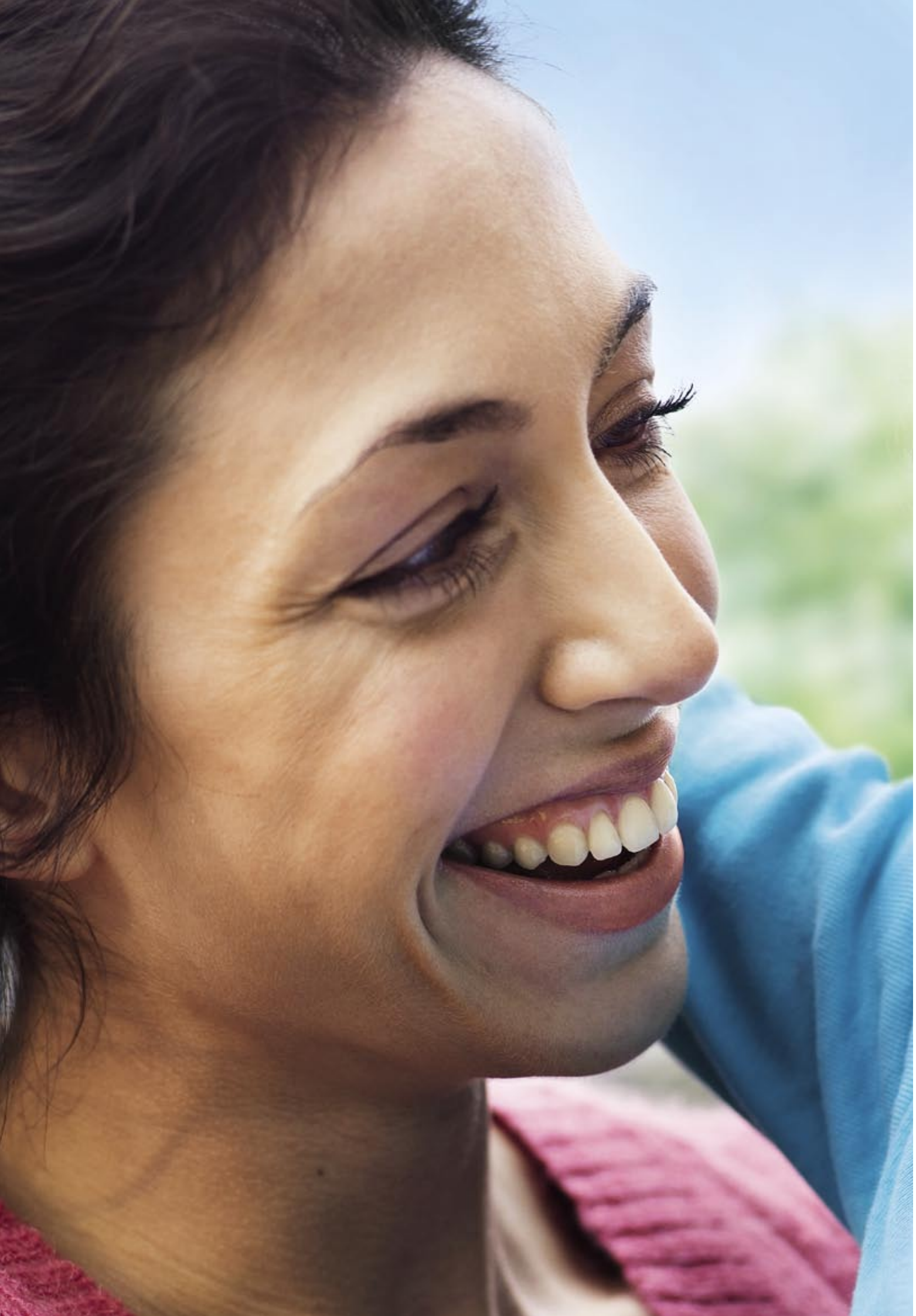
Simpler, stronger, greener

Sustainability Report 2007

PHILIPS

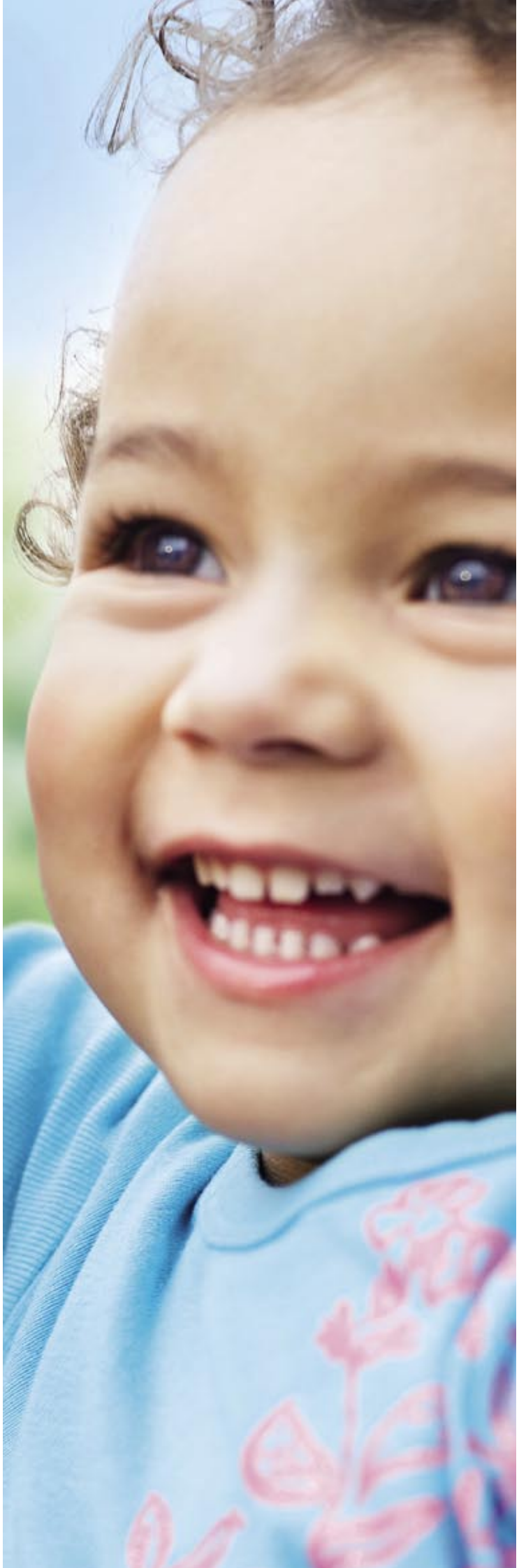


We make it easier to be green...

Live Earth
We entered a global partnership with Live Earth to help combat global warming. By joining forces with this largest global entertainment event in history, we inspired an estimated 2 billion people to lead a more energy-efficient lifestyle.

asimpleswitch.com
The asimpleswitch.com website is part of our campaign to encourage people to take simple steps to fight climate change, such as changing a light bulb. Visitors can make their personal "simple switch" pledge and calculate the resulting energy and cost savings.

Philips Green Products
Philips Green Products offer customers, users and society a significant environmental improvement in one or more of the Philips Green Focal Areas.



...and provid

Health & Wellbeing

We understand that whether it is getting the right care for their children or improving their own wellbeing, people want the best without the hassle. That is why we have created a range of solutions that can make better health easier to achieve.

At Philips we improve the quality of people's lives through the timely introduction of meaningful innovations. Using our expertise to simplify complex global challenges – the growing demands for energy efficiency and healthcare – we develop sustainable solutions for people in all markets.

e better care solutions

Simplified care
Our Ambient Experience CT brings a human design approach that can decrease sedation rates and increase workflow. Sedating a patient adds at least four hours to procedure time. Without sedation, most scans can be accomplished within 30 minutes.

1

Customer Satisfaction
Philips Ultrasound ranks #1 in overall service performance and all ultrasound systems for the 14th year in a row. Philips Patient Monitoring ranks #1 for the 8th consecutive year. Overall customer satisfaction is up thanks to our focus on patients and care providers.

Clinical collaboration
The best care requires collaboration among clinicians and specialists. With Philips iSite PACS doctors can access diagnostic images from any location in a hospital and make decisions as soon as a scan is completed.

About our report

Commitment to transparency

At Royal Philips Electronics we consider transparency about our sustainability activities a vital part of living up to our heritage of sustainable entrepreneurship.

The *Philips Sustainability Report 2007* is our tenth externally verified report. Our first environmental report was for the year 1998.

We expanded to sustainability reporting beginning with the year 2002 to cover the full spectrum of our social, environmental and economic performance.

This 2007 report demonstrates that sustainability is a business driver at Philips and is fully integrated in our strategy. Given our competencies and desire to improve lives with innovations that are important for society at large, we are focusing on energy efficiency and available and affordable healthcare. Therefore this report includes in-depth coverage of these key global challenges. The identification of these and other material issues is discussed on pages 20-22 and online.

Methods of delivery

In keeping with our brand promise of "sense and simplicity" this print report has been shortened to focus on the most material issues. Details on our employees, our environmental and economic performance, and our suppliers have been moved to our online report. Highlights of our performance in these areas can be found on pages 64-65.

The *Philips Sustainability Report 2007* is delivered as:
- A 74-page print document and
- An expanded online report, which includes the print document and additional chapters with specifics on our 2007 performance, as well as other information.

Both can be downloaded from our website www.philips.com/sustainability

Other information

Information on reporting standards, scope of the report, auditor policy, assurance assignment and assurance report from KPMG are included on page 67.

Print report

- About our report
- Interview with the President
- Becoming simpler, stronger and greener
- The Philips Way
- Philips and energy efficiency
- Philips and healthcare
- Highlights from our online report
- Appendix
- How to reach us

Online report

Print report

- Our employees
- Our environmental performance
- Our economic performance
- Our suppliers
- Sustainability trends and materiality mapping
- GRI Index

www.philips.com/sustainability

Contents

Forward-looking statements
This report contains certain forward-looking statements with respect to the financial condition, results of operations and business of Philips and certain of the plans and objectives of Philips with respect to these items. Examples of forward-looking statements include statements made about our strategy, estimates of sales growth, future EBITA and future developments in our organic business. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances and there are many factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements.

These factors include but are not limited to domestic and global economic and business conditions, the successful implementation of our strategy and our ability to realize the benefits of this strategy, our ability to develop and market new products, changes in legislation, changes in exchange and interest rates, changes in tax rates, pension costs, raw materials and employee costs, our ability to identify and complete successful acquisitions and to integrate those acquisitions into our business, our ability to successfully exit certain businesses or restructure our operations, the rate of technological changes, political and other developments in countries where Philips operates, industry consolidation and competition. As a result, Philips' actual future results may differ materially from the plans, goals, and expectations set forth in such forward-looking statements.

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

Interviews
Philips does not necessarily agree with the opinions of external parties quoted in this report.

Interview with the President

With the "Vision 2010" strategic plan you've given stakeholders a clear blueprint of what you want Philips to be in 2010.

Yes, we have shared the next steps to grow the company further into a global leader in the areas of Healthcare, Lighting and Consumer Lifestyle. These steps aim to further position Philips as a market-driven, people-centric company with a strategy and a structure that fully reflect the needs of its customers and create value for shareholders.

How does sustainability fit in?

It is at the center of our strategy and rightfully so. At Philips we focus on our mission of improving the quality of people's lives. You can see this across the spectrum of our products and services. We aim to improve health and wellbeing, which are essential ingredients for creating sustainable societies. We also make a distinct contribution in energy efficient lighting. This is all right at the heart of sustainability.

So sustainability contributes to growth and value creation.

Absolutely. Initially people thought of it as a cost factor, which indeed it is when you treat it as an add-on. However, if it's designed into the way you do things from the beginning as it is here at Philips, it saves you money because you're operating more effectively. So today we recognize that sustainability offers significant business opportunities.

How do you go after those opportunities?

One way is through our EcoVision programs. Our latest EcoVision program, which is our fifth multi-year plan, sets targets to expand our revenues from Green Products, increase spending on Green Innovations, and improve the energy efficiency of our facilities.

We have been designing eco-friendly products for many years throughout our product range. Our products are designed to outperform their predecessors and competitors in terms of their ecological footprint. We want to provide people with Green Products that make it easy for them to contribute to saving our planet.

To do that, we have committed to doubling our investments to EUR 1 billion in Green Innovations in the next five years. We have already invested EUR 400 million in Green Lighting Technology during the last five years. You can see the results in our energy efficient lighting solutions that offer long lifetime and low energy consumption. This reduces end-of-life-issues along with greenhouse gas emissions.

"Our mission is at the heart of sustainability."

Gerard Kleisterlee President

So in terms of growth opportunities, we are convinced that combining the principles of economic growth and environmental stewardship will offer long-term rewards to all of our stakeholders.

Let's turn to healthcare. What differentiates Philips in this area?

The biggest advantage we can offer is through the close relationship between our Healthcare and Consumer Lifestyle activities. Firstly, the direction we are looking to extend to is wellbeing. Healthcare starts with prevention and a healthy lifestyle. Secondly, the most costly aspect of healthcare is late discovery and late treatment. Currently healthcare systems are reactive. We want to make a difference there as well – to help move healthcare from being reactive to being truly proactive.

How do you help bring about that shift?

We are moving to the direction of keeping people healthy in addition to our diagnostics and our other professional healthcare solutions. We can contribute by helping people live a healthy lifestyle. Our appliance activity does that. For example, our kitchen appliances can very much contribute to this by helping people prepare healthy meals and fresh juices. Or consider the connection between oral care and overall health. We can make a difference through maximizing the unique set of resources that we have in our company.

During 2007 you participated in stakeholder forums around the world. What have you learned from these conversations?

The purpose of these forums is not for participants to listen to Philips, but for Philips to listen to them. And for us, together, to envision solutions to the challenges we face in the areas of energy efficiency and healthcare.

From the Philips perspective, it's easier to make ourselves relevant in the energy efficiency discussion. It's at the heart of the debate around climate change. After all lighting accounts for 19% of global electricity use. As the world's leading lighting supplier our contribution to meeting this challenge is very straightforward.

And what did you learn from the healthcare stakeholder forums?

With healthcare there are multiple issues and more stakeholders. Our contribution overall is modest when you consider that we are just a relatively small part of the total healthcare value chain, in addition to doctors, hospitals, pharmaceutical companies, insurers, etc. So this is a more complex debate.

As a business we need to ensure that everything we do reflects what our customers want and need. We *must* make healthcare accessible and affordable for everyone, not only in advanced markets but also in new and emerging markets. Governments and insurers must also do their part. In turn we have to cooperate with governments, international organizations and non-governmental organizations in order to be effective.

I believe that a marriage of stakeholder needs and meaningful, cohesive policies will lie at the heart of successful strategies to meet the healthcare challenge.

Clearly sustainability requires an ever-increasing focus on the outside world. What does that mean in terms of the supply chain?

We have had a robust process in place since 2003 to involve our suppliers in sustainability. Our suppliers sign up to the same standards we adhere to and we conduct audits at supplier sites in new markets to ensure they do indeed live up to those requirements. If there are issues, we work with our suppliers to resolve them.

"We will continue to be proactive."

Multinational corporations have significant purchasing power and can make a large contribution by raising awareness, and encouraging and supporting suppliers in new, developing markets to raise their standards.

What about customers and consumers?

Retailers have an important role to play in educating consumers and we share that responsibility. We need to supply them with the tools they need in marketing and on the retail shelf. For example, we can provide information through point of sale material about the reduced total cost of ownership of our products that offer increased energy efficiency.

Our consumer website asimpleswitch.com shows that solutions for reducing energy consumption can be as simple as changing a light bulb. We supported the Live Earth concerts on July 7, 2007, to reach an estimated 2 billion people and inspire them to make a difference on the issue of climate change.

What do you believe is the role of leaders in sustainability?

Business leaders like political leaders in this context have the same job to do. We need to create awareness and come up with sustainable solutions for the problems we face as a society. Business will create the products and services; politicians need to provide the enabling conditions. At Philips we will continue to be proactive.

Industry for too long was seen as a source of problems. We need to correct that and show that we are part of the solution. When you are sustainable from the start, as I said, business is in a good position to contribute.

Look at what's happening in terms of demographics with population growth and aging. Now think about what that will mean to the world's resources. We need technological breakthroughs to deal with these challenges and ensure a sustainable future. Such breakthroughs can only come from industry. Businesses have R&D and make the investments in new technologies and new solutions – as we have done over the years and will continue to do.

What do you see ahead for sustainability at Philips?

With "Vision 2010" and the focus on our portfolio – Healthcare, Lighting and Consumer Lifestyle – sustainability will have an even more prominent place. It's a key element of how we do business. With this portfolio health and wellbeing is ever more at the heart of what we do. It's about quality of life and the quality of the environment we live in.

