

PHILIPS

Is Reputation Manageable – a Benchmarking Exercise

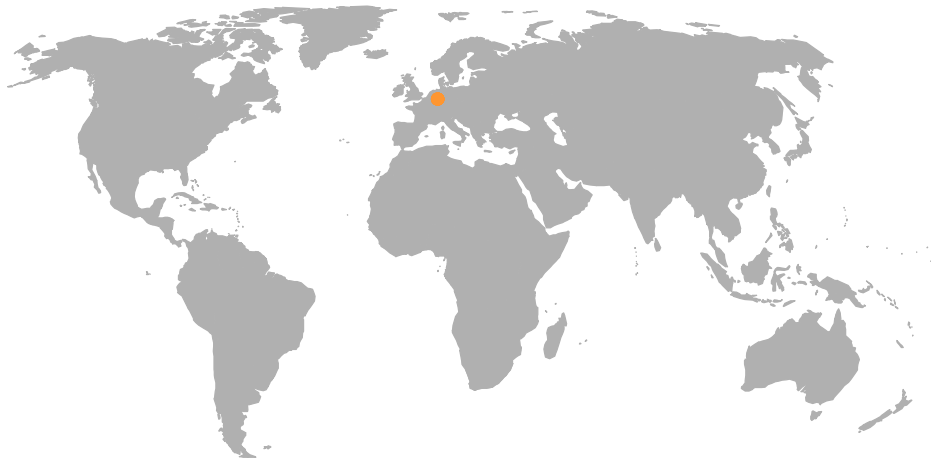
Reputation Management at
Royal Philips Electronics

6th International Sustainability Leadership Symposium on
"The Market Value of Reputation"
Zürich, 8 and 9 September 2005

Royal Philips Electronics

Headquarters:

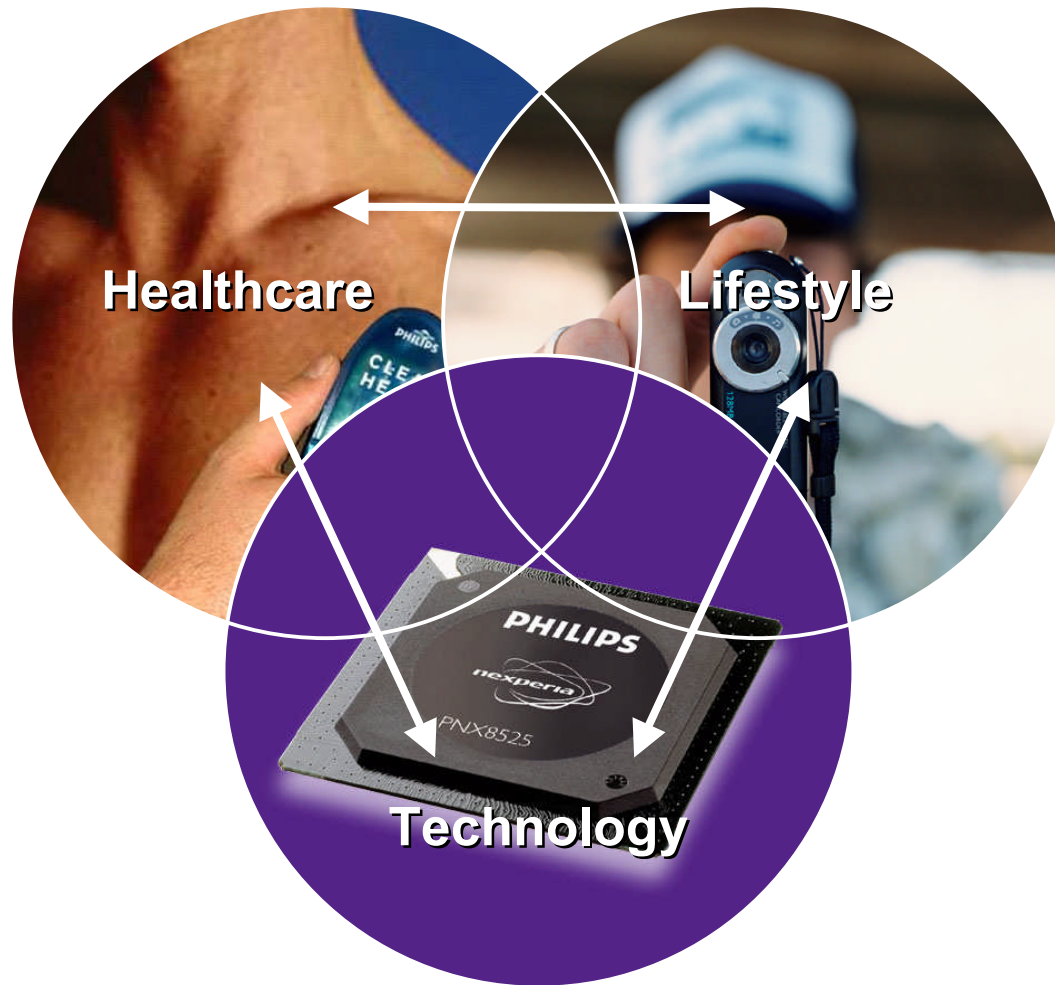
Amsterdam, The Netherlands



- One of the largest global electronics company with sales in
 - 2004 of EUR 30,319 million
- Multinational workforce of 159,700 employees at July 2005
- Active in the areas of medical systems, domestic appliances and personal care, consumer electronics, lighting and semiconductors
- Present in over 60 countries
- R&D expenditures in
 - 2004 EUR 2,534 mln
- Portfolio year end 2004 of 115,000 first filing of patents with an increase of 3065 in 2004



Areas of activities



Main topics

1. Reputation development
2. Reputation management
3. Reputation measurement



1. Reputation development

- Capitalize and build on company heritage
- Define the company drivers for reputation
- Leverage reputation drivers with the company mission, vision and brand positioning
- Enhance employee engagement using reputation drivers and create focus



Capitalize and build on company heritage

Where do we come from?

