosen. Sales figures, added value or m² is chosen in those situations where the volume of products and the number of employees is relatively low, for instance in the Enabling Technology Group (ETG) in Miscellaneous.

Relative changes for a parameter of a reporting organization between two reporting years, is calculated by dividing the absolute parameter in each year by the chosen factor as mentioned above, determining the difference, which then is expressed as the difference between a current year B and the comparison year A in a percentage called comparable change (CC). We use the following formula:

$$CC = \frac{[\text{value year B}/\text{factor year B}] - [\text{value year A}/\text{factor year A}]}{[\text{value year A}/\text{factor year A}]} * 100$$

or

$$CC = \left\{ \frac{[\text{value year B}] * 100}{[\text{value year A}] * PI} - 1 \right\} * 100$$

in which PI = production index = $\frac{[\text{factor year B}]}{[\text{factor year A}]} * 100$

Accounting for organizational changes

In order to provide a basis for calculating comparable changes at aggregated levels, such as divisional, regional or company level, for a reporting year versus a previous year, the structure of reporting organizations in previous years has to be made comparable with that of the reporting year. To do that, we apply the following principles:

- Absolute data for new reporting organizations that started reporting in the current reporting year, are added to the divisional and thus company totals of the previous years, with the same absolute figures per parameter as reported in the current reporting year.
- Absolute data of reporting organizations that were divested in the current reporting year, are taken out of the divisional and thus company totals, including their historic data from previous years.
- Absolute data from previous years for reporting organizations that moved from one division to the other in the current reporting year, are removed from the old division and placed in the new division, to realize a comparable basis for the divisions involved. These interdivisional reorganizations obviously do not affect company totals.

Accuracy

- Through changes in our data systems, the use of fossil fuels now is connected to filling in NO_x and/or SO_x emissions into category III, in order to improve the reliability of our reports in this category. Absolute changes as a result of that were largely compensated by the switch in one Chinese factory from using fossil fuels to purchasing heat and electricity from the city's power generator.
- We have renewed our energy conversion factors as described on page 47 of this report for all the reported absolute amounts of energy between the years 2001-2003. The average difference between the current figures and the previously reported figures is 2%.
- We have excluded the technical gases from our energy reporting as described in this report at page 47. As a result, total energy consumption reported in absolute amounts of energy over the years 2001-2003 has been adjusted. The average difference between the current figures and the previously reported figures is 7%.
- Calculation of CO₂ emissions has been reviewed and compared to previous years. As described on page 48 of this report, the indirect emissions via the use of electricity have not been taken into account in our reporting. This also holds true for indirect emissions via the use of technical gases. In addition, we have adopted new conversion factors. The reported figures for the years 2001-2003 have been adjusted. As a result, the reported amounts of CO₂ emissions over the consecutive years are down an average of 80%, the major part of which is related to electricity consumption.
- The effects of PFC as a global warming gas, have not been taken into account. We will include that in next year's report and we expect that the effect will be substantial.
- The methods of determining environmental data carry inherent limitations with respect to accuracy. In a number of cases, reporting organizations had to estimate data.
- An improvement in our reporting system on ISO 14001 registration, resulted in an adjustment of the reported figure for 2001 to 89%.

Appendix

Completeness

- In the year 2003 one reporting organization did not deliver its second half-year results due to organizational activities, of which the influence on company and divisional data is negligible.
- As our reporting organizations strive to improve the quality of our reported data, we have received a number requests for data changes in absolute figures for previous reporting years, which we entered into our data systems to improve comparability. The materiality of these changes at Philips Group level is negligible.

Comparability

- In the year 2003 additional efforts have been made to control the proper choice of type of factor, as described in the paragraph on production fluctuations, to determine the above-defined production index. We have learned that in some cases another choice would better reflect those fluctuations than the current one. We expect that in our improvement actions in 2004 this might influence some reported comparable changes from previous years.
- As of the end of 2002, the Components division was dissolved and its activities were relocated to other divisions. The most important changes were the shift of the business group Mobile Display Systems to Semiconductors, while the business unit Optical Storage has been relocated to Miscellaneous. Reported data on environmental performance in 2003 follows this new structure, which is in line with the financial reporting structure. The absolute data for the period 1999-2002, as they are included in the annexes, have not been restated. However, the EcoVision database includes the restated structure for the years 2001 and 2002. In this way, the comparable relative changes of each division can be tracked and calculated. This includes adjustments for production levels as well as changes in the organization.

Auditor policy

The company maintains a policy of strict separation between the auditing and consulting functions of its auditing company, in line with US Securities and Exchange Commission rules under which the appointed external auditor must be independent of the company both in fact and appearance. The policy is laid down in the comprehensive policy on auditor independence published on the company's website.