Becoming simpler, stronger and greener

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

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

Strategic focus

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

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

EcoVision4 targets

With EcoVision4, we have committed to:

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

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

Making a positive impact

As the world leader in lighting, we can make a significant contribution to reduce global warming. A recent CO_2 abatement study by McKinsey identified energy efficient lighting as one of the most effective solutions for greenhouse gas reduction. Switching currently installed older lighting to the latest technology would save more than EUR 100 billion.

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

Caring for Climate

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

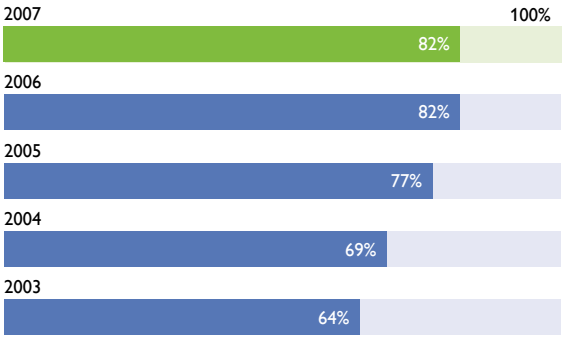
Innovations in energy efficiency and healthcare

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

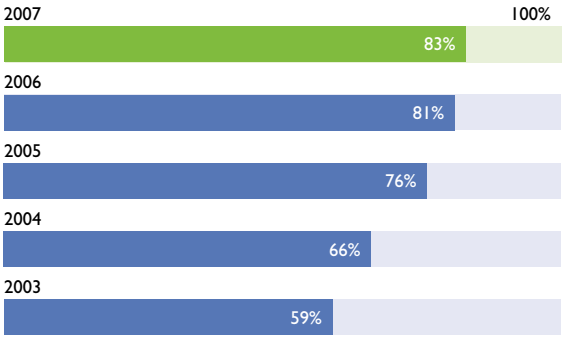
"Sustainability offers a world of business opportunities."

Barbara Kux Member Group Management Committee and Chair Sustainability Board

Philips' Dow Jones Sustainability Index scores
Total score



Philips' Dow Jones Sustainability Index scores
Social dimension



Making progress

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

Dow Jones Sustainability Index (DJSI)

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

In its detailed report on Philips, SAM Research noted:

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

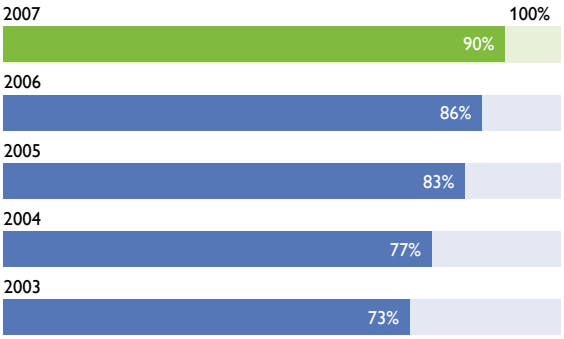
"To address the challenges with suitable products, Philips needs to identify early enough changes in the environment, understand the expectations of its stakeholders, integrate the findings into a product, have high regard for the environment and people in manufacturing, and finally reach the target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

Key Performance Indicators 2005-2007

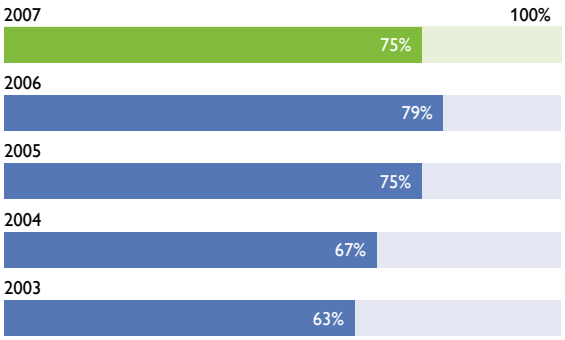
		2005 Actual	2006 Actual	2007 Target	2007 Actual
Business					
Sustainable business	Sales from sustainable business (Green Products), in %	-	15	20	20
	Number of new Green Flagships	46	57	60	53
Communication					
Internal communication	Sustainability messaging measured amongst employees as favorable (%)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

* Including Semiconductors

Philips' Dow Jones Sustainability Index scores
Environmental dimension



Philips' Dow Jones Sustainability Index scores
Economic dimension



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

EcoVision and Green Flagships

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

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

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

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

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

Social performance

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

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

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

Auditing all identified risk suppliers

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

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

The road ahead

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

Sustainability Management Agenda 2008

In 2008 we will work to:

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

The Philips Way

Our company was founded in Eindhoven, the Netherlands, in 1891 to "manufacture incandescent lamps and other electrical products." Ever since then, we have been simplifying and enhancing people's lives with a steady flow of pioneering innovations, for instance in the fields of medical imaging, television, lighting, optical technology and integrated circuits. Today, we remain committed to building upon this rich heritage to make people's lives simpler, more enjoyable and more productive.

Vision 2010

In 2001 we started out on a journey to transform Philips into a focused, market-driven company capable of delivering sustained profitable growth, and so creating value for our stakeholders. Over the course of the intervening years, we have fundamentally repositioned Philips from a rather volatile, technology-focused, vertically integrated electronics company to an applications-oriented, customer-centric and more predictable company. This involved a massive capital re-allocation, away from cyclical technology businesses and toward expansion of our high-margin core businesses through acquisitions, innovation and brand injections, as well as returning capital to shareholders through tax-efficient share buy-backs and dividends. In 2007 we took another major step forward with the announcement of our Vision 2010 strategic blueprint.

Vision 2010 places the customer at the very heart of everything we do. Accordingly, we have realigned our entire organization around the needs we see in the marketplace. Effective January 1, 2008, we now have three sectors – Healthcare, Lighting and Consumer Lifestyle.

Insights and empowerment

Our mission is to improve the quality of people's lives through the timely introduction of meaningful innovations. In a world where complexity grows to touch every aspect of our daily lives, we will lead in bringing sense and simplicity to people.

Based on a deep understanding of what people really need and want, and delivering on our promise of simplicity, we empower our customers – both healthcare and lighting professionals and end-consumers – with solutions that are advanced, yet designed around them and easy to experience. Specifically, we address these needs and desires in the four domains of *my space, my body, my appearance* and *my mind*.

As well as expressing a commitment to eliminate unnecessary complexity and to deliver the meaningful benefits of technology, our "sense and simplicity" brand promise also defines how we want to be seen by all our stakeholders – open and transparent, approachable, easy to do business with.

Today, Philips is a much simpler company focused on the market, centered around the brand and driven by innovation. We see tremendous potential in both mature and emerging markets and leverage our competencies in design, technology and marketing to capture value from some of the major economic, social and demographic trends, e.g. the growing demand for better healthcare at lower cost, consumer empowerment, the rise of emerging markets and the need for energy efficiency.

As we strive to enhance the quality of people's lives, our 7 strategic drivers are helping us become a simpler, stronger and greener company.

Vision 2010 – ambition to significantly increase shareholder value

- Improve the EBITA margin of our current businesses to exceed 10%
  Through improved margin management, increased contribution from recent acquisitions, a better product mix, the effects of the organizational simplification and reduced corporate brand spend.
- Drive comparable sales growth at a minimum of 6% (compound annual sales growth) for the period 2008-2010
  Fuelled by organic growth, and through a specific focus on emerging markets and developing economies.
- Arrive at an efficient balance sheet by the end of 2009
  Through a combination of further value-creating acquisitions and continued return of capital to shareholders.
- Thanks to the combined effect of these measures, we expect EBITA per common share to more than double by 2010 from the 2007 level.

Management Agenda 2008

As a result of a thorough review of our 2007 achievements and remaining challenges, as well as our expectations for the development of the global economy and the competitive environment, we have adopted the following management agenda for 2008:

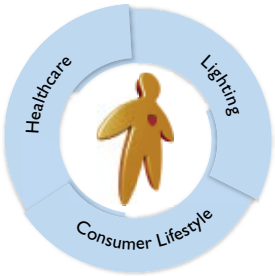
- Integrate and leverage recent acquisitions, delivering the anticipated return on investment
- Take decisive steps to structurally deal with unsatisfactory EBITA margins at Connected Displays
- Improve productivity as a driver of margin expansion
- Step up resource investment in emerging markets to accelerate growth in excess of 2x GDP
- Increase innovation focus in support of Philips' growth ambition
- Continue to drive a culture of superior customer experience
- Bring employee engagement to high-performance benchmark

Our 7 strategic drivers

1

We are a people-centric company that organizes around customers and markets

Vision 2010 positions Philips as a market-driven company with an organizational structure that reflects the needs of its customer base.



Our three new sectors, Healthcare, Lighting and Consumer Lifestyle, each address different markets, but have one thing in common – the customer is at the center.

By bringing together Medical Systems and our growing Home Healthcare Solutions business, for example, we can develop solutions that deliver value throughout the complete cycle of care – from disease prevention to screening and diagnosis to treatment, monitoring and health management.

And by combining CE and DAP, we will leverage our competencies to create competitive advantages in a challenging marketplace. Merging sales teams, for example, will create greater focus and reach within our chosen markets. Optimizing supply and service processes will improve customer-centric effectiveness. And combining consumer insights will enable us to deliver even more compelling value propositions.

2

We invest in a strong brand and consistently deliver on our brand promise of "sense and simplicity" in our actions, products and services

The 2007 wave of our brand campaign showcased a range of simplicity solutions that empower consumers, particularly families, to manage their health and wellbeing. These advertisements underscore the deep consumer knowledge and insights that set Philips apart in the healthcare industry.

By investing consistently in our brand – also through activities like our Simplicity Events – we are seeing its value increase significantly, as evidenced by our fourth successive rise in the annual Interbrand top 100.

3

We deliver innovation by investing in world-class strengths in end-user insights, technology, design and superior supplier networks

Technology continues to drive many of our innovations, and innovation is integral to everything we do. But to ensure it is relevant and meaningful, we take end-user insights as its starting point.

Product creation and development begins with an understanding of people's needs and aspirations. We make extensive use of our Experience Labs, where we can study people interacting naturally with our product concepts. If they find the concepts too complex, we make them simpler or go on to the next innovation.

The Philips Wake-Up Light is a new, medically proven wake-up solution based on the simulation of dawn. It emits light that gradually increases to the intensity you have selected, gently preparing your body to wake up. This "dawn light" positively affects your energy hormones, enabling you to rise naturally and easily, feeling energized and refreshed.

4

We develop our people's leadership, talent and engagement and align ourselves with high-performance benchmarks

In the 2007 edition of our annual Employee Engagement Survey, almost 100,000 Philips employees – from across all sectors and functions – were invited to answer the same 39 questions on leadership, management capabilities, alignment with Philips' vision, identification with the brand, and reward recognition.

The Employee Engagement Index figure increased to 64%, from 61% in 2006. We have set ourselves the goal of reaching the high-performance norm of 70% by 2009. So while we are on the right track, the remaining gap still needs to be closed.

5

We invest in high growth and profitable businesses and emerging geographies to achieve market leadership positions

We are well positioned to benefit from major trends that will determine global GDP development in the coming decade, i.e. the need of a growing and longer-living population for more and affordable healthcare, the need for energy-efficient solutions (e.g. for lighting) and developments in the consumer space. We are also well placed to realize profitable growth in emerging markets, while contributing to the sustainable development of these economies. We continue to pursue opportunities to make value-creating acquisitions that can further our growth ambitions. The acquisitions we announced in 2007, for example, strengthened or established our leadership positions in promising markets, or gave us access to new markets. The successful integration of Partners in Lighting International, Color Kinetics and Genlyte will significantly boost our global leadership position in the market for advanced lighting solutions, while the announced acquisition of Respironics puts us firmly at the forefront of the fast-growing market for home healthcare solutions. Now, the priority is to successfully integrate and leverage these acquisitions in order to capture their full value and so deliver the anticipated growth and margins.

6

We are committed to sustainability and focus on making the difference in efficient energy use

Global climate change, rising energy costs and pressure to meet targets on reduction of CO_2 emissions are major issues facing the world today. Addressing these imperatives and the opportunities they present will have a major impact on global business.

Philips has a long-standing commitment to providing solutions that improve people's lives and are environmentally sound. Now we are the industry leader in energy-efficient lighting with, for example, our state-of-the-art TL5 lamps and LED light sources, electronic gear, high-efficiency optics and energy-saving lighting controls.

We are aiming for our Green Products to generate 30% of total revenues by 2012, compared with 15% of group sales in 2006. This commitment is part of our latest EcoVision program, which aims to double our investment in green innovations to EUR 1 billion in the next five years and increase the energy efficiency of our operations by 25%.

During 2007 we launched our Green Logo, a simple tool to help consumers find Philips' Green Products in stores and make responsible choices.

asimpleswitch.com

7

We drive operational excellence and quality to best-in-class levels, allowing us to make strategic investments in our businesses

Philips Business Excellence (PBE) provides a holistic framework for assessing an organization's position relative to world-class performance, identifying strengths as well as improvement opportunities that support business objectives.

In few areas are the demands for manufacturing excellence higher than in the automobile industry. This drives our Automotive Lighting business, which has adopted a zero-defects policy – not as a philosophy but as a hard target.

Using the Philips Business Excellence program, our people at Automotive Lighting identify what improvements are needed, and formalize them in the management agenda. The policy is based on management attention and shop floor focus. Black Belts (process experts) and Green Belts (operational and tactical experts) lead improvement teams focused on product quality issues. Our Lighting Quality Improvement Competition provides a platform where the teams can share their experiences and learn from each other, as well as motivating and engaging our people.

Our sustainability focus

Key global trends and issues

Societal
Growing population in developing world
Aging population in developed world
Instability/terrorism
Emerging roles of industries and non-governmental organizations
Digital divide
Privacy
Rising attention on human rights
Business / Economics
New and emerging markets
Shift from West to East
Off-shoring/outsourcing
New business models
New technologies
Knowledge management
IP (infringement, licensing and enforcement)
Business integrity
Transparency/accountability
Health
Rising healthcare costs
Lack of access to affordable healthcare
Infectious diseases in developing world
Chronic diseases developing world
Threat of epidemics (Bird Flu, SARS, etc.)
Employee health and safety
Animal testing
Environment
Climate change
Clean air and water
Energy management
Limited natural resources
Take-back and recycling
Use of chemical substances in products
Waste management

Sustainability trends and relevant issues

We continuously look at the world around us to track key trends and material issues. We blend this outside-in perspective with internal analyses (including our company strategy and risk assessment processes) to determine the issues most relevant for our company and those where we can make a positive contribution to society at large.

We review trend analyses from a variety of sources, including the World Bank, World Business Council for Sustainable Development, World Economic Forum and World Health Organization, as well as our own research. As a member of organizations like the World Business Council for Sustainable Development and the Electronic Industry Code of Conduct, we participate in meetings and task forces, bringing new learning to bear. Our work also involves tracking topics of concern to governments, regulatory bodies and non-governmental organizations, and following the resulting media coverage.

Stakeholder engagement

To gain additional outside perspective on sustainability trends and global issues, we engage our stakeholders in a variety of ways. We strengthened our approach to stakeholder engagement in 2007 with, among other activities, a series of Philips Forums and our first Sustainability Innovation Day event.

Philips Forums

Our stakeholder outreach program includes genuine dialogue with small groups of opinion leaders and relevant stakeholders at a series of events we call Philips Forums. In 2007 we held sessions in Kuala Lumpur, Singapore, Tokyo and the United States, and we plan to conduct additional forums in 2008.

The purpose of the Philips HealthCare and EnergyCare Forums is to create an environment in which leading stakeholders and the company's top management can

engage in a two-way exchange of ideas and opinions on issues of mutual interest, social relevance and global importance.

Based on societal trends within the healthcare and energy sectors, the aim is to share expertise and co-create solutions that will make a difference to future generations.

Sustainability Innovation Day

We discussed projects we are exploring with key stakeholders at Sustainability Innovation Day at our Corporate Research Exhibition in May 2007. Originally launched in 1959 as an internal event intended to help researchers from different labs find synergies in their work, in 2001 Philips businesses began bringing strategic customers to the event and extending invitations to other key external stakeholders in the following years.

Among the guests on Sustainability Innovation Day were members of government, academia and non-governmental organizations. Inviting outside parties to this event is an example of our Open Innovation model. We strongly believe that partnerships are a lot stronger than just doing things on our own. So outside feedback is very important to us. After seeing innovations we are exploring in healthcare and energy, attendees shared their insights and challenged the company to ensure that environmental and social issues are at the forefront of the innovation process.