Anton and Gerard Philips ...

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

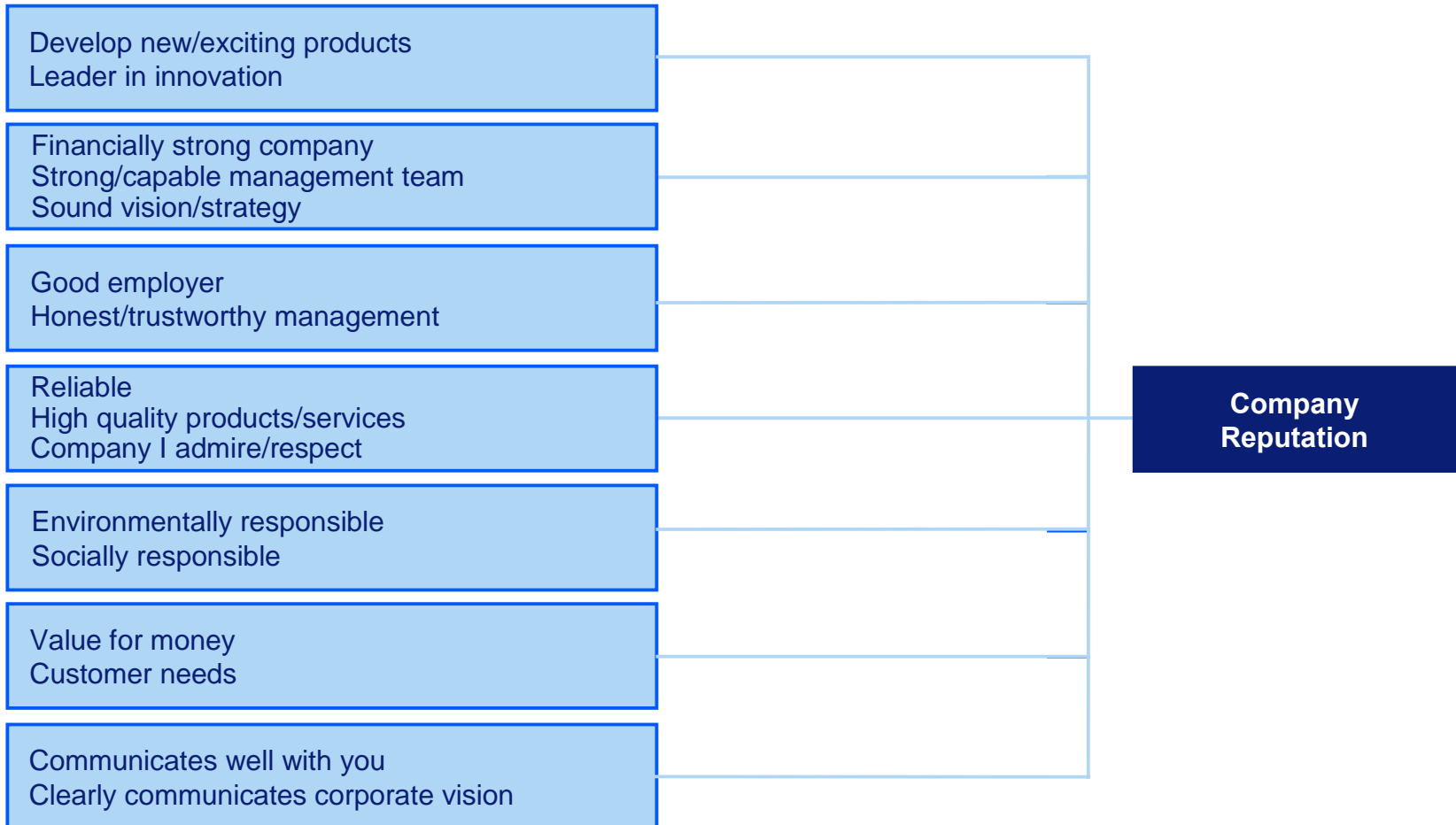
Their founding belief was that by daring to make choices that improve the lives of people both inside and outside the company, they would be successful not by coincidence but by design



Define the company drivers for reputation

Reputation definition (16 attributes identified)

Attributes



Define the company drivers for reputation

Reputation definition (7 drivers established)