General Business Principles

Introduction

Underpinning Philips' commitment to responsible corporate citizenship and the pursuit of a sustainable future – economic, social and environmental – the General Business Principles set out guiding principles on integrity and ethics in business conduct. They govern Philips' business decisions and actions throughout the world and apply equally to corporate actions and to the behavior of individual employees in conducting Philips' business. They are subject to applicable laws.

The General Business Principles are not all-encompassing, but formulate minimum requirements of behavior. They leave product divisions and country management free to specify further local rules of business conduct. To drive the practical deployment of the General Business Principles, a set of GBP Directives have been published, which are applicable to all employees. There are also separate Directives, which apply to specific categories of employees, such as the Financial Code of Ethics and the Purchasing Code of Ethics. The GBP Directives and the category-specific Directives form an integral part of the General Business Principles (jointly be referred to as 'GBP'). The General Business Principles, which have been adopted by the Board of Management and approved by its Supervisory Board, are reviewed on a regular basis and revised if necessary.

In order to ensure that business ethics are a living issue throughout the company, a worldwide training program is in place to heighten awareness of the absolute need for strict compliance with the General Business Principles.

December 2003

* 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.

1. General commitment

Philips' mission is to improve the quality of people's lives through the timely introduction of meaningful technological innovations. In a world where technology increasingly touches every aspect of our daily lives, Philips aspires to be a leading solutions provider in the areas of healthcare, lifestyle and enabling technology, delighting its customers with products and services that meet and even exceed their expectations.

Philips wishes to be a responsible partner in society, acting with integrity towards its shareholders, customers, employees, suppliers and business partners, competitors, governments and their agencies and others who can be affected by its activities. Philips duly observes the applicable rules of the law of the countries in which it operates and regularly reviews its interests and those of affected persons or entities in order to ensure a healthy, long-term relationship with them. Philips endeavors to adapt to local situations in order to take the most appropriate approach to 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.

1.1 Human rights

With due regard to the Universal Declaration of Human Rights, which states that all parties in society, including corporate persons, have a duty to respect and safeguard human rights, and within the framework of the legitimate role of businesses, Philips supports and respects human rights and strives to ensure that its activities do not make it an accessory to infringements of human rights.

1.2 Child, bonded and forced labor

Under no circumstances will Philips make use of forced or bonded labor, nor will it employ children in violation of Conventions no. 138 and no. 182 of the International Labour Organization.

1.3 Free market competition

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

1.4 Product safety

Philips aims, at all times, to supply safe products and services.

1.5 Privacy

The privacy of personally identifiable information about customers, employees, business partners and other individuals will be protected.

1.6 Environmental protection

Consistent with Philips' commitment to sustainable development, it will do all that is reasonable and practicable to minimize any adverse effects of its activities on the environment.

2. Commitment towards customers

Philips is driven to improve people's lives. Its goal is to constantly delight each customer with breakthroughs both large and small. To this end, the company seeks to maintain an ongoing dialogue with its customers. Philips is committed to listen to and learn from them, so that it is able to design and deliver the solutions they really want and need. Philips will always deal with its customers in a fair and forthright manner, maintaining the highest levels of integrity.

3. Commitment towards shareholders

It is of central importance to Philips to conduct its operations in accordance with the highest standards of internationally accepted principles of good corporate governance. Philips aims to achieve a satisfactory return on equity, with the intention of maintaining a sustainable dividend payment to shareholders, while at the same time retaining sufficient funds in the company to generate profitable growth. Philips attaches great value to its relations with its shareholders and the financial markets and provides timely, regular and reliable information on its activities, structure, financial position and performance.

4. Commitment towards employees

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.

4.1 Right to organize

Philips recognizes and respects the freedom of employees to choose whether or not to establish, or to associate with, any organization. Philips respects – within the framework of (local) law, regulations and prevailing labor relations and employment practices – the right of its employees to be represented by labor unions and other employee organizations, and Philips will engage in negotiations, either on its own behalf or through employers' associations, with a view to reaching agreement on employment conditions.

4.2 Health and safety

Philips will do all that is reasonable and practicable to protect the health and safety of its employees.

4.3 Equal and fair treatment

Every employee has equal opportunities and will be treated equally in employment and occupation regardless of personal background, race, gender, nationality, age, sexual preference or religious belief. The same applies to the recruitment of employees. Philips strives to offer equal pay for equal work performed at equal levels at similar locations. No form of harassment or discrimination will be tolerated.

4.4 Wages and payment

Remuneration and working hours shall comply with local labor laws and shall at least be in line with prevailing industry norms.

5. Commitment towards suppliers and business partners

Philips pursues mutually beneficial relationships with its suppliers and business partners. It seeks to award business to suppliers and business partners who are committed to act fairly and with integrity towards their stakeholders and who observe the applicable laws of the countries in which they operate.

6. Assets and information

6.1 Use and protection of assets

Each employee is responsible for the proper use, protection and conservation of Philips' assets and resources as well as confidential information disclosed to Philips by its business partners. Philips' assets and resources as well as any opportunities arising by virtue of one's position, are to be used solely to pursue and achieve Philips' goals and not for personal benefit.