Key material issues

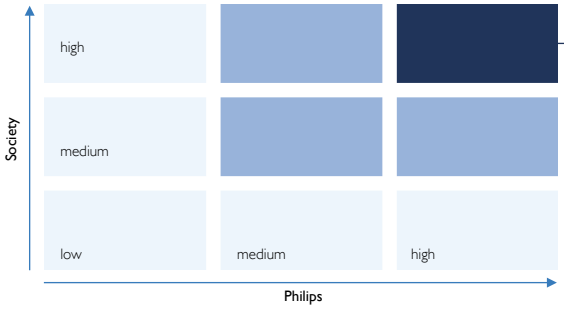
To identify the key material issues we use the mapping approach shown below, which plots the material issues on a scale from low to high in terms of the:

- level of concern to society and stakeholders, versus
- impact on Philips, or
- level of control or influence we can have on an issue through our operations and products/solutions.

The overview of material issues illustrated here includes both risks and opportunities. Our primary focus in this report is on business opportunities – to show how we can play a positive role in meeting the sustainability challenges we face globally.

Materiality matrix
The mapping approach

■ These issues are classified as material, and are covered in this report
■ Issues in these squares can become material and may be covered in future reporting
■ Opportunities
■ Risks



Health	Business	Societal	Environmental
Rising healthcare costs	Business integrity	Aging population in developed world	Climate change
Chronic diseases in developing world	Off-shoring/ outsourcing	Rising attention on human rights	Energy management
Lack of access to affordable healthcare			
Infectious diseases in developing world			
Employee health and safety			

We also recognize that opportunity brings responsibility and requires managing risk. Detailed information on our General Business Principles, Supplier Sustainability Involvement Program, and our approach to risk management and control can be found in our online *Sustainability Report 2007* and our *Annual Report 2007*.

Based on global trends, stakeholder input and our company strengths, we develop our strategy and vision, as well as the programs and policies to drive the implementation of our strategy.

Our focus

We want to become the recognized leader in key Philips global market opportunities relevant to society at large, by applying our company strengths. As a result, we focus on energy efficiency and healthcare.

Healthcare

The area of healthcare is clearly of essential importance. Every human being should have access to affordable healthcare of decent quality. To achieve this goal will require a huge effort. As a result, healthcare will be a very important driver of economic development over the coming decades.

Businesses, government, insurers and healthcare institutions will have to work together to find innovative solutions. For example, we need to shift from costly treatment at a late stage of disease to prevention and early detection. Prevention can be increased by healthier lifestyles and a cleaner environment. Remote patient management can help us to bring healthcare to areas where traditional healthcare is not available. At Philips this means focusing on the full cycle of care, which is described beginning on page 46.

Our heritage of understanding how people react to technology, combined with our deep clinical knowledge, puts us in a unique position to address the challenges of contemporary healthcare systems.

The pursuit of personal wellbeing is a universal trend, equally relevant in both mature and emerging markets. Our focus is shifting from products to experiences or atmospheres that reinforce healthy lifestyles, as illustrated by our ambient experiences and our emphasis on entertainment and wellbeing in the home and beyond.

Energy efficiency

As for energy management, climate change is one of the most pressing issues of our time. At the same time, we know that energy resources, so necessary for development, are scarce.

Energy efficiency helps to address both challenges. As the number one lighting company in the world, Philips is taking the lead in the promotion of innovative, energy efficient lighting solutions in houses, streets, offices, shops and cars. And we are strengthening the energy efficient and Green Product approach at both Healthcare and Consumer Lifestyle, leveraging the experience of our Lighting sector. You can find full details beginning on page 26.

EcoVision4

In 2007 we launched our latest environmental action program, EcoVision4.

We were at the forefront back in 1994 when we instituted a disciplined approach to environmental improvement with our first program, which set a series of measurable targets. At the same time, we introduced our EcoDesign process, which deals with all aspects of the product creation process. In 1998 we began our drive to develop Green Products. Since then we have continuously raised the bar with the ambitious goals of our subsequent programs, including EcoVision4.

EcoVision4 targets

With EcoVision4, we have committed to:

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

Green Products

Philips Green Products offer customers, users and society a significant environmental improvement in one or more of the Philips Green Focal Areas:

We use the Life Cycle approach to determine a product's overall environmental improvement. The Life Cycle Assessment calculates the environmental impact of a product over its total life cycle (raw materials, manufacturing, product use and disposal). The result of such a calculation is an Eco-Indicator.

The score of a given product in a Green Focal Area is significantly better when it is 10% better compared to the reference product, which can be a competitor, predecessor or other product in the particular product family.

Green Innovations

The need for Green Innovations is clear and we are working to ensure that we get the maximum results from our efforts to stimulate innovation. Corporate Technologies – which includes Corporate Research, Philips' Incubators, Intellectual Property & Standards, campuses in India and China, as well as Applied Technologies – feeds our innovation pipeline.

Our goal is to develop true breakthroughs that benefit society and create value for the company and our stakeholders. We will do that through our investment in Green Innovations, concentrating on our main areas of expertise.

We recognize that innovation is not limited to inventions brought about by basic research. Progress can also be driven by the development of original applications of technologies that already exist. One example is our energy efficient urban lighting solutions. In addition to Green benefits, these lighting architecture solutions improve safety, comfort and atmosphere.

We also know that we have to be flexible to truly maximize the value from our innovation efforts. Not every promising idea can be nurtured within the environment of our established businesses – sometimes because the idea is too much of a break-away, sometimes because the expected returns or scale up are too slow for our global businesses. We would be destroying value if we just left those technologies on the shelf. That's why we have set up three Incubators – to develop these technologies in

a separate, entrepreneurial environment that measures performance in terms of growth, not earnings.

After nurturing and developing these ideas for a few years, successful incubator initiatives make it into new businesses, often within Philips, but we have also spun out some of them as independent companies. Society at large profits, because promising technologies do not rust on the shelves and can be developed into new business. Philips profits, because the incubators allow us to extract more value from our R&D efforts.

Operational energy efficiency

To improve our operational energy efficiency, and reduce the associate CO_2 emissions, we needed a solid baseline from which to compare our improvement in the coming years. So during 2007 we worked to establish a clear view of our company's operational carbon footprint, applying the Greenhouse Gas Protocol. Developed by the World Business Council for Sustainable Development and the World Resources Institute with extensive review from stakeholders around the world, this is the most accepted standard to calculate greenhouse gas emissions.

Our operational carbon footprint

We focused particularly on those areas we can directly influence, for which we have set reduction targets. Our operational carbon footprint includes:

- Direct emissions from our manufacturing processes and non-manufacturing facilities.
- Indirect emissions from purchased electricity.
- Other indirect emissions that we can influence directly: logistics and business travel.

Our operational footprint does not include, among others, the following elements of indirect impact:

- Production of purchased materials and outsourced manufacturing activities. However, we are starting to work with some of our key suppliers to improve their operational energy efficiency. (Details are available in the section on "Our suppliers" in our online report.)
- The use of our products. By far the most significant impact on global warming is from the use of our products. Based upon preliminary estimates, the carbon footprint for use of our products is more than 300 million tons of CO_2 equivalents, most of which relates to lighting products. For perspective, our operational carbon footprint is less than 1% compared to the impact of the usage of our products. This is why we have sharpened our focus on Green Products and Green Innovations.

Additional details on how we calculated our operational carbon footprint can be found on pages 68-96.

Calculating our carbon footprint is a complex exercise. Not all source data are directly available, while other data have been measured for 10 years (in our manufacturing facilities, for example) and are highly reliable. Some data were incomplete and had to be extrapolated or converted from other source data or estimated. We will continue to work to further improve the data, using 2007 as a solid base for reporting our improvements through 2012.

Based upon the available data, we calculated our total operational footprint to be approximately 2.35 million tons CO_2 equivalents.

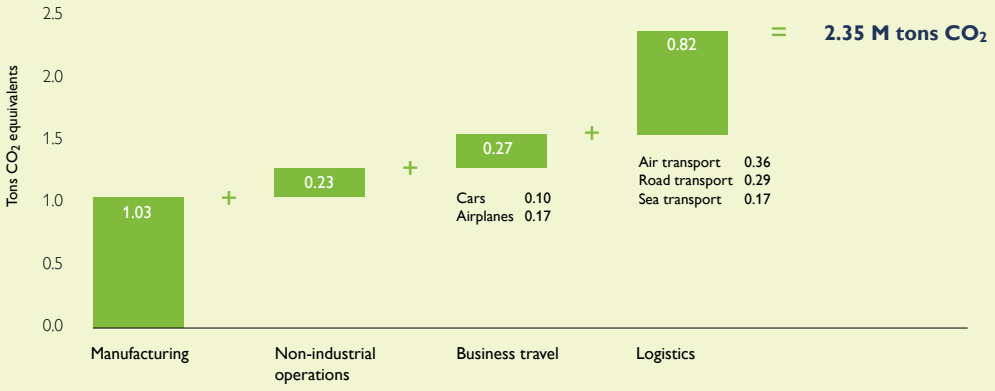
For each area we have developed action programs to drive energy efficiency and associated CO_2 reductions.

Manufacturing

In manufacturing we have targets to improve energy efficiency as part of our EcoVision III (2005-2009) program. Currently we are expanding this to specific targets for each sector through 2012.

"We are commited to reduce our operational carbon footprint."

Philips' operational carbon footprint
Tons CO_2 equivalents (in millions)



Non-industrial facilities

For our non-industrial facilities (offices, warehouses, etc.) we are focusing on upgrading our lighting systems.

Business travel

We are strengthening our programs to reduce the impact of business travel, including videoconferencing, low carbon car rentals and Green car leasing. (See the section on "Our suppliers" in our online report.)

Logistics

Air transport accounts for the majority of the total CO_2 emissions related to logistics. We are putting programs in place to use the type of transportation that has the lowest CO_2 impact per kilometer. (Please see "Our suppliers" in our online report.)

I can make a difference now

Philips and energy efficiency

"I knew there was something going on about climate change, but it seemed so complicated. What possible difference could just one person make? I found out at the Live Earth concert and the Philips asimpleswitch.com site. One individual truly has power! By simply changing four old light bulbs in my home to energy savers, each year our atmosphere will be spared up to 160 kg of CO_2 – and my energy bill will be reduced by EUR 48. And if I tell 10 friends, that power grows exponentially."

Our www.asimpleswitch.com site shows how a simple act can have a powerful impact.

Climate change: complex and unequivocal

Hardly a day passes without media headlines about climate change.

Al Gore's film *An Inconvenient Truth* became an Academy Award winner in February. Leonardo DiCaprio and the former US Vice President announced the Academy's green initiative, which includes a variety of energy-saving strategies.

July brought Live Earth, the largest global entertainment event ever held. This 7-continent, 24-hour music event broke on July 7, 2007. The concerts attracted TV, radio, Internet and live audiences, and generated attention and discussion around the world, engaging an estimated audience of 2 billion people on the issue of climate change.

"Extensive climate changes may alter and threaten living conditions."

The Norwegian Nobel Committee announced in October that the Nobel Peace Prize for 2007 would be shared by the Intergovernmental Panel on Climate Change (IPCC) – a scientific intergovernmental body set up by the World Meteorological Organization and the United Nations Environment Programme – and Al Gore. The Committee said the joint award was "for their efforts to build up and disseminate greater knowledge about man-made climate change, and to lay the foundations for the measures that are needed to counteract such change."

Indeed the Committee called for sharper focus on the issue, noting: "Indications of changes in the earth's future climate must be treated with the utmost seriousness, and with the precautionary principle uppermost in our minds. Extensive climate changes may alter and threaten the living conditions of much of mankind. They may induce large-scale migration and lead to greater competition for the earth's resources. Such changes will place particularly heavy burdens on the world's most vulnerable countries. There may be increased danger of violent conflicts and wars, within and between states."

Rising high

Sea level
Average global sea level is projected to rise by 28-58 cm

20-30%

Gone forever
20-30% of species are likely to face an increased risk of extinction

Declining

Melting snow
Glaciers retreated significantly during the 20th century

Changes already seen

In November the IPCC 4th Assessment Report (AR4) – "Climate Change 2007" – was completed. "Unequivocal" is the word the IPCC now uses to describe the warming of the climate system. Trends towards more powerful storms and hotter, longer dry periods have been observed and are assessed in the report.

Closing out the year was the United Nations Climate Change Conference in Bali. Hosted by the Government of Indonesia, this two-week event brought representatives of over 180 countries together with observers from intergovernmental and non-governmental organizations, and the media.

The effects of change

Explaining climate change science, the United Nations says: "Human activity – particularly the burning of fossil fuels – has made the blanket of greenhouse gases around the earth 'thicker.' The resulting increase in global temperatures is altering the complex web of systems that allow life to thrive on earth, such as cloud cover, rainfall, wind patterns, ocean currents, and the distribution of plant and animal species."

What the future holds

The UN says that "even the minimum predicted shifts in climate for the 21st century are likely to be significant and disruptive. Scientific understanding and computer models have improved recently and many projections can now be made with greater certainty… Predictions of future climate impacts show that the consequences could vary from disruptive to catastrophic."

Severe storms and floods are likely along the world's coastlines, while other areas will suffer prolonged draught. Food supplies could dwindle. With higher temperatures diseases like malaria, which already kills 1 million people a year, can expand their range. And it's expected that the poorest communities will be the hardest hit. Yet, as UN Secretary-General Ban Ki-moon points out, "Global warming impacts everyone regardless of national borders." Climate change "doesn't care if you are coming from developing or industrialized countries."

What we believe

As a global business we are acutely aware of our duties as a citizen of the world and the role we can play in improving people's lives.

We believe concerted action in climate change is a social responsibility. Realizing real and immediate differences in the way the world thinks and acts to reduce its ecological footprint is our passion. We believe future generations are entitled to a healthy planet.

At Philips we meet the energy efficiency challenge with our Green Products and by inspiring individuals to make simple changes that can have profound results. We seek to facilitate new solutions for change to drive responsible energy practices.

Providing simple solutions

While many of the necessary building blocks are falling into place, winning the war against climate change still requires a change of behavior and attitude among every single consumer, whether acting personally or professionally. Bringing that about will demand concerted action from everyone involved in the consumption of energy, from industry, energy suppliers, governments, non-governmental organizations and consumer groups.

The world may indeed face an energy problem, but we prefer to see Philips as part of the energy solution. As the world's leading lighting supplier we can have a big impact on energy efficiency and the resulting carbon dioxide emissions. Since we invented the energy saving compact fluorescent light bulb in 1980 we have continued to develop energy efficient lighting solutions that offer significant savings in energy, expense and CO_2 emissions.

Consider the numbers

Lighting accounts for 19% – or nearly one-fifth – of all electricity used in the world. That's because much of the lighting currently installed is technology that dates back a century. With this old inefficient lighting, 95% of the energy is wasted in heat, with a mere 5% generating light.

Some 75% of all lighting is used in professional applications like street lighting and buildings, while 25% is used in homes.

If new efficient lighting technologies were adopted globally, the world could achieve an energy saving of 40%. This would save EUR 106 billion in energy costs per year. This is equivalent to 555 million tons of CO_2 or 1.5 million barrels of oil a year.

Selling these lighting solutions is not only good for Philips, it's also good for people and the planet.

Beyond lighting

Of course, we also focus on energy management in our Consumer Lifestyle products.

People wonder about those big TVs with little red standby lights that never turn off. Ten years ago that same red light used 8 or 9 watts of standby power. We've brought that down to 0.15 watts in the majority of the TVs we will introduce in 2008.

In recognition of this, the Consumer Electronics Association honored Philips with a 2008 International CES Best of Innovations Design and Engineering Awards in an important new category: Eco-Design and Sustainable Technology. Our 42-inch 1080p Pixel Plus 3HD LCD HDTV – a typical TV in our 2008 product range – offers significant environmental benefits, including best-in-class standby energy consumption.

We are working to further strengthen the energy efficient and Green Product approach at both our Healthcare and Consumer Lifestyle sectors.

Energy efficiency lies at the heart of our business. It's one of the practical ways we deliver on our brand promise of "sense and simplicity."

#1

Leadership position
We're the world's leading lighting supplier

Delivering

Energy efficiency
Providing energy-efficient solutions is one of the ways we deliver on our brand promise

19%

Nearly one-fifth
Lighting accounts for 19% of global electricity use

Getting the word out

Our research tells us that people want to be good citizens. They want to reduce their carbon footprint. But they are not necessarily willing to sacrifice their gratifying consumer lifestyle.

Our response is simple. "Make a start with lighting."

One of our big initiatives in 2007 was continuing our call to action to get the world to switch from old to new lighting technology.

We believe our job is to make the transition to energy saving lighting smooth and as easy as possible for our customers – whether they be governments, businesses or homeowners. We have public awareness programs running in all major regions, launching initiatives in Hong Kong, China, Washington, DC, and California. This is in addition to the energy efficiency awareness initiative launched in Europe in 2003.

Making a "simple switch"

In July we launched our global consumer campaign called asimpleswitch.com, showing that solutions for reducing energy consumption can be simple and actionable without compromising on quality of life.