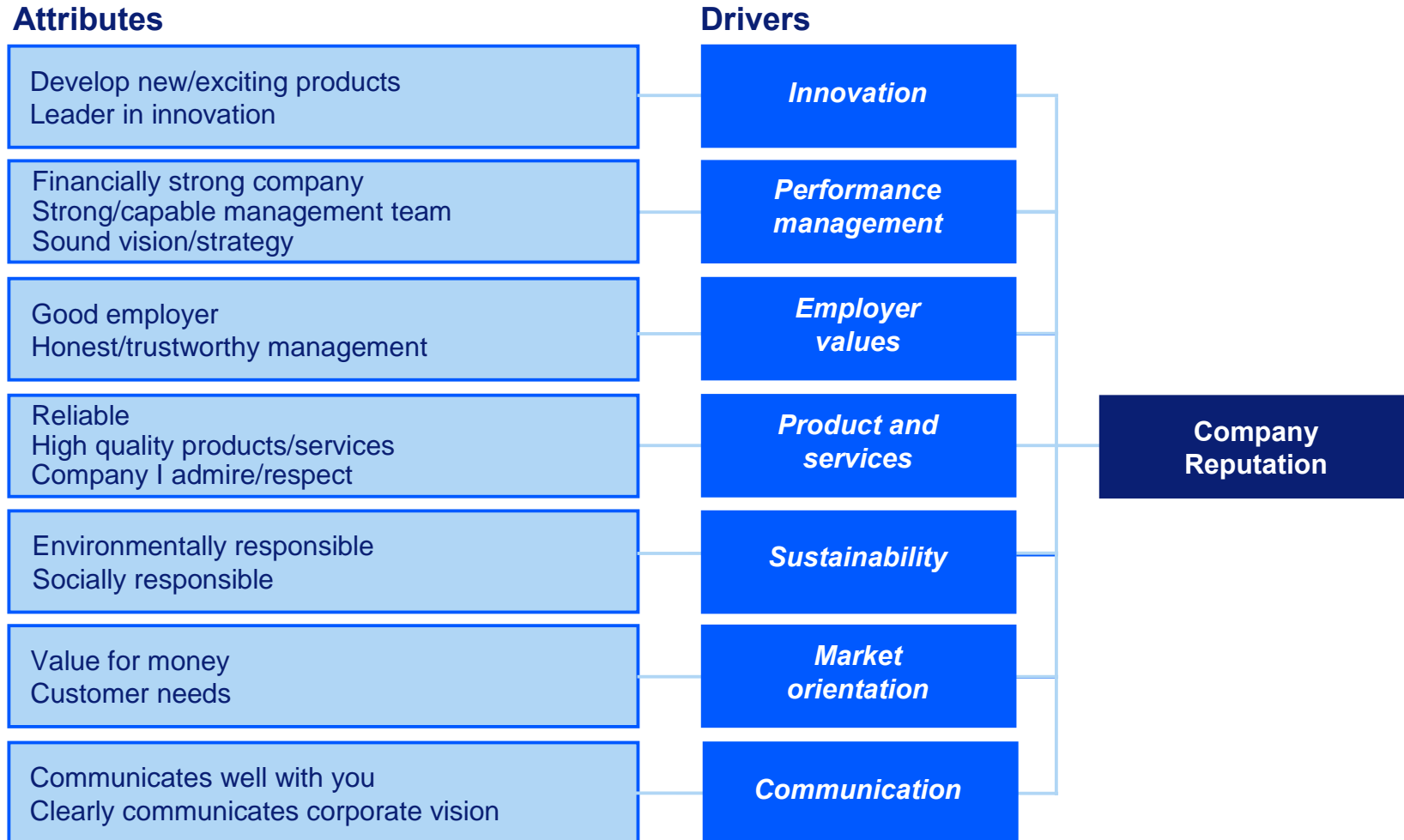
Attributes

Develop new/exciting products Leader in innovation
Financially strong company Strong/capable management team Sound vision/strategy
Good employer Honest/trustworthy management
Reliable High quality products/services Company I admire/respect
Environmentally responsible Socially responsible
Value for money Customer needs
Communicates well with you Clearly communicates corporate vision

Drivers

<i>Innovation</i>
<i>Performance management</i>
<i>Employer values</i>
<i>Product and services</i>
<i>Sustainability</i>
<i>Market orientation</i>
<i>Communication</i>

Company Reputation



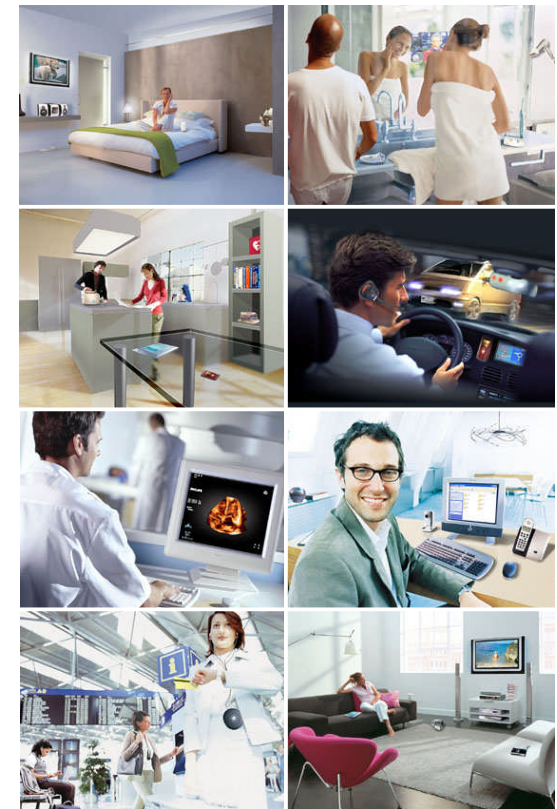
Leverage reputation drivers with the company mission, vision and brand positioning

Mission

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

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 Technology, aspiring to become the most admired company in our industry as seen by our stakeholders