6.2 Improper disclosure

Philips regards information for the purpose of its business as a corporate asset that must be protected against loss, infringement and improper use and disclosure.

Philips is committed not to make use of information disclosed to it by a third party if it is suspected that the discloser thereby violates an obligation of confidentiality, unless the information:

- a. is generally available to the public other than as a result of disclosure by Philips;
- b. has been independently developed by Philips; or
- c. becomes available to Philips either on a non-confidential basis from a third party who is not bound by any confidentiality obligations or by operation of law.

6.3 Insider trading

All employees shall comply with Philips' insider trading rules. This means that non-public information which might influence the market price of Philips shares shall be kept in strict confidence until publicly released by authorized management. Furthermore, employees who have sensitive information which could influence the price of Philips shares and related rights, must refrain from directly or indirectly executing transactions in Philips shares and related rights. Additionally, employees have to comply with statutory rules and regulations concerning insider trading with respect to securities of other listed companies.

7. Business integrity

7.1 Bribery; records of transactions

Philips insists on honesty, integrity and fairness in all aspects of its business. Bribes in any form are unacceptable; commission payments and personal gifts or favors may only be made or accepted in strict accordance with the GBP Directives. Philips strives to comply with the highest levels of transparency and accountability throughout the company. 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.

7.2 Third-party interests

Employees are not allowed to have any direct or indirect financial interest in a supplier or competing company with the exception of a financial interest in a publicly traded company.

7.3 Political payments

Philips companies shall not make payments or donations, in money or in kind, to political parties, political organizations or individual politicians, unless such payments are made in strict accordance with the GBP Directives.

8. Observance of the General Business Principles

8.1 Sanctions

All Philips employees must comply with the General Business Principles. Violation may lead to disciplinary action, including dismissal, notwithstanding any further civil or criminal action that may be taken.

8.2 Whistleblower policy

In order to promote the reporting of violations of the General Business Principles, a whistleblower policy is in place, enabling employees to submit complaints on an anonymous basis without fear of the complaints leading to disciplinary action.

8.3 Compliance

Compliance with the General Business Principles is monitored via a worldwide network of Country and Product Division compliance officers, who regularly report to the Corporate Review Committee

GBP, which advises the Board of Management on the deployment of the General Business Principles and on ethical issues in general.

Reporting on compliance with the General Business Principles is also an integral part of the Statement on Business Controls issued annually by the management of each business unit/department as part of a cascade process leading to CEO/CFO certification of the company's annual accounts. Compliance processes and procedures are audited by Philips' Corporate Internal Audit department.

GBP Directives

December 2003

1. Policy Statements on Conventions of the ILO

1.1 General statement about Conventions of the ILO

The Conventions of the International Labour Organization are addressed to member states of the International Labour Organization, not to individuals or companies. Philips supports the aim of the International Labour Organization to arrive at universally accepted labor standards. Philips has adopted internal procedures and guidelines with respect to topics covered by the seven Fundamental Conventions of the International Labour Organization, such as forced labor, the right to organize, collective bargaining, discrimination and child labor.

1.2 Forced labor

Employment should be freely chosen. Under no circumstances will Philips make use of forced or bonded labor – such as forced labor performed by persons placed in an institution, or compulsory labor including labor as a means of political coercion or education – to manufacture or assemble Philips products.

1.3 Right to organize

Philips recognizes and respects the freedom of employees to choose whether or not to establish or to associate with any organization of their own choosing (including labor unions) without Philips' prior authorization. Philips will not make the employment of a worker subject to the condition that he/she shall not join a union or shall relinquish trade union membership. Furthermore, Philips will not cause the dismissal of – or otherwise prejudice – a worker by reason of union membership. Philips will not interfere with or finance labor organizations or take other actions with the object of placing such organization under the control of Philips.

1.4 Collective bargaining

Philips respects – within the framework of (local) law, regulations and prevailing labor relations and employment practices – the right of its employees to be represented by labor unions and other employee organizations. Philips will engage in negotiations, either on its own behalf or through employers' associations, with a view to reaching agreement on employment conditions.

1.5 Discrimination

Every employee has equal opportunities and will be treated equally in employment and occupation. Philips offers equal pay for equal work performed at equal levels at similar locations. No form of harassment or discrimination in respect of employment and occupation will be tolerated, such as discrimination based on race, color, sex, pregnancy, language, religion, political or other opinion, national or social origin, property, birth or other status.

1.6 Child labor

Philips does not employ children in violation of conventions 138 and 182 of the International Labour Organization.

2. 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 judgment 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.

3. Engagement outside Philips

3.1 Philips expects its employees to be fully dedicated to the proper fulfillment of their jobs and to avoid any (potential) 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.

3.2 Financial reward received for services rendered to third parties should be made over to the Company. However, if the service in question is rendered largely in the employee's own private time, management may grant the employee permission to retain all or part of the compensation. The same applies to the compensation received in respect of part-time academic posts held.