By partnering with The Alliance for Climate Protection and the global Live Earth concerts on July 7, 2007, we helped inspire more than 2 billion people to take simple steps, like changing a light bulb, to lead a more energy efficient life.

Part of the campaign is a consumer website www.asimpleswitch.com, launched on July 4, 2007. Visitors to the Live Earth concerts and the Live Earth and MSN websites were invited to record a personal "simple switch" pledge either online or via text messaging.

We are tracking these collective pledges to change to energy efficient lighting and calculating the resulting energy and costs savings on the asimpleswitch.com website. Nearly 3.4 million switches had been pledged at year end.

Former US Vice President, creator of *An Inconvenient Truth* and Live Earth spokesperson Al Gore said in a message to Philips employees: "Together we can continue to get out the word that there are many simple and accessible solutions that help reduce our energy consumption and cut global warming pollution."

This outreach is indeed working. We see that the switch in residential lighting is going very fast because it's the most "simple switch."

Philips Green Products

We will use the Philips Green logo (seen on the balloon in the accompanying photo) to identify our Green Products, making it simple for our customers and end-users.

Shaping public policy

Because we moved early, the Philips voice is a leading part of a global choir.

Europe: Saving 20% in 2020

The European Commission has been urged by EU leaders to "rapidly submit proposals" to get 490 million citizens in 27 member states to switch bulbs. The EU action plan for energy efficiency calls for reducing primary energy use by 20% in 2020.

"This historic legislation makes a much-needed 'down payment' on curbing global warming."

The Commission's Directorate-General for Energy and Transport has stated: "Making improvements to lighting is one of the fastest ways to cut energy bills, and one of the easiest ways to save energy in buildings. Low energy bulbs, which are now readily available in shops, use less than a quarter of the electricity of a standard light bulb and last up to 15 times longer. According to estimates, replacing bulbs can save an average household around EUR 100 every year. "

Initial priority products for energy performance standards include office lighting and street lighting, followed by incandescent lamps.

Australia: Eliminating inefficient bulbs

Australia's government is banning old-style bulbs within three years.

The Americas: Making the switch

In the Americas both Cuba and Venezuela have their switch programs. And at the end of 2007 the US enacted historic lighting efficiency legislation.

The comprehensive "Energy Independence and Security Act of 2007" contains a lighting efficiency section that will dramatically change consumer lighting in the US by setting aggressive energy efficiency standards for most of the more than 4 billion screw-based lights in the country.

The legislation will effectively ban the inefficient incandescent bulb. This segment of the market will move to lamps equal to or more efficient than our Halogená Energy Saver lamps, which are already on the market. Other alternatives include compact fluorescents and solid state lighting (LEDs). The phase out of inefficient lamps is slated to begin on January 1, 2012, and will be completed within two years.

The legislation will reduce Americans' electric bills up to $18 billion annually, and reduce electricity consumption equal to that generated by 23 nuclear power plants or 80 coal burning plants.

Other provisions include efficiency standards for reflector lamps and metal halide fixtures and a requirement that the federal government purchase only highly efficient lighting products.

This US legislation came just one short year since we issued our call to action in Brussels on December 7, 2006, urging governments around the world to adopt policies to remove inefficient lighting products from the market by 2016.

With the creation of the Lighting Efficiency Coalition on March 14, 2007, Philips, key members of the US Congress and five major environmental organizations echoed this call to action at the National Press Club. The environmental organizations – the Alliance to Save Energy, American Council for an Energy Efficient Economy, Californians Against Waste, Earth Day Network and the Natural Resources Defense Council – advocated this legislation and negotiated its specifics.

"Of the many initiatives and ideas that have been brought to the Alliance to Save Energy during our 30-year history, none has offered – or will deliver – the energy savings provided through the coalition effort to phase out inefficient, incandescent bulbs in the United States," said Kateri Callahan, President of the Alliance to Save Energy.

4 billion

Incandescent light bulbs
This segment of the US market will move to energy saving lamps

20%

in 2020
The EU is calling to cut energy use by one-fifth

"In addition to helping American consumers and businesses, this historic legislation makes a much-needed 'down payment' on curbing global warming and confronting other critical energy issues, including national energy security and the health of our economy."

Spreading the message

During the course of 2007, Philips executives took the company's call to action to participants at meetings on climate change and energy efficiency all over the world, including Berlin, Brussels, Delhi, Geneva, São Paulo, Seattle and Singapore, to name just a few.

They reiterated that the time for change is now, with the combined pressures of global warming, rising energy prices and security of the energy supply. Further, energy efficiency can help drive economic growth in advanced as well as in new and emerging markets.

The Lisbon Council for Economic Competitiveness and Social Renewal – a think tank and policy network committed to defining and articulating a mature strategy for managing current and future challenges – convened the Climate Change Action Group in June. Among the participants was a senior expert from Philips.

With a strong focus on technology and innovation, the Climate Change Action Group seeks to stimulate solution-oriented policy debates, encouraging the development of a strong public policy environment that will encourage sustainable 21st century business models.

We also have established a partnership with IUCN aimed at increasing awareness on climate change and solutions to combat it. Also known as the World Conservation Union, IUCN brings together 83 States, 110 government agencies, more than 800 non-governmental organizations, and some 10,000 scientists and experts from 181 countries in a unique worldwide partnership.

IUCN's work includes giving policy advice and technical support to governments, United Nations organizations, international conventions and other groupings such as the G8 and G77, as well as providing technical support for drafting environmental laws and natural resources management strategies. The organization also has the official status of Observer at the United Nations General Assembly.

"Making improvements to lighting is one of the fastest ways to cut energy bills, and one of the easiest ways to save energy in buildings."

© United Nations

Appealing to the world

Philips repeated our call to action on climate change during the UN Climate Change Conference in Bali. The appeal describes specific steps that industry and government can take to reduce CO_2 emissions and still maintain economic growth. As the world leader in lighting, we are encouraging developed and developing countries to embrace energy-efficient lighting solutions and accelerate the replacement of outdated polluting technologies.

High time for a switch

New energy efficient and environmentally friendly lighting products are available now. We believe it is high time for a switch in light of how serious the climate crisis is.

Harry Verhaar, Senior Director, Energy & Climate Change for Philips Lighting, said: "We hope governments will take steps towards introducing concrete environmental performance targets for buildings and roads and labeling schemes, as well as offering financial incentives that overcome initial investment hurdles. Finally we hope measures will be taken to stimulate further green procurement in energy efficient lighting for public buildings, schools and roads."

Calling climate change "the moral challenge of our generation," UN Secretary-General Ban Ki-moon said "the eyes of the world" were on ministers and heads of state in Bali. "Succeeding generations depend on us," he said. "We cannot rob our children of their future."

> "Succeeding generations depend on us."

Business input is indispensable

Executive Secretary of the United Nations Framework Convention on Climate Change Yvo de Boer called for the active engagement of the international business community in the talks on a future climate change deal.

"You are the key to a low carbon future. If Bali will do what I hope it will do, we are facing the enormous challenge of shaping a post 2012 climate change deal in only two years time. Your input is indispensable to frame a deal that is not only effective in terms of emission reductions, but also makes economic sense."

All countries

Replace outdated lighting
We encourage developed and developing countries to embrace energy-efficient solutions

Security

Improving lives
Effective lighting produces a sense of wellbeing

50%

Less energy
Our innovative street lighting cuts energy use in half

Concepts for sustainable cities

During the year we unveiled the results of our city.people.light2007 research, carried out with leading architects, lighting designers and urban planners. The findings reveal that sustainability is a key concern for urban life and lighting in the coming decade, and needs to be addressed to ensure sustainable cities as well as to respond to climate change. At the City.People.Light Forum, held in Rotterdam in May, we demonstrated that the development of energy efficient lighting solutions can go hand in hand with the development of socially sustainable lighting solutions to improve safety and wellbeing in urban environments.

Research into urban life and the role of city lighting has never been more important. A century ago less than 10% of the world's population lived in cities. Today, that figure has soared to more than 50%. And by 2050, it is expected to be over 75%. Many of these city dwellers will live in mega-cities in Asia and South America. Cities such as Shanghai (with a population of over 18 million) are already more populous than many European countries.

Sustainable lighting solutions
We are at the forefront of energy efficient urban lighting solutions. In 2005 we launched the world's most energy efficient high quality street lighting system called CosmoPolis. Since then more than 50 cities around the world have started installing this system, which cuts energy consumption by 50% and also reduces electricity costs. It also improves the quality of light, producing a greater feeling of security and wellbeing.

In the new area of solid-state lighting we are also leading the way. Solid-state lighting increasingly allows city authorities to combine socially sustainable lighting plans with drastically reduced energy and maintenance costs.

The symbolic Bosphorus Bridge in Istanbul, below, has been illuminated using our LEDs and luminaires (complete lighting fixtures). The installation consumes 50% less energy than previously required.

Getting to zero



Our Solid-State Lighting Solutions headquarters merges the green design with innovative uses of its energy efficient LED lighting technology.

Buildings represent 40% of the world's energy demand. And this is projected to rise substantially as population grows, moves to cities and becomes more affluent. Clearly there is tremendous potential for reducing energy consumption and CO_2 emissions in this sector.

To help do just that, we have joined forces with eight other members of the World Business Council for Sustainable Development (WBCSD) in the organization's Energy Efficiency in Buildings (EEB) project. This industry-only three-year initiative envisions a world where buildings consume zero net energy.

The future is now

While we at Philips are indeed looking to the future, we also are focused on what we can do today. Our own Solid-State Lighting Solutions headquarters in Burlington, Massachusetts, US, was officially unveiled in December 2007. This 50,000-square foot building merges the principles of green design with innovative uses of its energy efficient LED lighting technology throughout.

The space was designed to meet high standards of environmental design, including the use of LED lighting wherever possible, with a plan to be entirely LED-lit in the future. The central lighting system incorporates wall switch occupancy sensors to eliminate wasteful light. Energy Star-rated appliances are used throughout the space, and water- and energy-saving devices are installed in the restrooms. This effort aligns with our latest EcoVision program, which aims to increase the energy efficiency of our operations by 25% in the next five years, among other goals.

Clinton Climate Initiative

We are partnering with the Clinton Climate Initiative (CCI). CCI is working with the C40 Large Cities Climate Leadership Group – an association of large cities dedicated to tackling climate change – to develop and implement a range of actions that will accelerate greenhouse gas emissions reductions.

CCI's website points out: "With cities contributing approximately 75% of all heat-trapping greenhouse gas emissions to our atmosphere, while only comprising 2% of land mass, large cities are critical to winning this fight and slowing the pace of global warming." The goal is to enable CCI partner cities to reduce energy use and CO_2 emissions. Lighting can make a significant contribution to achieving this ambition.

Powerful partnerships

We partner with the World Green Building Council and the US Green Building Council, reaching key members of the building industry. Other partnerships in North America include the Alliance for Sustainable Built Environments, the Environmental Protection Agency's Energy Star Program, the Department of Energy's Rebuild America initiative and Hospitals for a Healthy Environment.

40%

Energy demand
Buildings consume 40% of global energy

Zero

Energy consumption
We envision a world where buildings are energy self-sufficient

Reaching out to schools

Most would agree that school budgets should go toward books – not to unnecessary electricity bills to run old, inefficient lighting. Lower quality lighting that leaves many children squinting. That's why we're reaching out to schools. Plus, we have the opportunity to teach children about living a more environmentally responsible lifestyle.

Sharpened focus

In keeping with our targeted approach to social investment activities that reflect our business, we are directing our efforts toward projects to upgrade lighting, particularly in schools.

One initiative is our Global School Program on Energy Efficient Lighting that raised awareness among students in five schools around the world – in Brazil, China, Germany, South Africa and the US in 2007. Each school was given a grant to upgrade its lighting and the students became lighting designers.

They were trained and asked to define their present lighting infrastructure both in terms of cost and CO_2 emissions, using tools we provide. The program also allowed the students to learn from one another via teleconferences, connecting with children on the other side of the globe. Students in Germany talked to their counterparts in China and the US during separate calls.

Inspiring students in Hong Kong

In Hong Kong we've called upon students to adopt a more environmentally friendly lifestyle by making a "simple switch" to more energy-efficient lighting. At year end, more than 110 schools with more than 20,000 students at the primary, secondary and university levels had enrolled.

"Energy saving and environmental protection are major policy areas of the Hong Kong Special Administrative Region Government," explains Wiebo Vaartjes, CEO of Philips Hong Kong. "We are echoing this by educating the 'future pillars of society' to be socially responsible."

Teaching preschoolers

Amid the excitement of graduating from Tadika Philips Batu Arang, our kindergarten in Malaysia, 25 preschool children received an extra life lesson. They learned how to save energy on their special day, organized during the country's Energy Month in November 2007.

The Philips CeTree (Center of Education, Training on Renewable Energy and Energy Efficiency) Mobile Energy Efficient Show Home paid them a visit. The youngsters gained hands-on experience thanks to the Show Home's five knowledge kiosks – General Knowledge on Renewable Energy, Energy Efficient Electrical Equipment, Solar Thermal, Solar Electric and Biomass. CeTree personnel also talked to them about the importance of energy-saving habits.

Green light means safe flight

Every year some 60 million birds migrate across the North Sea. Most make the trip across without any problems. But under certain weather conditions many are attracted by traditional lighting on oil and gas platforms and they become disoriented.

They fly around aimlessly or land on the platforms. This delay proves fatal because migratory birds have very limited reserves. By the time they continue their migration, some of them are too weak to reach land safely.

The risk of the birds encountering such specific weather conditions en route is about 10% – that's 6 million birds.

Color is key

NAM (a joint venture between Shell and Exxon) spent many years studying this and involved Philips. Their work showed that the key to solving the problem lies mainly in the color of the lighting used on the offshore platforms.

Birds are distracted predominantly by the red part of the spectrum, and much less by blue or green. Blue lighting, however, would mean less safe conditions for the people working on the platforms, partly because that kind of light impairs the sharpness of one's sight. Fire extinguishers are also less clearly visible in lighting without the red part of the spectrum.

So NAM and Philips jointly set about developing a new type of light that would not distract birds, while not impairing safe working conditions. The result is a new type of lighting that radiates only a limited part of the color spectrum.

Promising results

This new lighting has been installed as a pilot project on a NAM platform off the island of Vlieland along the Dutch coast – with very promising results. During the trial period the number of distracted birds was counted and the welfare of the people working on the platform was also studied. The trial was carried out in accordance with regulations for safe, healthy working conditions.

The first scientific results became available after the main bird migration season in the autumn. Compared to observations made in previous years, the number of attracted birds was reduced up to 10 times. Some of the "white" lighting was not yet replaced. The expectation of the biologist who did these observations is that a full replacement could eliminate 90% of the attraction. And a number of other oil companies have shown interest in this new lighting.

Green

A range of options

The right light
Green lighting means safety for migratory birds

The time is now
Today's energy saving lighting solutions meet the needs of customers and the planet

Energy saving solutions

Since 1980 when we invented the energy saving compact fluorescent light bulb, we have worked hard to make improvements and develop new solutions. Many options are available today with more exciting possibilities to come. Each offers significant savings in energy use and CO_2 emissions, as shown above, as well as cost savings. This is just a sample of the products we offer to address a wide range of applications and customer preferences.

For each market segment an energy efficient lighting solution is already available

Lighting area	Old technology	Today's energy savers	Energy savings	CO_2 savings per lamp per year
Road lighting	High pressure mercury lamp	**CosmoPolis**	**58%**	**133 kg**
Shop lighting	Halo	**Ceramic discharge metal halide**	**86%**	**140 kg**
Office and industrial lighting	TL8	**TL5**	**61%**	**94 kg**
Home lighting	Incandescent	**CFLi**	**80%**	**42 kg**
Home lighting	Incandescent	**Halogená Energy Saver**	**30%**	**16 kg**
LEDs	Incandescent	**LED**	**80%**	**40 kg**

"LEDs run cool, so unlike traditional incandescent bulbs they don't waste energy producing unwanted heat."

The future of lighting

Investing in the future

We continued to invest in our Lighting business in 2007. The EUR 1.8 billion acquisition of Genlyte leverages our earlier successful acquisitions of Color Kinetics, Partners in Lighting, TIR and Lumileds.

Lighting goes solid state

Light-emitting diodes (LEDs), those small solid-state lamps that were once only good for showing that your video recorder was on, are fuelling a major revolution in the lighting industry. The reason is that LEDs have gotten brighter. Their luminous efficacy – the amount of light you get out compared to the electrical energy you put in – already surpasses that of tungsten and halogen lamps. Soon it will even exceed that of fluorescent lamps.

LEDs have always had some advantages over other types of lamp. They are small and rugged, have no glass to shatter and offer typical lifetimes in excess of 50,000 hours. They can be made in a range of spectrally pure colors, or laced with suitable phosphors to emit broad-spectrum white light.