Leverage reputation drivers with the company mission, vision and brand positioning

Philips is committed to delivering products and solutions that are

- Designed around you
- Easy to experience
- Advanced

This is encapsulated in our brand promise

‘Sense & Simplicity’



Leverage reputation drivers with the company mission, vision and brand positioning

‘Sense’

User group specific ‘quality of life’ insights as part of the value proposition for consumers/customers

- Lifestyle
- Health
- Safety
- Environmental performance

‘Simplicity’

User group specific human interface



Leverage reputation drivers with the company mission, vision and brand positioning

Exploring new Markets and New Business Models (7 pilots)

- **DISHA**
(Distant Healthcare in India):
 - Provide accessible and affordable medical facilities to the poor
 - Meeting the health needs of the bottom 1/3 of India's population



Enhance employee engagement through reputation drivers and create focus

- Focus: Healthcare
- Social investments programs
 - Promote and facilitate volunteerism of employees
- Policy
 - each employee touches at least one life in the community
- Examples
 - Child in Need Institute -Calcutta
 - Healthcare for mother and child
 - Healthcare for street children
- Bangalore
 - Support for children affected by polio



2. Reputation Management

- Compliance management system
- Performance management system
- Stakeholder engagement program
- Supply chain management
- External reporting
- Consistent communication program
- Consistent benchmarking



Compliance Management system

- General Business Principles (code of conduct)
- Network of compliance (ethics) officers
- Worldwide IT structure for registration breaches and corrective actions
- Toll free anonymous hot lines



Performance Management system

- Yearly Sustainability management agenda
- Set of Key Performance indicators in the economic, environmental and social area
- Yearly target setting on Key Performance Indicators (KPIs)
- Four year roadmaps for KPIs (in development)
- Worldwide IT structure for quarterly reporting of results in the economic, environmental and social area