This provision does not apply to compensation for services rendered by a person in his private time, which are not related in any manner to his professional activities for Philips.

4. Commission payments to third parties

4.1 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.

4.2 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.

4.3 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.

5. 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.

6. 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.

7. Money laundering

Philips will not participate in 'money laundering' by entering any arrangement which is known or there is reason to suspect that it will be used to facilitate any acquisition, retention, use or control of any property or money intended to disguise the proceeds of crime. An employee who suspects a situation of money laundering shall inform the GBP Compliance Officer

GBP Compliance and Reporting

December 2003

Role of the Review Committee General Business Principles (GBP)

The role of the Review Committee GBP is:

- to advise the Board of Management on the deployment of the GBP, on changes to the GBP and, more specifically, on the following business integrity issues: integrity of records; bribery; discrimination; privacy; conflict of interests; gifts; facilitating payments; military and defense contracts; political payments; code of ethics for financial officers; insider trading; anti-trust; free market competition; third-party interests; money laundering; use and protection of assets; improper disclosure.
- to foster awareness of and promote compliance with the GBP, also via training initiatives including the dilemma training casebook;
- to coordinate the twice-yearly reporting on compliance with the GBP and to submit a consolidated report to the Board of Management and the Audit Committee of the Supervisory Board;
- to act as contact point and dialogue partner for internal audiences and external organizations (such as NGOs) in respect of the Company's policies and actions on business integrity issues;
- to act as contact point for the DJSI and FTSE4GOOD indexes and to coordinate the completion of the questionnaires and review the information to be submitted.

GBP Compliance Officers

It is recommended that the legal officer of the country organization and the legal officer of the product division (PD) should be appointed as Compliance Officers. In this capacity they report to the country management and the PD management respectively. 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 respective 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.

Reporting of (suspected) breaches

Philips encourages all its employees to report promptly any (suspected) violation of the General Business Principles or the GBP Directives (jointly the 'GBP'), and Philips ensures that employees who, in good faith, report a suspected violation of the GBP in accordance with this policy will not be subject to disciplinary action or retaliation on account of their reporting, even if there turns out to have been no violation.

All (suspected) violations of the GBP should be reported to the GBP Compliance Officer or to such other person as may be designated in a GBP Directive for a violation of a certain GBP Directive. The contact details of the Compliance Officer are published on the Philips intranet (pww.manual.philips.com). However, if the (suspected) violation relates to a GBP Compliance Officer, the report should be sent to the Chairman of the Review Committee General Business Principles.

Reports may be made by phone, e-mail, regular mail or fax or, where available, via a toll-free hotline. Reports may be submitted on an anonymous basis and will be treated confidentially. If so requested, the employee may approve the text of the reported violation and/or he/she will be provided with a copy of the report.

Upon receipt of a report, the Compliance Officer will arrange for an investigation of the alleged breach. As soon as reasonably possible, but at least within 2 months, the Compliance Officer will inform the employee of the outcome of its investigation. If the investigation is not completed within 2 months, the Compliance Officer will inform the employee of the expected date of completion.

Other employees will only be informed about the investigation if it is reasonable and necessary to do so. The identity of the employee filing the report will only be disclosed with his/her consent unless disclosure is required by law.

If the employee who filed the report is not satisfied with the reported outcome of the investigation by the Compliance Officer or the Compliance Officer does not handle the report in accordance

with this procedure, he/she is encouraged to inform the Chairman of the Review Committee GBP hereof in writing; the Chairman of the Review Committee GBP will respond to such employee in writing as soon as possible.

Recording of reported breaches

All breaches reported to the PD or country Compliance Officer should be properly recorded in the GBP Violations database. An overview of the reported breaches and the action taken must also be included in the twice-yearly report by the Compliance Officer to the Review Committee GBP.

This document forms an integral part of Philips' General Business Principles, which are applicable to Koninklijke Philips Electronics N.V. and its subsidiary companies.

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.

Maturity Grid, EcoDesign in Product Creation Process (version 2.0)

- 0 The development department delivers products without attention to 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 An EcoDesign procedure including mandatory environmental requirements is available in a development center. A development center's Product Creation Process (PCP) refers to this EcoDesign procedure.

- 3 The available EcoDesign procedure covers all elements of the 'framework for EcoDesign Procedures'. This EcoDesign procedure is used in some projects. A management system (like ISO 14001/9001/other) is in place in a development center.

- 4 The EcoDesign procedure is used in many projects. The EcoDesign procedure is integrated in the management system (like ISO 14001/9001/other). Environmental roadmaps (or environmental targets/ improvement trends in technology roadmaps authorized by management of a development center) are available in a development center.

- 5 A mandatory EcoDesign procedure is in place in a development center. The EcoDesign procedure is used in most projects. An annual internal auditing process covers the EcoDesign procedure. This Maturity grid is off-line included as extra element in the Process Survey Tool 'PCP' of a development center.