Peter Wierenga, CEO of Philips Research, explains: "LEDs run cool, so unlike traditional incandescent bulbs they don't waste energy producing unwanted heat. They're efficient and long lasting – a typical LED will work for more than 11 years if used 12 hours a day."

The downside is their cost. Like other new technologies that hit the market, LEDs are expensive. The cost of LEDs today could be compared to the price of a compact fluorescent (CFLs) in 1985. But with lower energy consumption, LEDs lower energy bills. And as economies of scale take hold, costs will decrease.

As inherently digital devices, LEDs produce light that can be intelligently controlled to dynamically customize environments, from restaurants and casinos to retail shops, city beautification projects and offices. Currently used primarily in specialty applications where CFLs are not suitable LEDs hold great promise for the future of general lighting.

The future of indoor lighting

Imagine ceilings literally glowing with color, glass walls that light up at the flick of a switch, windows that provide subtle illumination after dark. Interior lighting is set to change.

No more glaring bulbs or flickering fluorescent lamps. Instead, large areas of evenly distributed light that can be adjusted in brightness and color and can be applied to almost any surface in almost any shape. This is the exciting world of organic light-emitting diodes (or OLEDs, for short).

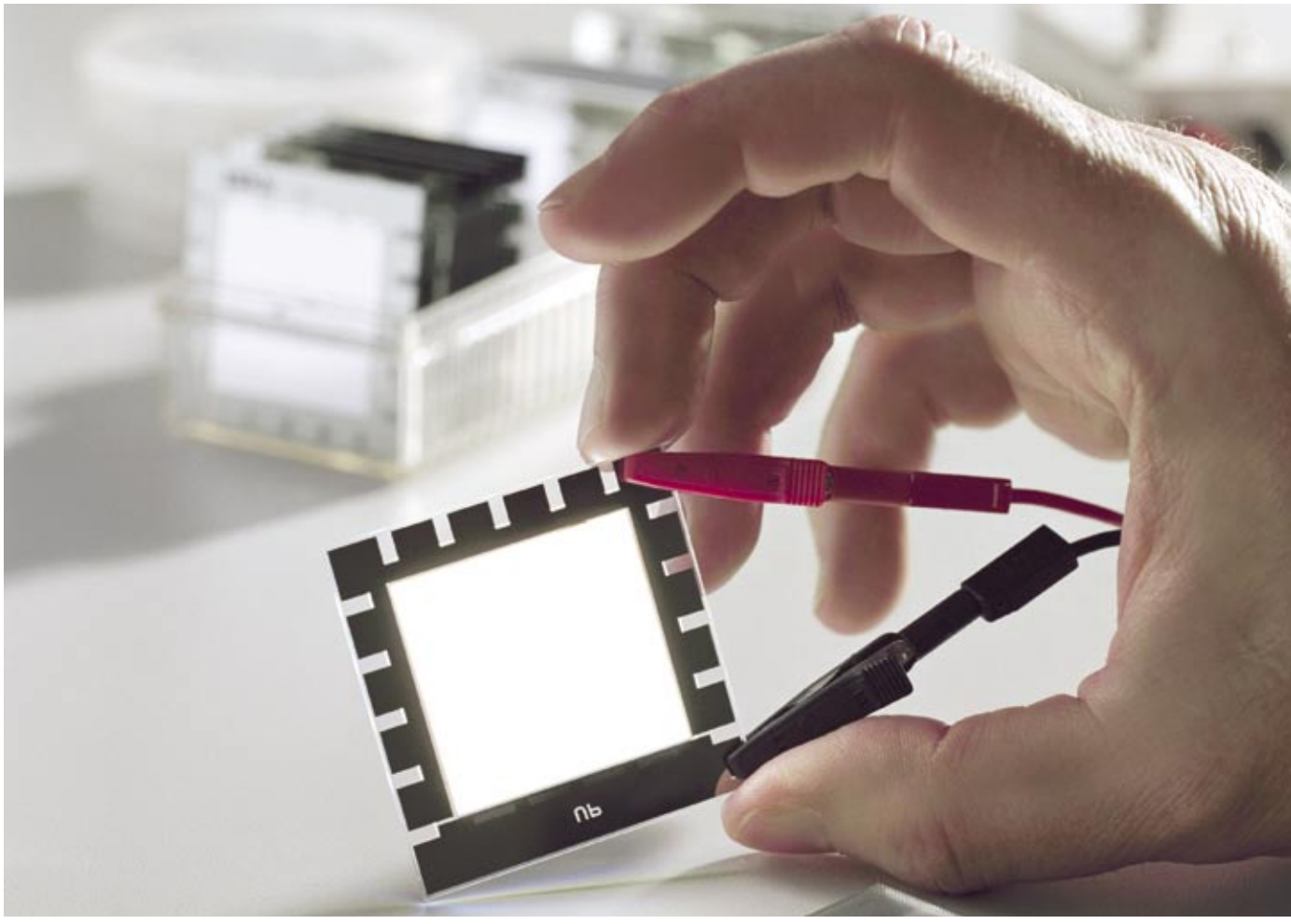
Scientists at Philips Research have been working to develop OLEDs as a new light source for homes,

Long life

Energy efficient
LEDs can last more than
11 years if used 12 hours a day

€1.8 billion

Acquisition
Acquiring Genlyte strengthens our position in LED solutions



Philips prototypes of colored organic LEDs (Light-Emitting Diodes) for lighting applications.

workplaces, stores, public areas, and even cars and planes. OLEDs will not only enhance the look and feel of interior spaces, but – like LEDs – will be better for the environment.

Since OLED light is not yet powerful enough to provide full illumination, it will initially be used for decorative purposes. However, the range of applications will expand dramatically as the technology develops. The size of panels is also set to grow: current prototypes are 5cm x 5cm up to 15cm x 15cm, but panels of 60cm x 60cm are envisioned. We have developed plain white and "warm white" panels, while "color-variable" OLEDs – capable of producing light of almost any color (including mimicking daylight and traditional lighting) – are likely to appear in the next 3-5 years.

Consumer Lifestyle: Offering responsible choices

We know that consumers are seeking better wellbeing for themselves and those closest to them. And, increasingly, they are also seeking better wellbeing for society as a whole, and the environment in particular.

With our longstanding commitment to reduce the environmental impact of our products, we enable consumers to make simple, responsible choices about the products they buy and the impact they have before, during and at the end of their life cycle.

Addressing power consumption

We have made several advances in addressing power consumption, for example with greater use of innovations in our FlatTVs like dimming backlights, ambient light sensors and image processing intelligence that calculates where energy consumption can be reduced for every image displayed. Of course our focus isn't limited to television. Across our product range, we are uncompromisingly driving sustainability in all aspects of product creation through our EcoDesign process.

From simple innovations like packaging and easier disassembly for recycling, to rechargeable batteries which last 20% longer without charging, we are offering consumers more sustainable choices.

Plus, we will help make those choices easier when consumers shop thanks to the Philips Green logo, which will clearly identify products that have a significantly better environmental performance than their competitors or predecessors.

Sustainable innovations

Our efforts to make a positive environmental contribution have not come about overnight. With our new Consumer Lifestyle sector we have brought together considerable competency, knowledge and expertise of the sustainability teams from our former Consumer Electronics and Domestic Appliances and Personal Care businesses. Innovation projects are running and the sector has conducted workshops with Research to determine long-term opportunities.

Green Products

Here are some of our Green Products that allow consumers to save on their energy bill and contribute to reducing the effects of climate change.

EcoDesign

Driving environmental improvement
Our EcoDesign process focuses on creating products that offer better environmental performance

73%

Less energy
Our Cineos SoundBar DVD Home Theater uses 73% less energy than the average of its competitors

Breakthrough

Standby power
The Philips Sonicare FlexCare offers best-in-class standby energy consumption

The Philips Cineos SoundBar DVD Home Theater HTS8100 uses 73% less energy than the average of its competitors. This home theater won a Bronze Hong Kong Eco-Products Award 2007.

The Philips widescreen flat TV 32PFL5522D/12 32-inch LCD integrated digital with Pixel Plus HD uses 15% less energy than the average of its competitors.

The Philips Digital Audio Video Player SA5125 uses 15% less energy than the average of its competitors. It earned a Silver Hong Kong Eco-Products Award 2007.

The Philips Sonicare FlexCare offers a breakthrough in standby energy consumption – a best-in-class low of 0.5 watts, down from approximately 1.6 watts, compared to its competitors. And the charger automatically shuts off when the toothbrush is fully recharged. The result: up to 66% less energy consumption per year.

A shared commitment

Our retail partners are looking for us to team up with them, just as we look to our suppliers to team up with us to meet consumers' needs.

Retailers and consumers are increasingly interested in what we're doing to reduce the environmental impact of our products, especially in terms of improving energy efficiency.

We believe that this is an integral tool to go to market with. Wal-Mart, one of our biggest customers, agrees.

Wal-Mart's own environmental goals are ambitious: to be supplied 100% by renewable energy, to create zero waste and to sell products that sustain our resources and environment.

"Philips is a leader in promoting sustainable products and marketing solutions that are a win-win for our company and our customers worldwide," said Paul Lewellen, Senior Director of Supplier Development for Wal-Mart International.

"Whether it's working to drive sales of energy-saving light bulbs in Argentina, or encouraging customers to donate old television sets to charity through an innovative trade-in promotion in Brazil, it is clear Philips shares Wal-Mart's strong commitment to sustainability throughout the global retail supply chain."

Energy efficient solutions for emerging markets

Less wood, less emissions and more time

We completed the commercial pilot for the Philips Woodstove – a smokeless, fuel-efficient stove – which ran between 2006 and 2007 in the Indian states of Maharashtra, Tamil Nadu and Uttar Pradesh.

We gained knowledge in many areas, including production, distribution, financing models and the role of non-governmental organizations. We also learned more about our consumer. For example, 60% of the households have two incomes and their occupations include farming, tailoring, working in a factory or for the government, driving a truck or owning a shop. People who cook with wood bought our woodstove, along with people who use other fuels like kerosene or gas. And most households have multiple stoves used for specific tasks like boiling bath water or making tea and bread.

Improved quality of life

Our innovative Woodstove dramatically reduces smoke emissions and indoor air pollution. Women and small children, who traditionally do the cooking, breathe in the equivalent of two packs of cigarettes a day.

Yet the main perceived benefit for consumers is not health-related. Rather it is about lifestyle improvement – fast and clean cooking with less wood and the added benefit of less CO_2 emissions.

Faster clean-up

According to one user, "I like that it cooks so fast. Since we have the Philips Woodstove making breakfast and cleaning up is much faster than before so I can leave earlier for work and spend more time working."

We also learned that some of the wood used in India contains certain substances that can affect the lifetime of the stove's burning chamber, so we are currently testing new materials and expect results in early 2008.

Fuel efficient

Less wood
Our Woodstove saves up to 50% of the wood used with a traditional stove

1.6 billion

Living without light
Lighting is a basic need for the 1.6 billion people who lack access to electricity

Sustainable lighting

Our SMILE (Sustainable Model in Lighting Everywhere) pilot was completed in 2007. Launched in 2006 in four Indian states, the pilot tested the product specifications of two lighting solutions: UDAY, a rechargeable portable lantern, and KIRAN, a hand-cranked LED flashlight. We also worked on establishing viable business models.

Getting confirmation

Clearly there is a need for innovative lighting solutions for people lacking access to the electricity grid and for those who have access that is unreliable. The pilot also revealed how price sensitive this market is and how important it is to provide affordable solutions.

The pilot confirmed how truly complex it is to do business at the base of the pyramid and how necessary it is to have hybrid business models rather than going for a single approach.

Expansion in India and beyond

Making use of this learning, SMILE products are now distributed in eight Indian states through a combination of channels. Depending on the state, distribution can be via kiosks, through our partnerships with microfinance institutions (MFIs) and non-governmental organizations (NGOs), or with rural/semi-urban channels.

Plans call for continuing expansion in India and refining our partnership strategies with NGOs, Self Help Groups and MFIs.

We are also extending SMILE to Africa, where the product portfolio includes a solar-charged battery-operated lantern. New developments are also underway with solid-state-enabled lighting in order to create breakthroughs in price, energy efficiency and added functionalities.

I feel better now

Philips and healthcare

"Until the doctors could find out what was wrong with me, I was really scared. I tried to be brave but it was really hard. Then my Mom and my best friend went with me to a different hospital. The doctors let us put my favorite toy in a 'kitten scanner' for an exam. Because I'm a big girl, I can use the regular 'cat scanner.' And I was just as brave as my toy!"

Philips Ambient Experience can help to reduce anxiety by inviting patients to do their own scans on the "kitten scanner" before they go in for their own exam.

Changes and challenges

Everywhere we look, we see contradictions. Between the aspirations of patients and the funding necessary to make them a reality. Between the brilliance of scientific breakthroughs and their universal availability. Between those who can afford the very best that healthcare can offer and those who have no access and can afford nothing. Between the ease of delivery in large cities and the seemingly insurmountable challenges of reaching out to far-distant rural regions.

Everyone working in healthcare does so under the growing reality and burden of demographic and epidemiological change, rising costs and medical and scientific advances.

Demographic demands

Healthcare costs have been rising inexorably in developed and developing countries, and there is no sign that this trend can be reversed. The numbers tell the story.

The predicted world population for the year 2020 is 7.5 billion and is on track to surpass 9 billion by 2050, according to the latest official United Nations population estimates and projections. If so, spending on healthcare in 2050 would equate to EUR 8 trillion – if growth rates remain stable from 2020.

Right now, the global population is not only growing, it's also getting older, which puts greater pressure on the world's healthcare providers. Since 1950 the proportion of older persons (those aged 60 or older) has been rising steadily, moving from 8% in 1950 to 11% in 2007, and is expected to reach 22% in 2050. That's 2 billion people.

A global issue

This is not just a problem for developed countries. While population aging may be less advanced in developing countries, the UN reports that the populations of a majority of them are set to enter a period of rapid population aging.

Older and sicker populations will push up healthcare costs in China, India and elsewhere dramatically over the coming years. In developing countries as a whole, just 8% of the population is today aged 60 years or over but by 2050, 20% of their population is expected to be in that age range.

And what's more, as populations in emerging economies adopt western lifestyles and diets, chronic diseases will begin to affect and claim more lives. In fact, this is already happening.

The rise of chronic diseases

According to the World Health Organization (WHO), chronic diseases, such as heart disease, stroke, cancer, chronic respiratory diseases and diabetes, are by far the leading cause of mortality in the world, representing 60% of all deaths. WHO says this "invisible epidemic is an under-appreciated cause of poverty that hinders the economic development of many countries. Contrary to common perception, 80% of chronic disease deaths occur in low and middle income countries." This is both a human tragedy and a financial burden, as the management of chronic diseases is very expensive.

The Institute for Healthcare Improvement, a non-profit organization based in Cambridge, Massachusetts, US, forecasts that such trends mean "many healthcare systems around the world will become unsustainable by 2015."

We know what's happening to populations and the resulting impact on healthcare costs. We see changes in diseases patterns as chronic conditions become manageable and more pervasive worldwide. We can also be certain that medical researchers will continue to roll back the frontiers of knowledge and practice in technology, pharmacology, equipment and procedures, creating new opportunities to prevent, cure and decelerate disease.

The truth of the matter

It is easy to be overwhelmed by the complexity of such a scenario. But then it is ever more important to state simple truths.

And here it is: we must deliver better quality care at lower cost – all as efficiently as possible.