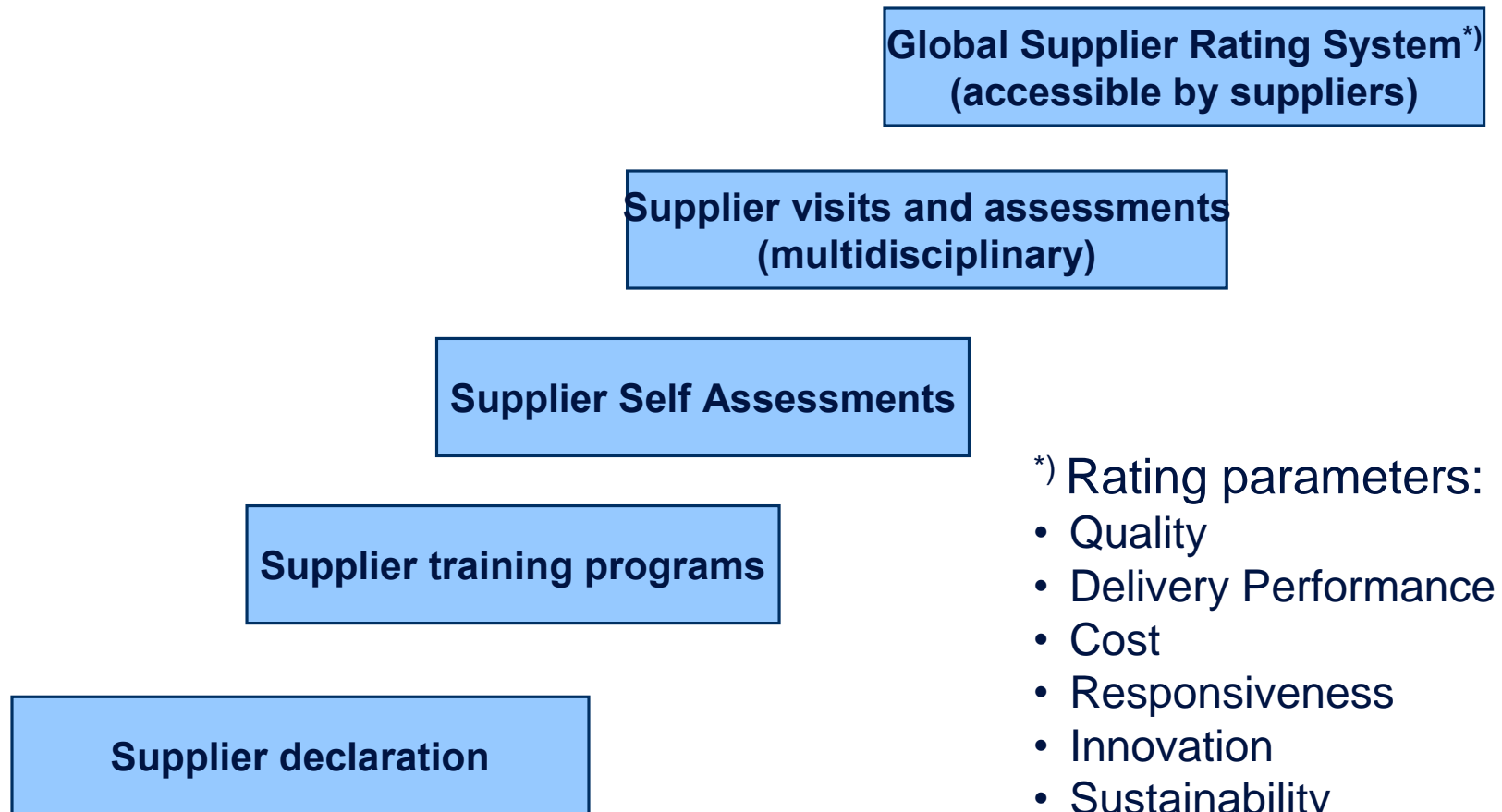
Stakeholder engagement

Stakeholder	Main means of interaction	Main Philips interface		
		Divisions	Countries/ Regions	Corporate
Economic stakeholders				
Customers	<ul style="list-style-type: none"> - (B2C) Surveys (trend related, customer satisfaction related, application research), complaint resolution. Focus groups, - (B2B) Advisory boards, co-R&D, co-strategy development 	X	X	
Employees	Employee Engagement surveys, town hall meetings, People Performance mgmt system, compliance mgmt system, (local) ombudsman	X	X	X
Suppliers/business partners	Supplier days (local, global), co-R&D, industry membership (e.g., WBCSD)	X		
Mainstream investors	Road shows, analyst (face to face) meetings, ratings			X
Social investors	Surveys			X
Financial service providers	Ongoing ad hoc involvement, financial ratings			X

Stakeholder engagement

Stakeholder	Main means of interaction	Main Philips interface		
		Divisions	Countries/ Regions	Corporate
Social Stakeholders				
Communities	Social investment activities focused on education and health, local networking		X	
Local/national/international regulatory bodies	Local networking (business/community driven). Participation in advisory bodies, cooperation in community projects		X	X
Non-governmental organizations	Surveys, project development, ad hoc involvement		X	X
Academia	Co-R&D, exchange programs, local networking		X	X
Media	Local networking, surveys	X	X	X

Comprehensive Supplier Involvement Program



External reporting (Sustainability Report)

- **Compliance:** Report on registered breaches on Philips General Business Principles
- **Performance:** Integrated report of economic, environmental and social progress (both internal and in the community)
- **Supply chain:** Report on the progress in the supply chain program
- **Listening to stakeholders:** Report on engagement activities, issues for Philips and embedding relevant results in the company strategy
- **Transparency and credibility:** GRI based report completely verified by external accountant including IT systems and internal controls (KPMG)



Consistent Communication program

Financial Times 25-08-2004

Philips seeks to shake up image

Dutch consumer electronics group plans global marketing campaign ● Chief executive pledges 'a couple of years of accelerated change'

By Ian Bickerton in Amsterdam

Philips is to launch a global marketing campaign heralding a period of "accelerated change" during which Europe's biggest consumer electronics company plans to complete its transformation into a healthcare and lifestyle brand, the Dutch group's chief executive said yesterday.

The 113-year-old company, which has undergone a dramatic restructuring costing thousands of jobs in the past four years, will launch the marketing push on September 13. Gerard Kleisterlee told journalists the initiative would be accompanied by an attempt to boost sales by "filling the empty spaces" in its portfolio, which comprises medical systems, lighting, semiconduc-

tors, consumer electronics and domestic appliances.

The campaign is an attempt to convince investors and customers that Philips has moved its focus from producing lightbulbs and televisions to areas such as healthcare technology - particularly items for home use, such as cardiac monitoring equipment.

Mr Kleisterlee said: "The Philips of today is different to the way the world perceives it. It is time to take action to let our customers understand this. I doubt that by 2008 the primary association that people will have of Philips will still be that of a consumer electronics company."

Indicating the company was "shaping up for a couple of years of accelerated change", Mr Kleis-

terlee said: "It becomes even more crucial for Philips to have a distinctive image and market position the world can relate to."

"We have to move on into a company that has a stronger healthcare face and that connects that with the lifestyle side and uses that for further growth," he added. "That is going to be a significant new market."

No campaign details were disclosed, but Mr Kleisterlee said it would "be much more than just advertising". Philips has had its current slogan, "Let's make things better", since the 1990s.

Mr Kleisterlee also said there would be no let-up in pruning activities that do not consistently create value. The goal was sustainable growth, without which

Philips would not "survive or break the downward spiral of seemingly never-ending restructuring. We need to develop and build new markets and categories for ourselves, sometimes at the boundaries of our traditional areas of competence."

He said Philips would retain a strong industrial presence in Europe but only "where our European competences and capabilities make a competitive difference and not in areas where others can do a better job".

The Philips executive board will visit China next week to review progress there and across Asia, where it had seen "spectacular growth" in some areas.

Consistent Communication program

Philips plans to be more diverse

By Alison Maitland

Philips, Europe's largest consumer electronics company, will today declare its intention to shed its "Dutch, middle-aged, male" image by more than doubling the number of senior women managers in the next four to five years.

The company will tell its shareholders' meeting it will increase female representation in the 780-strong executive group from 4 per cent to at least 10 per cent.

"We recognise that our company is too male, too Dutch and too grey, particularly at senior management level, and we don't like it," said Arthur van der Poel,

the Philips management board member heading the initiative.

Describing the target as ambitious, he said: "We believed it was important to make a public statement that we're going to change this. What gets measured gets done."

The company also intends to promote more local people to senior positions in its growing Asian operations, but is not setting targets. Currently 6 per cent of Philips executives are from the Asia Pacific region, a figure it says is "unsatisfactory".

Low female representation at the top of large Dutch companies has raised con-

cern among political and business leaders. ING, the financial services group that belongs to a business network designed to aid women's advancement, said last year only 14 per cent of the 500 biggest companies had a woman on their executive or supervisory boards.