- 6 The EcoDesign procedure is used in all projects. Environmental roadmaps are used as input for target setting in the EcoDesign procedure. Environmental roadmaps are updated annually. This update process is integrated in the management system (like ISO 14001/9001/other). The Maturity Grid 'EcoDesign in PCP' is included as extra element in the Process Survey Tool 'PCP' of a development center. The reached level of Maturity Grid element 'EcoDesign in PCP' is part of annual Business Review.

- 7 A development center's management system (like ISO 14001/9001) is certified externally. Targets/ improvement trends in environmental roadmaps are based on environmental performance benchmarks with competitor or predecessor products/technologies.

- 8 An annual external auditing process covers the EcoDesign procedure. Several objectives in environmental roadmaps are set to surpass environmental performance of competitor products. Development projects are started to reach those objectives. The grid level is reported in BEST Society Results 8b.

- 9 The position in the top 5 among competitors is confirmed by external reports, activities or prizes obtained for many key products that excel on environmental performance. The organization knows what steps have to be taken to reach the top position among competitors. Plans are ready and in place to reach that position.

- 10 Recognition by competitors and others for best practices. Self learning organization focused on sustained business excellence, fully integrated with partners.

Examples of Green Flagship benchmarks

MASTER PL Electronic 11W lamp



Hazardous Substances

	Unit	Philips	Competitor A	Competitor B
Mercury	[mg]	1.4	1.4	6.0
Percentage score	[%]	100%	100%	429%
		Philips	2 Competitors	
Average	[mg]	1.4	3.7	
Percentage score	[%]	38%		
Improvement score	[%]	62%		



Packaging

	Unit	Philips	Competitor A	Competitor B
Weight	[g]	7.5	15.0	16.5
Percentage	[%]	100%	200%	220%
		Philips	2 Competitors	
Average	[g]	7.5	15.8	
Percentage score	[%]	47%		
Improvement score	[%]	53%		

30PF9975 LCD Flat TV™



Energy consumption

Function	Unit	Philips	Competitor A	Competitor B	Competitor C
TV set On	[kWh/year]	212	326	300	252
TV set Standby	[kWh/year]	6	17	19	55
Total / year	[kWh/year]	218	343	318	307
Percentage score	[%]	100%	157%	146%	141%
		Philips	3 Competitors		
Average	[kWh/year]	218	323		
Percentage score	[%]	67%			
Improvement score	[%]	33%			



Weight

Part	Unit	Philips*	Competitor A*	Competitor B*	Competitor C*
LCD Screen	[g]	16,280	25,340	19,380	14,580
Power Cable A	[g]	102	293	98	280
Signal Cable	[g]	-	453	560	-
E-box	[g]	-	5,080	5,240	-
Power Cable B	[g]	169	293	98	-
Rest	[g]	0	0	0	0
Total	[g]	16,551	31,459	25,376	14,860
Percentage	[%]	100%	190%	153%	90%
		Philips	3 Competitors		
Average	[g]	16,551	23,898		
Percentage score	[%]	69%			
Improvement score	[%]	31%			

* = LCD screen weight including stand

Appendix

EcoVision data tables

EMS: percentage of ISO 14001 certified reporting organizations

	1999	2000	2001	2002	2003
Lighting	83	95	89	92	94
CE	66	83	88	93	100
DAP	100	100	88	88	88
Components	74	80	100	100	–
Semiconductors	93	100	89	85	92
Medical Systems	56	63	100	53	69
Miscellaneous	54	79	78	86	78
Total	75	85	89	88	89

CO₂ emissions (tons)

	1999	2000	2001	2002	2003
Lighting	947,046	978,027	290,564	281,735	262,626
CE	176,359	164,176	29,558	12,531	9,497
DAP	53,611	54,562	5,322	5,273	6,401
Components	1,132,207	1,031,635	7,318	14,700	–
Semiconductors	662,476	673,204	67,314	62,660	51,991
Medical Systems	26,348	27,169	5,216	11,636	11,919
Miscellaneous	53,350	55,043	9,896	5,475	7,549
Total	3,051,397	2,983,816	415,188	394,010	349,983

Packaging (tons)

	1999	2000	2001	2002	2003
Lighting	97,101	96,712	107,000	103,812	85,143
CE	57,196	68,603	78,864	100,041	96,956
DAP	23,490	22,517	16,248	19,470	16,931
Components	38,879	37,975	3,890	5,402	–
Semiconductors	5,905	6,818	5,310	5,068	7,214
Medical Systems	2,200	2,255	3,095	4,946	5,511
Miscellaneous	1,042	1,550	1,678	1,271	2,541
Total	225,813	236,430	216,085	240,010	214,296

Total waste (tons)