9 billion

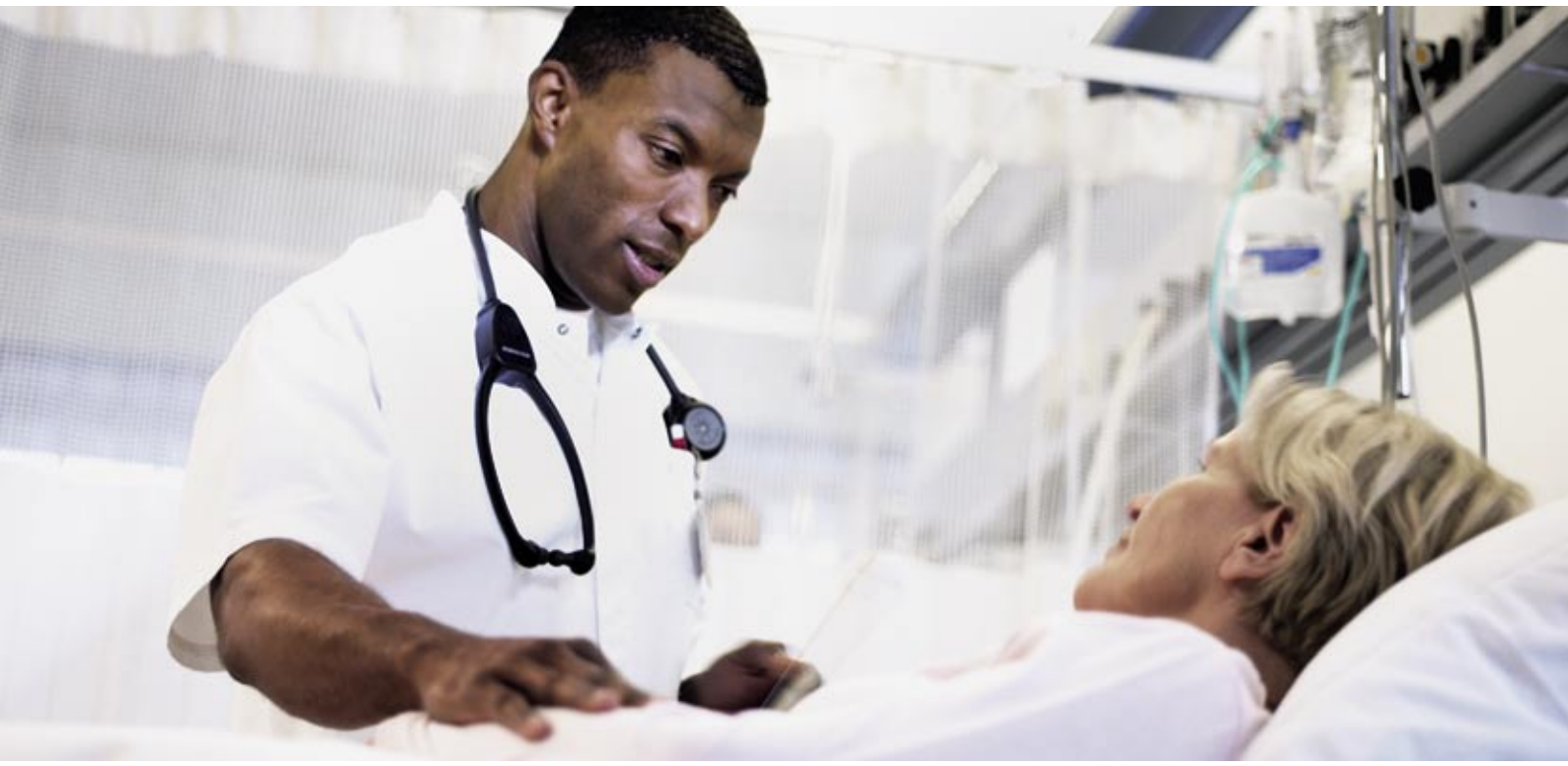
Population growth
World population is likely to surpass 9 billion by 2050

60+

Unprecedented aging
By 2050 there will be 2 billion people aged 60 or older

€8 trillion

Projected spending
Global healthcare costs will increase with the population



What we believe

As a global business we are acutely aware of our duties as a citizen of the world and the role we can play in improving people's lives.

We believe concerted action in healthcare is a social responsibility. Realizing real and immediate differences in the way the world thinks and acts in healthcare is our passion. We believe healthcare is a fundamental right to which every human is entitled.

At Philips we advance healthcare by making a difference to people. Partnering with the broader healthcare community, we seek to facilitate new solutions for change to drive better health outcomes.

Putting people front and center

At Philips we are proud to be at the cutting edge of medical technological advancement. But technical expertise isn't the only thing a healthcare company needs to make a difference – each new innovation we develop should also be useful and meaningful. To do that, we focus on the people at the center of healthcare – the patient and the care provider. Globally we deliver innovative healthcare solutions designed to address the needs of patients as well as healthcare professionals.

#1

Global killer
More people die from cardiovascular diseases than from any other cause

We listen

Seeking insight
We focus on the needs of our customers and the people they take care of

Our focus is to bring innovations that will reduce the incidence and severity of many of today's deadly and debilitating diseases with a particular focus on the fields of cardiology, oncology, critical care and women's healthcare. Whether it is in the hospital or in the home, we seek to improve patient outcomes throughout the entire course of care – from prevention and screening to diagnosis, treatment, management and surveillance. It's about looking beyond the traditional areas of diagnosis and treatment.

"Both patients and caregivers struggle with a complex, fragmented healthcare system," explains Steve Rusckowski, CEO, Philips Healthcare. "We believe the best way to reduce this complexity is by addressing the needs of the healthcare industry from the perspective of patients and their health problems."

We listen to the people who use our products, our customers and their patients. And at the same time, we examine every aspect of the disease management process, from home to hospital. This human insight combined with a solid clinical understanding enables us to create integrated offerings across the cycle of care.

One holistic process

"To provide better, more cost efficient healthcare we focus on our customers and the people they take care of – the patients. This sets us apart," says Rusckowski. "We view every single aspect of each patient's treatment, from the initial diagnosis, to testing, monitoring and aftercare, as part of one holistic process: the care cycle. That's why Philips provides healthcare solutions for the home as well as for hospitals, including personal alarms, home defibrillators and devices that monitor chronic diseases, like congestive heart failure."

Indeed, this way of working supports clinical excellence. "This approach doesn't just let us put our customers and patients first, it also allows clinicians and care providers to spend more time doing what they do best – treating and managing their patients' conditions. We want to help build high quality, patient-centered healthcare systems. And to do this, we need to provide integrated, innovative solutions for every stage of the care cycle," Rusckowski says.

Steve Rusckowski, CEO, Philips Healthcare

In the following pages, you will see how we are doing just that in the field of cardiology. Through our approach we can really make a difference in the worldwide cardiovascular disease (CVD) burden. The number one cause of death globally, CVD is projected to remain the leading cause of death and is a major cause of disability. The World Health Organization believes that if appropriate action is not taken by 2015, an estimated 20 million people will die from cardiovascular disease every year, mainly from heart attacks and stroke.

A global burden

Cardiovascular disease

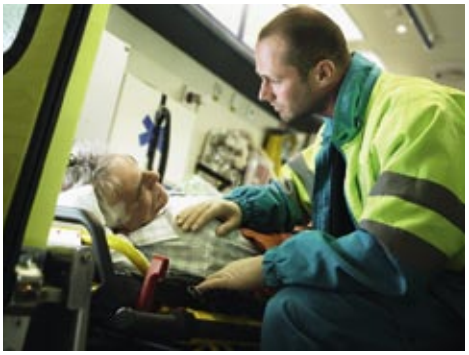
Caused by disorders of the heart (cardio) and blood vessels (vascular), cardiovascular disease includes heart attacks, stroke, raised blood pressure, peripheral artery disease, rheumatic heart disease, congenital heart disease and heart failure. Once associated only with overweight, overworked middle-aged men, heart disease has no boundaries. It affects men, women and children in all socio-economic groups, everywhere in the world.

World Health Organization (WHO) statistics reveal that at least 20 million people survive heart attacks and stroke every year. A significant proportion of them require costly clinical care, which puts a huge burden on long-term care resources. CVD affects people in their mid-life years, undermining the socioeconomic development, not only of affected individuals, but families and nations.

High costs

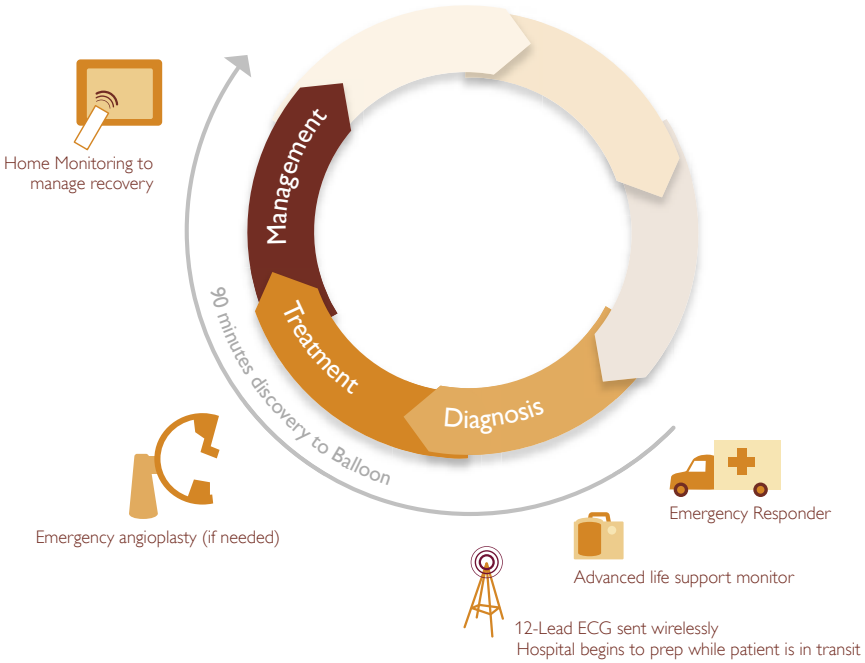
The costs are high in human and financial terms. A few examples: According to the American Heart Association the estimated cost of cardiovascular disease for 2007 in the United States is nearly EUR 300 billion, including health care services, medications and lost productivity. Overall CVD is estimated to cost the European Union economy some EUR 240 billion a year. WHO estimates that between 2006 and 2015, China will lose EUR 380 billion in foregone national income due to the combination of heart disease, stroke and diabetes.

"We simply cannot afford to focus only on extremely costly and traumatic surgical interventions. We have to concentrate on prevention, early diagnostics and remote patient management," says Gerard Kleisterlee. "Our goal is centered on our customer's goal – the delivery of better, more efficient care through earlier diagnosis, fewer disabilities, faster recoveries, and in cases of long-term care, slower progression of disease."



16.7 million

Lives lost
Cardiovascular disease causes nearly 30% of total global deaths



Speeding time and treatment

Our focus on the cycle of care – An example

Every minute counts for a heart attack victim. As soon as a heart attack occurs, the heart muscle starts to die. That's why reducing the time between heart attack and treatment has been proven to have a big impact on a patient's long-term recovery.

"As a result, the American College of Cardiology, in partnership with the American Heart Association and other organizations around the world, has launched the 'Door to Balloon' campaign. It aims to reduce the amount of time from the arrival of the patient at the hospital to angioplasty – known as balloon – to 90 minutes or less," explains Joris van den Hurk, Vice President of Cardiology Care Cycles for Philips Healthcare.

This goal addresses the single most critical challenge tied to treatment at the onset of cardiac arrest – length of time elapsing before the blocked artery is reopened. With speed the goal, it is critical that emergency responders shorten the time from arrival at the emergency department to the time of treatment.

Philips HeartStart MRx Monitor/Defibrillator enables the "Door to Balloon" process to begin before the patient gets to the hospital. With the MRx a paramedic can transmit a patient's electrocardiogram (ECG) data from the ambulance to a hospital's emergency department. Clinicians can use the ECG to begin assessing what treatment the incoming patient will need.

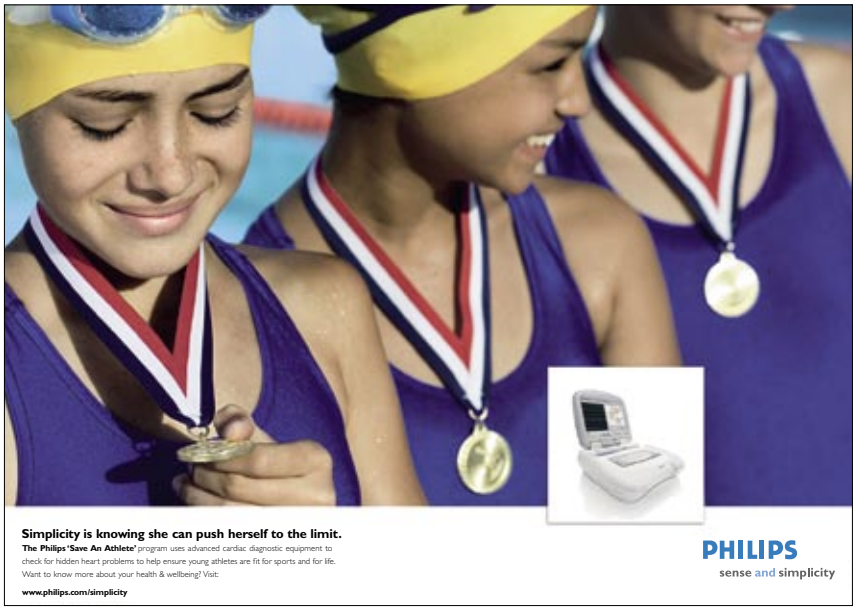
Since the MRx allows a hospital to begin organizing its resources – before a patient even arrives – it can dramatically reduce the delay to treatment. Another benefit is the ability to potentially divert the patient to a specialized hospital. Patients can bypass the emergency department and go directly to the cardiac catheterization lab for angioplasty. This, too, can clearly speed time to treatment.

In the "Door to Balloon" protocol, the clock starts when a patient is brought into the hospital. The MRx allows hospitals and EMS to start the clock earlier, offering a "Discovery to Balloon" solution. All the prep, scheduling, diagnostic and routing activities – which usually start once the patient arrives – can now begin while the patient is en route, saving valuable time.

After hospital treatment, the patient can be remotely monitored in their home with our telehealth solutions detailed on pages 62-63.

Raising awareness

A key ingredient in preventing cardiovascular disease is raising awareness – alerting people to the fact that heart disease poses the greatest health risk and is more likely to kill than any other disease. Research shows that those who recognize this are more likely to take action to protect themselves and their families.



Simple tests for student athletes

Our Save an Athlete program aims to improve health and wellness by educating student athletes, their families, doctors, athletic directors and coaches about preventing sudden death through early cardiac testing. Launched in 2006 in the US, the program offers free screening of student athletes for potentially lethal heart conditions using ultrasound technology.

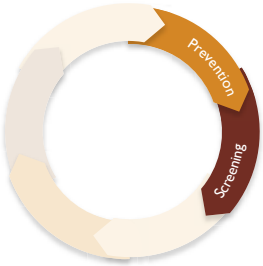
"The use of cardiac testing with ECG and echo exams in sports physicals can help identify heart conditions that could trigger sudden death that would not be otherwise identified through an ordinary examination or medical history," says William Rappoport, M.D., F.A.C.C., Arizona Heart Institute.

During the second quarter of 2007 we launched a branding campaign showcasing a range of solutions that empower consumers to manage their health and wellbeing. One of the advertisements focused on Save an Athlete, which has been extended to the UK.

Your Mouth, Your Heart

The Philips Sonicare website educates consumers about the strong link between oral health and overall health, and heart health in particular.

Recent studies have revealed that people with periodontal disease very often have heart disease as well. Researchers believe that this is due to oral bacteria present in gum disease, which can affect the heart if they enter the bloodstream. It has been shown that these bacteria can attach to fatty deposits in the coronary arteries and



€35 million

The Philips-led MyHeart consortium
One of the largest biomedical research projects in the EU, MyHeart is focused on preventing and managing heart disease

contribute to arterial clot formation. Such clots can dislodge and are responsible for heart attacks and stroke.

While periodontal disease doesn't necessarily cause heart disease, it is nevertheless a good risk indicator. Fortunately, elimination of the gum infection by thorough professional care can eliminate the bulk of those bacteria and may actually lower the risk to the heart. Excellent plaque control through good oral hygiene will decrease the risk of re-infection and ultimately may help improve overall health.

www.sonicare.com

Educating people in Eastern Taiwan

The largely mountainous and densely forested terrain in Eastern Taiwan makes its populated areas difficult to reach. As a result, the standard of living there is generally lower. People are often poorly educated and less aware of health issues. To help change that, in 2005 we launched a four-year educational campaign with the theme "We care for your health."

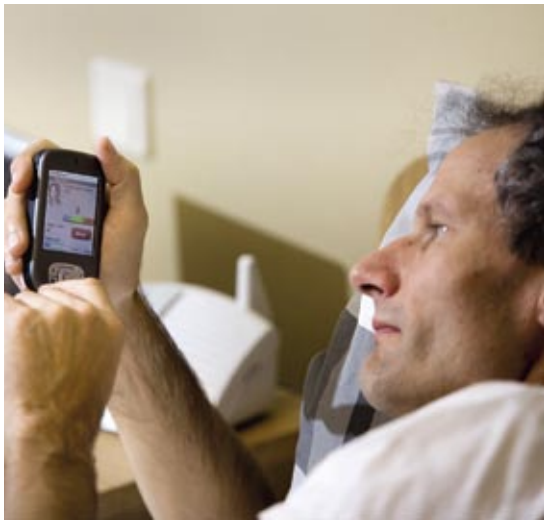
Called Naruwan – translated "How are you?" in aboriginal Taiwanese – this program focuses on improving oral health. In 2007 we worked with the Hua-Lien County Health Bureau, conducting 16 seminars on preventing gum disease attended by more than 700 people. We also supported the Tai Tung Health Bureau in training 85 school nurses on how to teach children about oral health.