Women chief executives are rare, although Wolters Kluwer, the publishing group, has just appointed Nancy McKinstry as its new chief executive.

Mr van der Poel said Philips aimed to meet its target, spelled out in its first sustainability report, by looking more carefully at the talent in its manage-

ment ranks, hiring more senior women from outside and making managers' bonuses partly dependent on promoting women in their teams. It would also consider ways to retain women with children, such as providing childcare.

Mr van der Poel said the initiative would increase long-term shareholder value at Philips, which last month reported a record full-year net loss of €3.2bn (\$3.4bn).

"We want to improve our marketing skills," he said. "Women have better antennae. There's good business sense in having more women to amplify these signals from the outside world."

Consistent Communication program

Philips Focuses on Sustainable Development

Royal Philips Electronics of the Netherlands leverages technology to create products that are attractive to individual customers, valuable to society, friendly to the environment and profitable for the business.

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



B.J. Shin
CEO of Philips Electronics Korea

Today, Philips employees are living up to that heritage, as well as their values and commitment to improve the quality of people's lives with meaningful technology. They view sustainable development as an opportunity for innovation, enhancement of brand reputation and wealth generation while enriching people's lives and continuing to earn their license to operate.

At this year's annual shareholders meeting, Philips published the company's first annual Sustainability Report, adding detailed accountability for economic and social responsibilities to its former Environmental Report. The initiative is in line with the steps taken in recent years to increase transparency and accountability, adhering to the

company's business principles.

During the meeting, CEO Gerard Kleisterlee explained that sustainable development is a fundamental part of Philips' heritage and future growth. "Philips' brand has always been associated with improving the quality of people's lives. Our founders, Anton and Gerard Philips, already believed that there was no difference between doing business and practicing sustainable business," Kleisterlee said. "With our recent sustainability commitments, we are living up to the challenge of making things better and proving that sustainability is part of our company's DNA."

To tackle the issue of diversity and inclusion, targeted programs will be started in 2003 to reach the goal of acquiring a world-class workforce. Philips is committed to increasing the number of women in the senior management to at least 10 percent within five years, more than doubling it from the current 4 percent. Philips is also committed to improving regional balance in senior management positions, particularly in Asia.

Regarding environmental responsibility, Philips introduced in 2002 its third action program in a new called EcoVision 2002-2005. On comparable bases, and after adjustments for production fluctuations, in 2002 waste and water were reduced by 16 percent and energy consumption with 3 percent compared to 2001. Also, the company's significantly improved environmental performance can be seen with its introduction of a number of products which meet the Green Flagship sta-

tus. One example is the 15055F LCD Monitor, offering 20 percent lower energy consumption than comparable products in its category.

Sustainability at Philips Korea

In South Korea, Philips is represented by Philips Electronics Korea Ltd. Philips Electronics Korea sells and markets a variety of Philips' high-tech products and systems. Not only medical equipment to hospitals, X-ray equipment to research institutes and semiconductors to industries, but also consumer products such as light bulbs, color television sets, irons and shavers are marketed and sold by Philips Electronics Korea. Philips in Korea continues to introduce innovative products to Korean customers, maintaining the highest level of customer service.

Philips' sustainability programs are carried out in the Korean context. Philips Electronics Korea, representing Royal Philips Electronics in Korea, incorporated its sustainability initiative into its corporate citizenship statement, contributing to the improvement of the quality of people's lives and to social and cultural developments. Philips in Korea enhances the quality of people's lives by providing its customers with quality consumer products and services as well as professional products and systems.

Philips Korea's unique approach to sustainable sponsorship is demonstrated in its contribution to the development of Korean sports. Philips Korea is an active corporate sponsor to become



This photo shows the MX5000 Lifestyle home entertainment system of Philips Electronics.

a true corporate citizen in the Korean community.

One example is Philips Korea's support during the 1996 Atlanta Olympics. Philips Electronics CEO B.J. Shin extended unsurpassing support for the Korean Olympic team as chief de mission of Korean delegation to the Olympic Games, thereby contributing greatly to the betterment of Korean sports through sports diplomacy.

In addition, Philips Korea fully demonstrated itself as a responsible corporate citizen by sponsoring Korean handball. During his presidency at the

Korea Handball Federation, Mr. Shin extended his full support for Korean athletes in domestic and international sports events. As a result of his devoted support, Korean handball enhanced national prestige abroad by winning the World Handball Championships.

Philips Korea's efforts and dedication to the development continue as Shin takes over the presidency at the Korea Hockey Association. Under his sponsorship, Korea's national men's hockey team could win a gold medal at the 14th Asian Games held in 2002. Shin who has successfully led Philips

electronics into one of the most successful marketers in Korea utilized his management and leadership skills in the sports arena.

Furthermore, Philips has taken a big part in the preservation of Korea's cultural properties by donating its self-designed light facilities for Tongdeamun, Gwanghwamun (the main gate to the Kyungbok Palace) and Cheomung-dae (1,300-year-old astronomical observatory). Now, Philips' corporate citizen spirit will dwell as these Korean cultural heritage glow traces beautifully than ever before.