	1999	2000	2001	2002	2003
Lighting	107,556	109,333	96,122	93,121	91,986
CE	41,396	45,251	42,352	29,953	25,855
DAP	5,492	5,100	7,761	8,269	11,134
Components	97,500	98,751	7,135	6,193	–
Semiconductors	18,249	22,853	18,794	17,125	21,983
Medical Systems	2,877	2,708	2,831	6,450	7,160
Miscellaneous	8,991	9,628	5,514	5,767	8,375
Total	282,061	293,624	180,509	166,878	166,493

Energy consumption (PJ)

	1999	2000	2001	2002	2003
Lighting	15.3	15.5	12.9	12.6	11.8
CE	2.6	2.5	1.9	0.7	0.7
DAP	0.8	0.8	0.9	0.9	1.0
Components	17.0	16.0	1.1	1.4	–
Semiconductors	9.7	10.5	11.5	11.5	10.6
Medical Systems	0.4	0.4	0.6	1.5	1.5
Miscellaneous	0.8	0.9	0.8	0.7	1.1
Total	46.6	46.6	29.7	29.3	26.7

Water intake (10³ m³)

	1999	2000	2001	2002	2003
Lighting	7,714	6,735	4,946	4,440	3,456
CE	1,313	1,195	835	506	591
DAP	401	434	404	422	423
Components	13,752	13,954	726	1,049	–
Semiconductors	10,001	10,666	10,837	10,274	8,750
Medical Systems	247	204	227	470	449
Miscellaneous	994	881	556	351	575
Total	34,422	34,069	18,531	17,512	14,244

Emissions of restricted substances (tons)

	1999	2000	2001	2002	2003
Lighting	11.7	13.4	6.2	4.3	2.1
CE	6.8	0.0	0.0	0.0	0.0
DAP	0.2	0.2	0.2	0.0	0.1
Components	5.5	2.0	18.0	103.9	–
Semiconductors	41.6	32.2	9.4	0.9	45.0
Medical Systems	1.8	2.0	1.2	1.5	1.8
Miscellaneous	17.9	12.0	2.3	1.5	0.0
Total	85.5	61.8	37.3	112.1	49.0

Emissions of hazardous substances (tons)

	1999	2000	2001	2002	2003
Lighting	111.6	45.7	77.4	35.9	8.0
CE	22.5	22.4	0.1	0.0	0.0
DAP	3.2	3.1	2.9	3.4	3.1
Components	590.7	454.0	15.7	11.7	–
Semiconductors	51.2	64.4	74.4	63.9	61.4
Medical Systems	0.5	0.9	0.8	0.4	0.4
Miscellaneous	4.9	6.9	7.0	2.1	10.6
Total	784.6	597.4	178.3	117.4	83.5

Emissions of relevant substances (tons)

	1999	2000	2001	2002	2003
Lighting	3,401	3,631	4,038	4,170	3,495
CE	1,435	1,405	1,457	822	247
DAP	96	92	114	139	105
Components	3,193	2,746	360	341	–
Semiconductors	2,591	2,563	2,153	1,949	1,692
Medical Systems	10	11	29	55	59
Miscellaneous	122	93	37	116	105
Total	10,848	10,541	8,188	7,592	5,703

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



Weight



Hazardous substances



Energy consumption



Packaging



Recycling and disposal

	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 incorporate correction for production fluctuations.

² A Green Flagship is defined as a product or product family that has gone through divisional EcoDesign procedures and, after investigation in three or more 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.

Royal Philips Electronics

P.O.Box 218, 5600 MD Eindhoven

Group Management Committee

Subject: Sustainability

Dear Madam, Sir,

Today, business is expected to actively manage and report its performance, not only its economic, but also its environmental and social performance. An integrated approach throughout the supply chain in managing this triple bottom line, referred to as *sustainability*, has become a prerequisite for many of our customers and other stakeholders.

Philips is committed to sustainability and encourages active co-operation and initiatives from its supply base showing their commitment as well.


With regard to the above, Royal Philips Electronics considers suppliers' commitment to adhere to the Supplier Declaration on Sustainability ("Declaration") an important factor in its decision to enter into or remain in a business relationship. The enclosed Declaration is not exhaustive, but includes minimum expectations of behaviour. The Declaration will be regularly reviewed and updated.

We kindly request that you, as a supplier to Philips, return the completed and signed Declaration within two weeks to your Philips contact point. Furthermore, we ask your company to deploy these requirements in your own organization as well as throughout your supply base.

We will regularly review supplier performance against the requirements set forth in this Declaration.

If you need any further information, please do not hesitate to approach your Philips contact, who will be pleased to answer your questions.

Yours sincerely
Royal Philips Electronics



Mrs Barbara Kux
Chief Procurement Officer
Member Group Management Committee



Mr Arthur van der Poel
Member Group Management Committee
Sustainability & Quality Policy



PHILIPS

Date: 10/12/2003
Page: 2

Supplier Declaration on Sustainability

Supplier : _____

General

Supplier is committed to act fairly and with integrity towards stakeholders and is expected to comply with all applicable local rules and regulations.