Early detection

The Philips-led MyHeart consortium has identified four key product concepts that are likely to bring the most benefit to the prevention and management of chronic cardiovascular disease:

- Activity Coach – to maximize the enjoyment and health benefits of regular exercise, targeted primarily at healthy individuals.
- Take Care – to assess and reduce risk factors for cardiovascular disease through vital body sign monitoring, lifestyle coaching and motivation, targeted at those who are at risk of developing cardiovascular disease.
- Neuro Rehab – to improve and shorten the rehabilitation period through physical and mental exercises, targeted primarily at heart attack and stroke victims.
- Heart Failure Management – to improve quality of life and life expectancy for heart failure patients through early detection of deterioration in their condition and improved patient management.

The principal technology development common to all of these applications are body sensors and wearable electronics that can unobtrusively detect and measure vital body signs, communicate and analyze



the acquired data and provide feedback to users or health providers.

Prototype disease management systems for heart failure patients will enter clinical evaluation in 2008 in Germany and Spain. This will include an electronic weight scale and blood pressure monitor, a zip-up body vest with integrated electrodes and control electronics to measure the patients electro-cardiogram, and sensors placed in the patient's normal bed to measure heart- and breathing-rate, and body movement while sleeping.

The MyHeart project, one of the largest biomedical and healthcare research projects within the European Union, has a budget of about EUR 35 million, of which EUR 16 million is funded by the European Union. The consortium comprises 33 industrial, research, academic and medical organizations from 10 European countries.

Earlier diagnosis

At Philips we believe that the world simply cannot afford to focus only on extremely costly and often traumatic surgical interventions. We also look at prevention, early diagnostics and remote patient management. This is essential to better patient outcomes.

Better in many ways

"Stunning three-dimensional images of the inner workings of the body."

That's how media reports describe our new 256-slice Brilliance iCT scanner, which has been specifically designed to make the job of the clinician easier and improve the experience of the patient. How? By allowing radiologists to produce high-quality images with exceptional speed, including complete coverage of the heart and brain, and can also show changes over time. It's so powerful it can capture an image of the entire heart in just two beats, while incorporating Philips technology that has reduced radiation doses by up to 80%.

Our DoseWise Radiation Safety program includes techniques, programs and practices that ensure optimal image quality, while protecting people in X-ray environments. This is an important parameter we consider at every level of new product design and development. Therefore we have expanded the definition of our Green Focal Area on hazardous substances to include this topic.

Education for dose reduction methods is delivered through operator documentation, on-site application training, off-site training and specific publications.

Strengthening our position in emerging markets

In line with the strategy to bolster our healthcare presence in emerging markets, we acquired Brazil's leading general X-ray manufacturer, VMI-Sistemas Medicos, expanding our local position in the Latin American market. With the ability to produce X-ray equipment in Brazil we will be able to offer more affordable solutions to the local market. And the impact of this acquisition goes beyond Brazil as we plan to boost VMI's Brazilian exports to other countries in Latin America.

We also entered a number of strategic agreements, including a contract with Ascent Profit, a Chinese medical equipment wholesaler, to deliver high-end radiography systems in China.

€250 million

Professional Healthcare Solutions turnover
We have implemented projects in Ghana, India, Indonesia, Jordan, Kenya, Morocco, Tanzania and Uganda

Access

Bringing healthcare to remote areas
Our innovations make healthcare available to people who were beyond the reach of centralized facilities

Connecting cardiac centers

Patients in rural areas of the Philippines are benefiting from the advanced medical treatment available for degenerative diseases of the heart, lungs and kidney thanks to Philips and our partners who participated in a seven-year project partially funded by the Dutch government and the Philippines Department of Health.

Our EasyWeb Healthcare System connects three satellite hospitals to the Philippines Heart Center in Manila. This Internet-based system allows online referral and diagnosis of patients from remote provinces by healthcare experts in Manila. Now health screening and healthcare access are available to thousands of people outside Metro Manila who were previously beyond the reach of the modern healthcare system. Because clinical images, along with voice and real-time images of the doctor and patients can be transmitted quickly, diagnosis and a plan of action for therapy can be agreed upon faster.

Making quality services available

Dr. Criselda Abesamis, Director of the Philippines National Center for Health Facilities Development, says: "The project is to make sure that the quality of health services that are centralized in Metro Manila are now decentralized and available in the rest of the Philippines."

This EasyWeb system will help the Philippines Heart Center and the regional hospitals to be more productive and efficient. The system also offers research and education applications for physicians as patient studies can be shared across hospitals.

Plus, specialists can now work with the same quality of medical equipment as their counterparts in the West, which makes is much more attractive for them to remain and work in the Philippines. Dr. Abesamis says the project is a "strategic solution to solve the outward migration of our specialists."

Professional Healthcare Solutions

Projects like the work at the Philippines Heart Center are managed by Professional Healthcare Solutions, a dedicated group within our Multi Country Region Sales and Service organization. This group focuses on healthcare projects for emerging markets.

The team has unique experience in combining our Healthcare products and service portfolio with financing solutions and value-added services such as consultancy, facility services, training and education. Integral hospital solutions are offered in cooperation with partners for construction and installation.

Since 1993 we have carried out healthcare projects in developing countries representing a turnover of more than EUR 250 million. We have implemented large-scale projects in Ghana, India, Indonesia, Jordan, Kenya, Morocco, Tanzania and Uganda, and are currently working in China, the Philippines, Uganda and Zambia.

Changing diagnostics

Medicine as it is practiced today focuses on how the human body functions at the level of individual organs like the heart, liver or lungs. This is addressed well with traditional imaging and patient monitoring solutions. But with advancements in the life sciences, such as the unraveling of the human genome, we now understand that diseases have their origin at the molecular level. Due, for example, to errors at the DNA or protein level. Our aim with next generation diagnostics is to detect these errors.

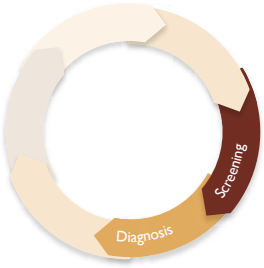
Diagnosing disease at the molecular level

Modern in vitro diagnostic tests are based upon the patient's DNA, proteins or other biomolecules. These tests are carried out on a sample of a patient's blood or other body fluids, such as urine or saliva, or a cervical or oral swab.

Molecular diagnostic tests can detect DNA. This allows clinicians to determine whether a person is at risk of getting a certain disease, detect the presence of foreign DNA in the bloodstream originating from bacteria or detect mutations in a person's DNA that may be associated with cancer.

Screening and diagnosis

With novel protein-based tests, it is possible to determine how a person's immune system reacts to disease. Or whether a person is at risk of getting a heart attack. Or suffers from a metabolic disorder.



DNA

Molecular medicine
Tests based upon a patient's DNA, proteins or other biomolecules can determine whether a person is at risk of getting a certain disease, like stroke or heart attack

Decentralized rapid diagnostic testing

Central lab testing	▶	**Testing@point-of-need**
Short time to result	▶	Rapid therapy decisions
Compact and simple to use	▶	24/7 availability
Personalized therapy selection	▶	Reduced cost, improved outcomes

Early diagnosis of cardiovascular disease

Next generation in vitro diagnostic tests will radically change the field of cardiology. As illustrated above, tests will be performed not only in centralized laboratories but also at the patient's bedside – at the point-of-need.

In many cases, the equipment used in centralized laboratories and decentralized near-patient in vitro diagnostic testing will be connected via wired or wireless networks into sophisticated healthcare informatics systems to provide clinical decision support and data storage facilities.

Identifying disease

Once a patient is taken ill and enters the hospital, it's all about rapid diagnostics, identifying the cause of disease and then supporting the clinicians in deciding what treatment to apply.

A very important ultimate goal is to change that with early diagnosis. This will allow us to deal with diseases essentially before they lead to serious symptoms. Genetic risk assessment for stroke or a heart attack, or early detection of molecular disease markers for cardiovascular disease will be possible right in the doctor's office. A patient entering the emergency room can immediately be tested to decide whether he or she has suffered a heart attack, of to decide what type of stroke he or she has suffered.

Open Innovation

We think and act beyond our own boundaries. In a spirit of what is called Open Innovation, we choose best-in-class academic and industrial partners who have competencies and interests that complement our own – creating competitive advantage for each party.

Molecular Medicine

Philips is one of the major Dutch companies in a consortium that initiated the Center for Translational Molecular Medicine (CTMM), headquartered at the High Tech Campus in Eindhoven, the Netherlands. The CTMM is dedicated to the development of medical technologies that enable early and precise diagnosis, and design of new and "personalized" treatments for the main diseases causing mortality and diminished quality of life: cancer, cardiovascular diseases, infectious diseases and neurodegenerative diseases like Alzheimer's.

The CTMM is a public-private partnership that comprises a multidisciplinary group of parties – universities, academic medical centers, medical technology enterprises, and chemical and pharmaceutical companies. The Dutch government provides a substantial contribution.

Collaboration in Shanghai

In December 2007, Philips and the Institute of Health Sciences (IHS) established a joint research laboratory within the IHS in Shanghai, China. The IHS is part of the Shanghai Institutes for Biological Sciences and is also affiliated with the Shanghai Jiao Tong University School of Medicine.

The joint laboratory will conduct advanced research in the field of molecular medicine, with the ultimate aim of creating new solutions for the early diagnosis of disease and for monitoring the effectiveness of subsequent treatment.

Making treatment less traumatic

We believe it is critical to concentrate on prevention, early diagnostics and remote patient management, yet clearly there are times when treatment is necessary. The goal is to provide the best possible care.

Minimally invasive interventions

Under the increasing pressures to both lower healthcare costs and improve outcomes, minimally invasive methods are replacing traditional surgical procedures as quickly as the technology allows. Many treatments that would previously have needed open surgery can be carried out using endoscopes, catheters and needles. Such minimally invasive approaches reduce trauma, thus minimizing damage to healthy tissue and requiring less pain medication. This is better for the patient and shortens recovery times.

Many minimally invasive procedures can even be carried out in an outpatient setting and generally, these procedures are less costly for the hospital. Yet, there are challenges. During open surgery, surgeons can see where they are and what they are doing. For minimally invasive interventions, specialists need other information sources to view their actions. That's where imaging comes in.

Seeing and treating the heart

Cardiac catheterization laboratories have been leading the move to minimally invasive interventions for several years. Cardiologists diagnose and treat coronary artery disease using a catheter inserted into the groin and threaded through the arterial vessel tree to reach the heart. To guide the passage of the catheter they use fluoroscopy (live X-ray imaging), usually from a C-arm system that can be moved and angled to get images from any position.

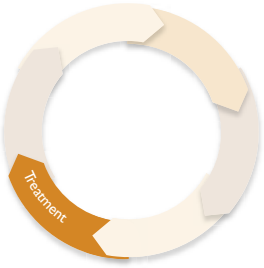
An injected contrast agent, which is opaque to X-rays, reveals the structure of the vessel through which the catheter passes and pinpoints narrowed arteries or blockages that need treatment. Treatment may be in the form of a balloon angioplasty (compressing the plaque against the wall of the vessel), stenting (inserting a small wire tube) or rotablation ("drilling" through plaque).

Streamlining procedures for cardiac rhythm disorders

Electrophysiology (EP) is one of the fastest growing markets in cardiology. However, EP procedures are highly specialized and require specific equipment and facilities. The procedures, which deal with the heart's electrical conduction system, are often performed in surroundings not specifically designed for this purpose. Taking this into consideration, Philips developed an integrated solution, which provides EP specialists with a comfortable and efficient working environment – the EP cockpit.

A new workflow concept for electrophysiology labs, EP cockpit enables physicians to streamline procedures to treat cardiac rhythm disorders.

The first Philips ambient electrophysiology cockpit opened in Berlin's German Heart Institute. It is the first catheterization lab in the world to have the unique EP cockpit.



300 doctors

Training for rural doctors
With the Chinese Red Cross we are educating village doctors in Beijing, Shanghai and Guangzhou

Training healthcare workers in China

World Health Organization data show that health workers are inequitably distributed throughout the world, with severe imbalances between developed and developing countries. We believe health education is essential in making healthcare accessible to medically underserved communities.

In partnership with the Chinese Red Cross Foundation, we launched the Philips Rural Healthcare Program in 2006. This three-year initiative will educate 300 village doctors in Beijing, Shanghai and Guangzhou and includes sponsoring a train-the-trainer program for those who will work with the rural doctors.

Our Rural Healthcare Program will also establish 10 Philips clinics and hospitals. So far five rural clinics have been established. In 2007 we invited well-known doctors to go to the clinic we sponsored in Guizhou with Philips volunteers. We provided medicine and two days of free diagnosis to the local villagers.

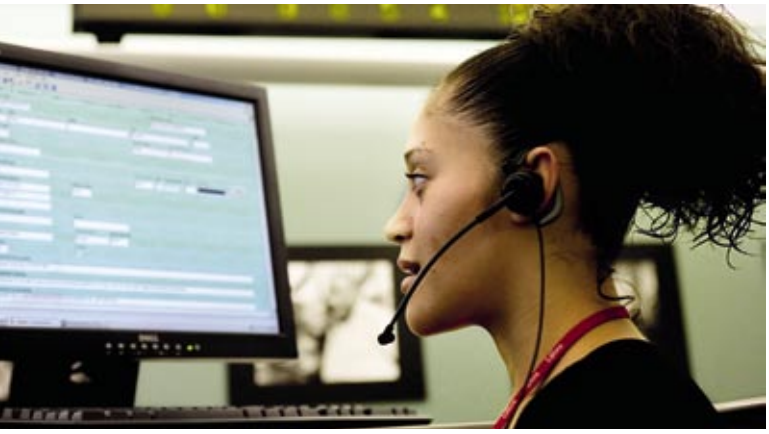
Personalized therapy

We are working on next generation tests that aim to eliminate the "trial and error" approach to medicine. Molecular tests can be used to select the appropriate drug therapy, based on genetic profiling, and to monitor therapy response. The key is that a patient will not receive a drug if it will not be effective. Plus, molecular tests can be used to monitor disease progression, or to maintain the appropriate level of drug taking.

At the Radiological Society of North America Annual Congress and Expo in November 2007, the research projects we showcased demonstrated where imaging technology for diagnosis and treatment planning for heart disease and cancer is heading. These included patient-specific organ models for personalized radiology planning, therapy and reporting. Also shown was a project dealing with new image analysis techniques to enhance the image resolution and quality of PET and SPECT scans and extract quantitative information relating to localized tissue processes, such as reduced oxygen levels in tissue.

Bringing remote care closer

Research consistently shows that elderly patients or those with chronic illness would much rather be at home than in an institutional setting. Home care is far less costly too. Plus, the increasingly aging population in many countries simply will not be able to be cared for in traditional facilities.



Philips has been active in telehealth for more than seven years, enabling disease management firms, home care agencies and healthcare providers to remotely monitor chronic disease patients in their homes. And protecting their way of life.

2007 brought acquisitions to strengthen our portfolio in the growing telemonitoring area. We acquired Raytel Cardiac Services to expand into US home cardiac monitoring, and by acquiring HealthWatch we are extending our medical alert services, which began with the 2006 acquisition of Lifeline.

Living with heart-related ailments

In addition to providing help in the event of a fall, Lifeline provides extra protection from ailments unrelated to falls – particularly for those coping with heart disease. There are many situations in which someone may need immediate assistance but is unable to call for help themselves: a serious heart arrhythmia, chest pain, difficulty breathing, general fatigue, muscle weakness or other serious forms of distress. Among Lifeline's educational tools is a list of self management tips for heart failure.

Frequent hospital admissions is another common problem for patients with heart failure. That's because managing heart failure at home is a complex task requiring people to remember to take medications, weigh themselves on a regular basis (an indication of fluid retention) and follow a low sodium diet and exercise plan.

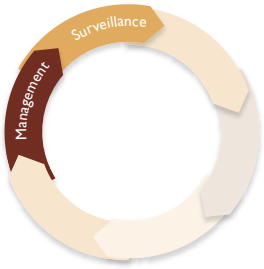
Remote patient monitoring

With Philips Telemonitoring Services, clinicians can remotely monitor patients' vital signs data and send them short surveys about their health status. This combination of objective data and subjective responses enables the clinician to make more timely care decisions and helps prevent unnecessary hospitalizations.

Every day, patients take their own vital signs measurements as prescribed by their doctor: weight, blood pressure, pulse, glucose level, blood oxygen level and/or ECG rhythm. They also answer survey questions sent by their clinician, which may include general health assessment questions and/or targeted follow-up questions, and enter self-reported data as directed. The information is then automatically transmitted through an ordinary phone line via modem to secure web-based Clinical Review Software. Clinicians can track daily patient measurements, store and retrieve historical data in both tabular and graphical format, and generate reports – promoting faster follow-up and intervention.