Royal Philips Electronics of the Netherlands is one of the world's biggest electronics companies and Europe's largest with sales of 24.8 billion euros in 2002. It is a global leader in color television sets, lighting, electric shavers, medical diagnostic imaging and patient monitoring, and one-chip TV products. Its 166,000 employees is more than 60 countries are active in the areas of lighting, consumer electronics, domestic appliances, components, semiconductors and medical systems. Philips is quoted on the New York Stock Exchange (symbol: PHG), London, Frankfurt, Amsterdam and other stock exchanges.

3. Reputation Measurement

- Effectiveness of internal communication (yearly)
- Effectiveness of external communication (quarterly)
- Employee engagement survey (yearly)
- Reputation research (every three years)



3. Reputation Measurement

- Effectiveness of internal communication (yearly)

- Effectiveness of external communication (quarterly)

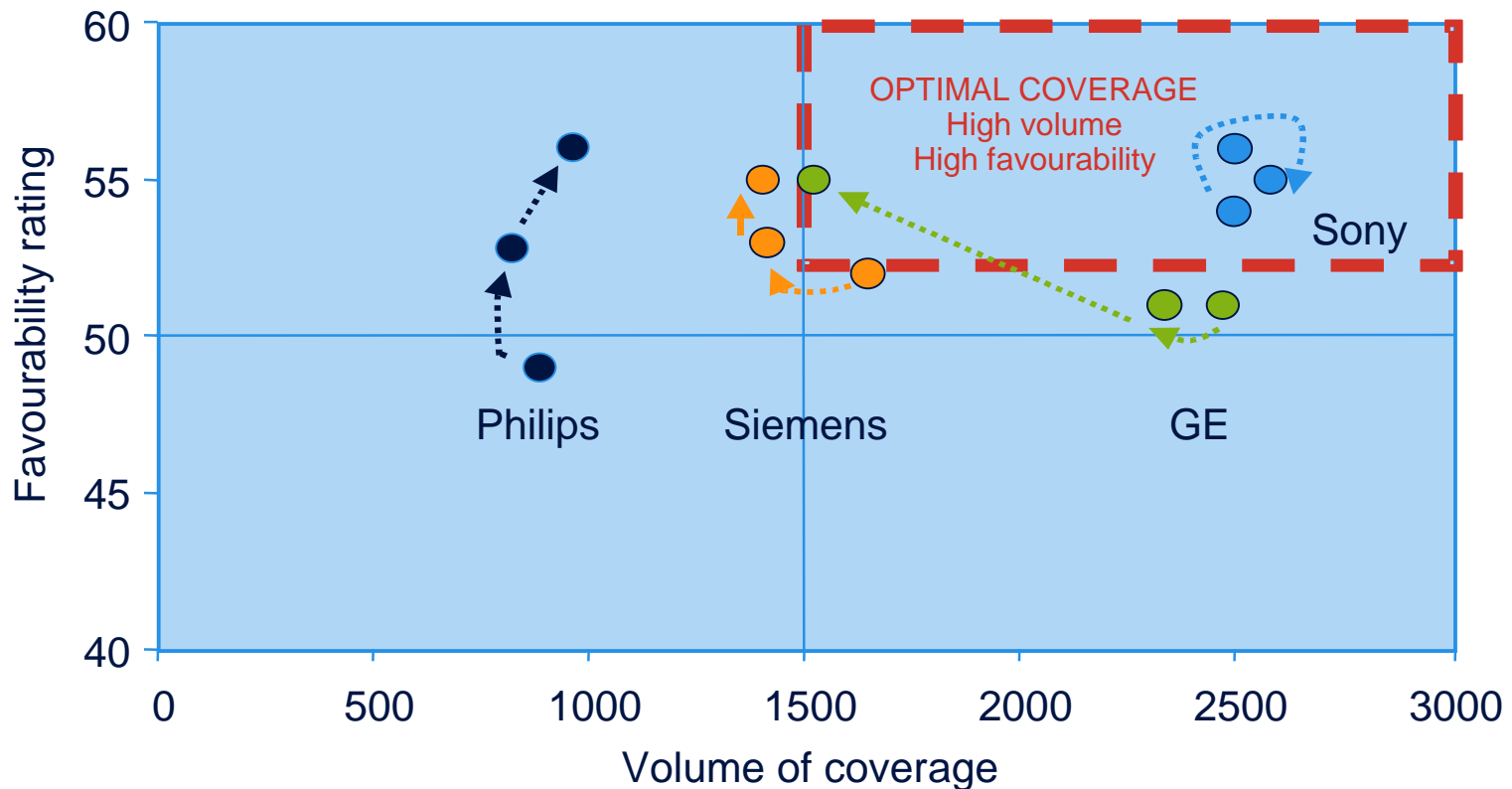
- Employee engagement survey (yearly)

- Reputation research (every three years)