Environment

Supplier shall have ISO14001 certification or a plan to become certified. Alternatively supplier must provide documented objective evidence of an operational environmental management system for ISO14001 or demonstrate equivalency which shows continual environmental improvement. Suppliers must comply with requirements of the respective Product Division, including banned/hazardous substances content.

Health and safety

Supplier shall do all that is reasonable and practicable to:

- Protect the health and safety of employees and contract labour and minimize any adverse work conditions;
- Implement safe and healthful workpractices to prevent injury, illness and property damage;
- Minimize occupational exposures to potentially hazardous materials and unsafe work conditions by maintaining appropriate safety systems and effective controls;
- Implement an emergency response program that addresses the most likely anticipated emergencies;

- Train managers and employees to assure their continued commitment to their own health and safety and that of their co-workers;
- Involve employees at all levels in the health and safety program; assure their accountability for injury and illness prevention.

Child labour

Supplier shall not employ children in violation of convention 138 and 182 of the International Labour Organization. In case of child labour, Supplier shall take immediate remedial action in consultation with Philips, considering the interests of the children employed. This action will include:

- Minimally acceptable employment conditions for the children employed (such as education, working hours, wages, medical facilities etc.);
- The obligation of the supplier not to employ any more children;
- A time period within which the supplier will comply with the mentioned ILO norms.

Forced labour

Employment should be freely chosen. Under no circumstances will Supplier make use of forced or bonded labor – such as forced labor performed by persons placed in an institution, or compulsory labor including labor as a means of political coercion or education – to design, manufacture or assemble products and services for Philips.



Right to organize

Supplier shall recognize and respect the freedom of its employees to choose whether or not to establish or to associate with any organization of their own choosing (including labor unions) without Suppliers' prior authorization. The employment of a worker shall not be contingent upon the condition that he/she not join a union or be forced to relinquish trade union membership. Furthermore, union membership shall not be the cause for the dismissal of – or otherwise prejudice against – a worker. Supplier will not interfere with or finance labor organizations or take other actions with the intent of placing such organization under the control of Supplier.

Collective bargaining

Supplier shall respect – within the framework of law, regulations and prevailing labor relations

and employment practices – the right of its employees to be represented by labor unions and other employee organizations. Supplier will engage in negotiations, either on its own behalf or through employers' associations, with a view toward reaching agreement on employment conditions.

Discrimination

Supplier shall treat its employees equally in employment and occupation, and will ensure that each has equal opportunities. Supplier shall offer equal pay for equal work performed at equal levels. No form of harassment or discrimination in respect of employment and occupation will be tolerated, such as discrimination based on race, color, sex, age, language, religion, political or other opinion, national or social origin, property, birth or other status.

Declaration to be signed by Supplier:

Name: _____ (Company Stamp)

Function: _____

Date: _____

Signature: _____



Global Reporting Initiative (GRI) Guidelines – General

	Indicator number		Page/s	Remark
Vision and strategy				
	1.1	Statement of the organization's vision and strategy regarding sustainable development	14-19, 65	
	1.2	Statement from the CEO describing key elements of the report	2-5	
Profile				
Organizational profile	2.1	Name of reporting organization	cover	
	2.2	Major products and/or services, including brands if appropriate	7	
	2.3	Operational structure of the organization	7	
	2.4	Description of major divisions, operating companies, subsidiaries and joint ventures	7-8	
	2.5	Countries in which the organization's operations are located	7-9	
	2.6	Nature of ownership; legal form	9	
	2.7	Nature of markets served	8	
	2.8	Scale of the reporting organization	7	
	2.9	List of stakeholders, key attributes of each, and relationship to the reporting organization	24-25	
Report scope	2.10	Contact person(s) for the report, including e-mail and web addresses	80	
	2.11	Reporting period	cover	inside front cover
	2.12	Date of previous report	cover	inside front cover
	2.13	Boundaries of report (countries/regions, products/ services etc.) and any specific limitations	cover	inside front cover and pages 59-60
	2.14	Significant changes in size, structure, ownership	8-9	
	2.15	Basis for reporting on joint ventures etc. affecting comparability from period to period	cover	inside front cover and pages 59-60
	2.16	Explanation/nature of any re-statements of earlier reports (e.g. mergers/acquisitions)	59-60	
Report profile	2.17	Decisions not to apply GRI principles/protocols in the preparation of the report	74	in this column
	2.18	Criteria/definitions used in accounting for cost/benefits	cover	inside front cover
	2.19	Significant changes in measurement methods	59	
	2.20	Policy and internal practices to enhance accuracy, completeness and reliability	20, 31, 59-60	
	2.21	Policy and current practice on independent assurance	60	
	2.22	Means by which report users can obtain additional information	80	