Consistent communication leads to improved favorability

Top 100 media - Annual trends 2001 / 2002 / 2003



The Philips Reputation Survey

To benchmark Philips against respected global companies

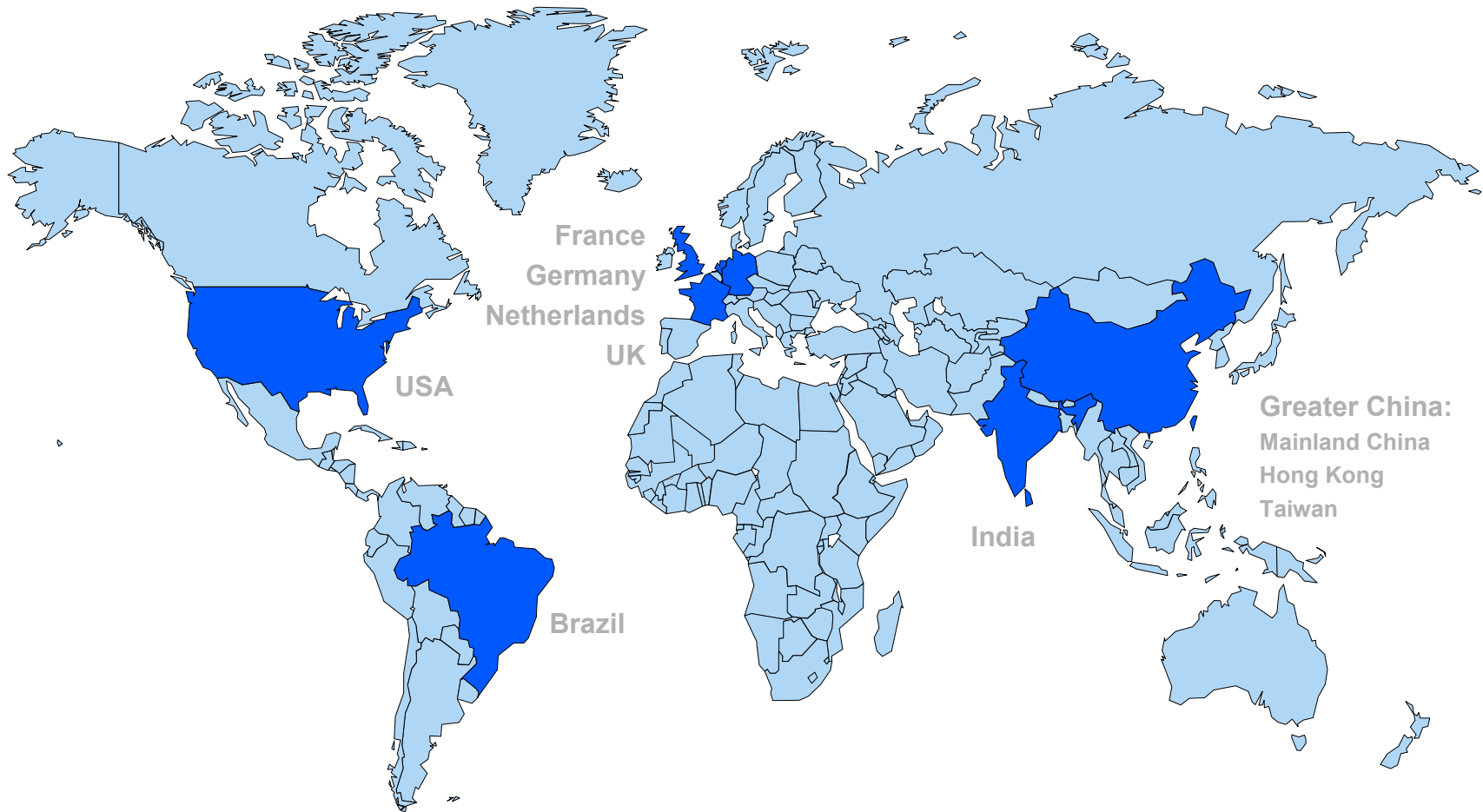
To bridge the gap between consumer marketing intelligence,
CARMA reports and branding surveys

To listen to our stakeholders

To identify the key drivers of reputation and variations

To make reputation actionable via one commonly accepted
Philips methodology (link to PBE)

Eight key markets



Stakeholders

In total, 1,210 Opinion Formers, 1,000 Philips Employees and 1,600 from the General Public were interviewed by Mori and Research International in October 2003

Opinion Formers	Labor market relations	Search and selection - Labor Unions - Employers Federations	} Across all sectors	110
	Journalists	General business media - Trade media	} Across print, online, TV	175
	Educational	Professors/lecturers - Careers officers	} Across business schools and technical universities	175
	NGOs	Pressure groups - Consumer groups NGOs	} Across social, environment, others	115
	Financial	Institutional investors - Financial analysts		140
	Senior business	Board directors		145
	Government	Politicians		220
	Philips suppliers	Across PDs and Corporate centres		130
Philips Employees		Across PDs, Corporate center and across all management levels		1000
General Public		National representative sample		1600

Driver relevance varies per stakeholder





Philips suppliers

Senior business

Financial community



Peers

Global			
			
Additional benchmark companies per country			

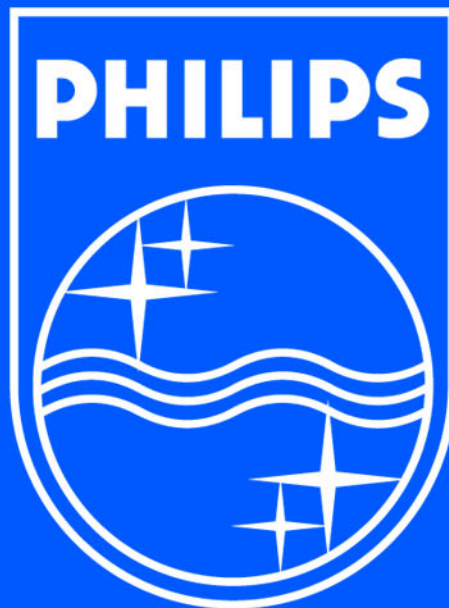
Global results reputation research 2003

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										





Interbrand top 100 in 2005

12 places up versus 2004