	Indicator number		Page/s	Remark
Governance structure and management systems				
Structure and governance	3.1	Governance structure of the organization (incl. major committees)	9-10	
	3.2	Percentage of the Board of Directors (Supervisory Board) that are independent/non-executive directors	9-10	
	3.3	Process for determining the expertise board members need to guide strategic direction		Not inventorized
	3.4	Board-level processes for overseeing economic/environmental/social risks and opportunities	9-10	
	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	9-10	
	3.7	Mission/values/codes of conduct/principles and status of implementation	11-12, 15, 61-64	
	3.8	Mechanisms for shareholders to provide recommendations to Board of Management	10	
Stakeholder engagement	3.9	Basis for identification and selection of major stakeholders	24-25	
	3.10	Approaches to stakeholder consultation in terms of frequency of consultations by type	24-25, 27-28, 34-36	
	3.11	Type of information generated by stakeholder consultations	24-25, 27-28, 34-36	
	3.12	Use of information resulting from stakeholder engagements	24-25, 27-28, 34-36	
Overarching policies and management systems	3.13	Explanation of how the precautionary principle is addressed by the organization's policies	41	
	3.14	Subscription to externally developed/voluntary charters/principles/initiatives	11, 20, 31, 62	
	3.15	Principal industry and business association membership	13, 47	
	3.16	Policies/systems for supply chain management and product stewardship	46-47	
	3.17	Approach to managing indirect impacts resulting from activities		Under investigation
	3.18	Major decisions regarding locations or changes of operations	27	
	3.19	Programs and procedures for improvement programs/actions	20, 30-31, 34-35, 42	
	3.20	Status of certification of environmental, labor, social accountability management systems	42	

Global Reporting Initiative (GRI) Guidelines – Core Indicators

	Indicator number		Page/s	Remark
Economic performance indicators				
Customers	EC1	Net sales	54	
	EC2	Geographic breakdown of key markets	54	
Suppliers	EC3	Cost of all goods, materials and services purchased	55	Under investigation
	EC4	Percentage of contracts paid in accordance with agreed terms		
Employees	EC5	Total payroll and benefits broken down by country/region	54-55	
Providers of capital	EC6	Distribution to providers of capital broken down by interest/dividends on all classes of shares	56	
	EC7	Increase/decrease in retained earnings (ROACE)		Not inventorized
Public sector	EC8	Total sum of taxes per geographic region	57	Not inventorized
	EC9	Subsidies received per geographic region		
	EC10	Donations to community/civil society, broken down in terms of cash/in-kind	37	
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	48	Not inventorized
	EN4	Indirect energy use		
Water	EN5	Total water use	49	
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	48	Not reported
	EN9	Use and emissions of ozone-depleting substances	48	
	EN10	NO _x , SO _x and other significant air emissions by type	50, 59	
	EN11	Total amount of waste by type and destination	49	
	EN12	Significant discharges to water by type		
Products and services	EN13	Significant spills of chemicals/oils/fuels in terms of total number and total volume	51	
	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	51	

	Indicator number		Page/s	Remark
Social performance indicators Labor practices and decent work				
Employment	LA1	Geographical breakdown of workforce, where possible by region/country/status	9	
	LA2	Net employment creation and average turnover segmented per region/country	26	
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)	26-28	
Health & Safety	LA5	Practices on recording/notification of occupational accidents/diseases (relation to ILO)	31, 61	
	LA6	Description of formal joint H&S committees/ proportion of workforce represented in committees		Not inventorized
	LA7	Standard injury, lost day and absent rates and work-related fatalities	31	
	LA8	Description of policies or programs (for the workplace and beyond) on HIV/AIDS		Not inventorized
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	29-30, 61	
	LA11	Composition of senior management and corporate governance bodies (including board of directors)	9	
Human rights				
Strategy and management	HR1	Description of policies, corporate structure on human rights and monitoring mechanism and results	64	
	HR2	Evidence of consideration of human rights (investment/procurement/suppliers/contractors)	12, 34	
	HR3	Description of policy on human rights for supply chain and contractors; monitoring systems/results	34-35	
Non-discrimination	HR4	Description of global policies preventing all forms of discrimination and monitoring systems/results	62	
Freedom of association/ collective bargaining	HR5	Description of policies on freedom of association and programs	62	
Child Labour	HR6	Description of policy excluding child labor, monitoring systems and results	12, 62	
Forced and compulsory labor	HR7	Description of policies on forced and compulsory labor; monitoring systems and results	62	
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	62	
Political contributions	SO3	Description of policy for managing political and lobbying contributions, and compliance mechanisms	63	
Product responsibility				
Customer health and safety	PR1	Description of policy on customer health and safety through products and services, and results	36	
Products and services	PR2	Description of policy on product information and labeling, and compliance mechanisms		Not inventorized
Respect for privacy	PR3	Description of policy and management system for consumer privacy, and compliance mechanisms	36-37	

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)

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.
FTE	Full-time equivalent
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.
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).
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.'
WBCSD	World Business Council for Sustainable Development

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