"I yelled for help and thank goodness you heard me. I had congestive heart failure, pneumonia, bronchitis and a minor heart attack…all at once."

Joan D., Lifeline subscriber



40%

Most falls happen at home
Every year seniors fall, but with Lifeline they are never alone

Key strategic acquisition

On December 21, 2007, we announced one of our most important strategic acquisitions in recent years: Respironics, a leading US-based provider of innovative respiratory and sleep therapy solutions. This transaction will firmly place Philips as a global leader in the home healthcare market by adding new product categories in obstructive sleep apnea and home respiratory care to our existing businesses in this field. In addition, this acquisition will be highly complementary to our patient monitoring businesses in the hospital setting.

Respironics is a global leader in the treatment of Obstructive Sleep Apnea (OSA), a condition characterized by the repeated cessation of breathing during sleep. It is estimated that in the United States alone there are 18-20 million sufferers of moderate or severe OSA of which only 15-20% have been diagnosed. Research in recent years has shown a link between OSA, heart disease, stroke and diabetes.

Additionally, the company has a leading position in non-invasive ventilation and has recently introduced new home oxygen technologies to serve the needs of respiratory impaired patients in the home. The remainder of its business is focused on the hospital channel and includes non-invasive and invasive ventilation, respiratory monitoring, neonatal products and respiratory drug delivery technologies for the treatment of respiratory diseases.

There's no place like home

Amsterdam's Sint Lucas Andreas Hospital has implemented our Motiva telemonitoring heart care system, enabling 100 chronic heart patients to be cared for in the comfort of their own homes instead of the hospital. This is the first time such a system has been used outside a clinical trial.

We developed the Motiva personal healthcare platform, which uses broadband technology and vital signs measurement devices to connect patients to their healthcare providers and medical support teams. Patients access personalized content via an easy-to-use interactive television interface. A nurse care manager at the hospital can then monitor the patient's condition, send reminders to take medication, offer lifestyle and diet tips, review data before a doctor's appointment and be alerted if follow-up is necessary. Our partnership with Sint Lucas is a new step in our strategy to increase home healthcare, lower health costs and increase patients' quality of life.

Highlights from our online report

Our online *Sustainability Report 2007* provides detailed information on the four areas below. Also included is the Global Reporting Initiative (GRI) G3 Core Indicators.

www.philips.com/sustainability

Our employees

- The updated version of the Philips General Business Principles Directives was approved and adopted.
- The Employee Engagement Index rose to 64% from 61%.
- The People Leadership Index, which measures 12 aspects relating to one's direct manager, increased to 64% from 59%.
- The percentage of women at executive level rose to 8%, up from 6% in 2006.
- The percentage of women in the top potential pool reached 20%, compared with 18% in 2006.
- The rate of Lost Workday Injuries increased slightly to 0.83 per 100 employees.

Our environmental performance

- Sales from Green Products increased to 20% of total sales, representing an important part of our revenue stream.
- Direct CO_2 emissions from our production processes decreased 2% in 2007.
- We have published for the first time our operational carbon footprint, as seen on page 25.
- In 2007, 11 of our industrial sites purchased green electricity, generated from renewable energy sources. As a result, CO_2 emissions from industrial sites were 3% lower than they would otherwise have been, reducing our operational carbon footprint by 1%.

64%

Engagement survey
Our Employee Engagement Index rose to 64%

20%

Green Products
Sales from Green Products increased to 20% of total sales, representing an important part of our revenue stream

7.7%

EBITA margin
EBITA amounted to EUR 2,065 million in 2007

100%

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

Our economic performance

- Sales amounted to EUR 26.8 billion representing a 5% comparable growth compared to 2006.
- EBITA as a percentage of sales increased to 7.7% in 2007 from 5.2% in 2006.
- Cash flows from operating activities increased to EUR 1,519 million in 2007 up from EUR 330 million in 2006.
- We proposed to increase the dividend for 2007 by 17% to EUR 0.70 per share.
- We repurchased EUR 1.6 billion of our own shares.
- We announced a further EUR 5 billion (tax-free) share repurchase plan.

Our suppliers

- We are implementing our renewed Supplier Declaration on Sustainability, which aligns with the standards of the Electronic Industry Code of Conduct (EICC).
- We are working to resolve all zero-tolerance issues identified in 2006 supplier site audits. This includes re-audits to ensure sustainable implementation of corrective actions.
- We audited all identified risk supplier sites, achieving 100% transparency of identified risk supplier sites, as well as potential suppliers with identified risk sites.
- As of January 1, 2008, all initial audits will be conducted using the EICC audit profile and we will also audit our own sites.

Appendix
Approach to reporting

Reporting standards
In compiling this report, we have followed relevant best practice standards and international guidelines, including the Global Reporting Initiative's (GRI) G3 Sustainability Reporting Guidelines, which were formally launched in Amsterdam on October 5, 2006. We have sharpened our focus on the principles of materiality, stakeholder inclusiveness, sustainability context and completeness. The results can be seen throughout the report.

With regard to the GRI Application Levels system introduced with G3, we see ourselves currently positioned at the B+ level. We cover a large part of the G3 Core Indicators, while our Management Approach is explained in this report and in our previous sustainability reports. A detailed overview of Core Indicators is provided in our online report.

Scope of this report
This report describes the sustainability performance of the Philips Group, covering the total of the consolidated Philips activities following the consolidation criteria detailed in the *Philips Annual Report 2007*. The Philips Group consists of the following sectors for the reporting year 2007:

- Medical Systems
- Domestic Appliances and Personal Care
- Consumer Electronics
- Lighting
- Innovation & Emerging Businesses
- Group Management & Services.

This report includes selected information on the financial performance of the Philips Group. The consolidated financial statements in the *Philips Annual Report 2007* and the information derived for this report are prepared in accordance with generally accepted accounting principles in the United States (US GAAP).

On November 2, 2007, Philips announced that it has decided to proceed with the sale of its approximate 70% ownership interest in MedQuist. Consequently prior periods' consolidated financial statements have been restated to present the MedQuist business as a discontinued operation. For full understanding of the financial performance, please refer to the *Philips Annual Report 2007*.

Philips is involved in various ventures and participations. The activities of these operations are not consolidated in Philips Group data and are, therefore, not included in this report.

Auditor policy
The company maintains a policy of auditor independence, and this policy restricts the use of its auditing firm for non-audit services, in line with the US Securities and Exchange Commission rules under which the appointed external auditor must be independent of the company both in fact and in appearance. The policy is laid down in the comprehensive policy on auditor independence published on the company's website at www.philips.com

External assurance
Our print report has been externally assured by KPMG, in line with previous reports. Their non-financial assurance engagement, which was conducted in accordance with the the Dutch law, including the Standard 3410N "Assurance engagements relating to sustainability reports," issued by NIVRA, covers all of the information in the report, both quantitative and qualitative. KPMG's Assurance Report, which describes the work undertaken and their conclusions, is on page 67.

Assurance assignment
We have asked KPMG to review the print *Philips Sustainability Report 2007* to provide readers with a reasonable level of assurance on selected financial data, and a limited level of assurance on other information. The report, including the identification of material issues, is our responsibility. Based on the defined scope, KPMG decided to perform the activities described in their assurance report.

Assurance report

To the readers of the print *Philips Sustainability Report 2007*.

Introduction

We have been engaged by Koninklijke Philips Electronics NV (Philips) to provide assurance on the print *Philips Sustainability Report 2007* (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 thereon. Our engagement was designed to provide the readers of *The Report* with:

- limited assurance on whether the information in *The Report* is fairly stated;
- reasonable assurance on whether the data, as specified in the report section "Our economic performance" are properly derived from the 2007 Group financial statements of Koninklijke Philips Electronics NV, for which KPMG issued an unqualified audit opinion.

Procedures performed to obtain a limited level of assurance are aimed at determining the plausibility of information and are less extensive than those for a reasonable level of assurance.

To obtain a thorough understanding of the financial results and financial position of Koninklijke Philips Electronics NV, the reader should consult the Philips audited Group financial statements for the year ended December 31, 2007.

Reporting criteria

There are no generally accepted standards for reporting sustainability performance. Philips applies its own internal sustainability performance reporting criteria, derived from the Sustainability Reporting Guidelines of the Global Reporting Initiative and internal corporate guidelines for reporting, as detailed on page 68-69 of *The Report*. It is important to view the performance data in the context of this explanatory information. We believe that these criteria are suitable in view of the purpose of our assurance engagement.

Standards

We conducted our engagement in accordance with Dutch law, including Standard 3410N "Assurance engagements relating to sustainability reports." This standard requires amongst others that the assurance team members possess the specific knowledge, skills and professional competencies needed to understand and review the information in *The Report*, and that they comply with the requirements of the IFAC Code of Ethics for Professional Accountants to ensure their independence.

Work undertaken

With regard to the information in *The Report* we carried out the following activities:

- reviewing the systems and processes for information management, internal control and processing of the other information;
- reviewing the data reported by all EcoVision reporting organizations and the data validation processes at corporate and product division level;
- visiting 3 reporting organizations to assess the data collection and reporting process and review the reliability of the reported data;
- discussing the results of the internal audits carried out by Philips;
- reviewing data trends and discussions with management thereto;
- interviewing staff responsible for the analysis and reporting of the data and accompanying notes for these indicators;
- reviewing internal and external documents to determine whether qualitative information is supported by sufficient evidence;
- an assessment of the plausibility of the assumptions underlying the prospective information.

For the financial data we have reconciled the data on financial performance in the section "Our economic performance" of the *Sustainability Report 2007*, with the audited 2007 Group financial statements of Royal Philips Electronics.

Following our review we discussed changes to the draft Report with Philips, and reviewed the final version of *The Report* to ensure that it reflected our findings.

Conclusion

Based on the above,

- the information in *The Report* does not appear to be unfairly stated;
- the data, as specified in the report section "Our economic performance" are properly derived from the 2007 Group financial statements of Koninklijke Philips Electronics NV, for which KPMG issued an unqualified audit opinion.

Commentary

Without affecting the conclusions presented above, we would like to draw readers' attention to the following:

With the EcoVision4 program Philips has further emphasized its role in the total value chain. Philips has set targets on innovation, operational energy efficiency and sales of Green Products.

At present parts of the reporting systems for these targets need further development. Also it is not yet possible to deliver fully reliable data for activities that are not under Philips' direct control (such as distribution). In order to be able to closely monitor the performance on the targets set and to identify opportunities for improvements we recommend Philips to further improve the quality of the reporting systems for the relevant performance data.

Philips has started to further focus on its impact on climate change. The information regarding the operational carbon footprint has partly been collected for group reporting purposes. In order to show the full impact of Philips' efforts on climate change and to be able to manage this, we recommend Philips to further embed operational carbon footprint reporting into the business and to find ways to further demonstrate the impact of Philips' green product developments on carbon emissions.

Amstelveen, February 18, 2008

KPMG Sustainability B.V.
Drs. W.J. Bartels RA (director)

Explanatory notes

Scope of reporting

The general scope of reporting performance data for the Philips Group is described on page 66. The scope of reporting for our operational carbon footprint, health and safety, environmental performance and supplier sustainability is described below.

Comparability

For manufacturing data, the Semiconductors division is excluded from the year totals for the Philips Group for all years, unless otherwise stated.

All data are reported in absolute terms.

Portfolio changes in 2007

The main divestments with manufacturing activities in 2007 were various Optical Storage sites and CE Mobile phones in China. Data from these organizations are not included in 2007 reporting.

Major acquisitions in 2007 were PLI (Lighting), Color Kinetics (Lighting), VMI (Medical Systems), LTI (Lighting) and DLO (CE).

Operational carbon footprint

Scope

The Philips operational carbon footprint includes:

- Industrial: manufacturing and assembly sites.
- Non-industrial: offices, warehouses, IT centers and R&D facilities.
- Business travel: lease and rental cars, train and airplane travel.
- Distribution: air, sea and road transport.

All conversion factors used to transform input data (e.g. amount of ton-kilometers) into CO_2 emissions are from the Greenhouse Gas Protocol. This Protocol distinguishes three scopes, the first two of which are mandatory to report on. We cover:

- Scope 1 – direct CO_2 emissions – is completely reported on with direct emissions from industrial and non-industrial sites.
- Scope 2 – CO_2 emissions resulting from the generation of purchased electricity – is completely reported on with electricity use from industrial and non-industrial sites.
- Scope 3 – other CO_2 emissions related to activities not owned or controlled by the company (optional category) – is reported on with business travel and distribution. Commuting, upstream distribution, outsourced activities and emissions resulting from product use are not included.

Methodology

CO_2 emissions from industrial sites are reported in the EcoVision reporting system, which consists of direct emissions resulting from processes and fossil fuel combustion on site, and indirect emissions from purchased electricity, steam and heat. Emissions from industrial sites that are not yet reporting in EcoVision (see "Environmental performance" explanatory notes on page 69) are calculated. The calculation is based on average CO_2 emissions per square meter of sites from the same sector. CO_2 emissions from non-industrial sites are not reported in EcoVision but are calculated. This is done by calculating the energy use per square meter for six countries in Europe and multiplying this factor to the square meters of the remaining sites. The reference year for these data is 2007.

The calculations for business travel by lease and rental cars are based on kilometers and fuel usage. Emissions from business travel by airplane are calculated from the number of kilometers flown. For business travel by train currently only the spend is registered. CO_2 emissions were calculated from distance traveled, based on an estimate of the average distance per euro spent. Even though this is not highly reliable, it has no significant impact, being less than 0.1% of on the total carbon footprint. The reference year for this part of the scope is a mixture of 2006 and 2007, because 2007 data were not always available.

Emissions from air freight for distribution are calculated based on the amount of ton-kilometers transported between ports (distinguishing between short, medium and long hauls for air transport). Because for sea transport only data on transported volume were available, an estimate had to be made about the average weight of a container. Transportation to and from ports is not registered. This fore and aft part of air and sea transport was estimated to be around 3% of the total distance, consisting of a mix of modalities, and was added to the total emissions accordingly. Finally, road transport is the modality with the highest amount of uncertainty. Where data were available, CO_2 emissions were calculated based on distances and fuel use, or on ton-kilometers. If data were incomplete, the emissions were estimated based on average

distances and spend. For this part of the scope the reference year was 2006.

Health and safety

Basis for reporting

Data are reported on a monthly basis and validated on a half yearly basis.

Accounting for organizational changes

Data for new reporting organizations that started reporting in the current reporting year are added to the divisional and thus company totals in the first quarter they are consolidated.

Data for reporting organizations that were divested in the current reporting year are taken out of the divisional and thus company totals in the first quarter they are deconsolidated.

Completeness

Data reported over 2007 cover 80% of the total number of Philips' FTEs. We aim for 100%. The difference can be explained by:

- Non-reporting of Medquist in the US and Shenyang in Asia Pacific region.
- Newly consolidated organizations not yet reporting include Avent Holdings, Color Kinetics, Intermagnetics, PLI, Lifeline. Systems, Lighting Bodine, LTI Lighting, Lumileds.
- Some non-reporting organizations in the Netherlands.
- A number of small units.

Environmental performance

Environmental reporting standard

All reporting instructions, including definitions, procedures, calculation methods, etc., are included in the intranet-based EcoVision reporting and validation system.

Basis for reporting

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

- New acquisitions are reported after the first full year, therefore acquisitions from 2007 will be included in the reporting for 2008.
- Data for divestments that take place during the reporting year are not included.
- Environmental data are reported by each manufacturing activity owned, rented or leased and managed by Royal Philips Electronics, with 50 or more people working in production, and which is consolidated for financial reporting by Royal Philips Electronics.

Various acquisitions in 2005-2006 have not yet been included due to management decisions: Intermagnetics (Medical Systems), Lumileds (Lighting); Avent Holdings (DAP); Lighting Bodine (Lighting); FeiXin (Lighting), which started reporting in 2007 as a reference year but not considered in Group totals. Reporting for these units will begin in 2008.

Accuracy

The conversion factors used for direct energy and restricted substances are unchanged from 2005. The conversion factors of direct Global Warming Potentials (GWP) were updated according to IPCC Third Assessment Report (TAR-06) and the conversion factors of indirect grams CO_2/kilowatt hour (kWh), which is taken from the International Energy Agency Data Services "CO_2 Emissions from Fuel Combustion (2006 Edition)."

We will update our software and reporting manual to reflect changes resulting from information in "Climate Change 2007," the Intergovernmental Panel on Climate Change (IPCC) 4th Assessment Report, published in 2007.

Completeness

Of the 100 reporting organizations four did not report. The influence of the missing data on corporate level is negligible.

Furnaces at Lighting sector production sites produce direct CO_2 emissions due to the decarbonization of dolomite and other carbonates. These emissions have not yet been included in our EcoVision reporting for manufacturing activities. We have estimated that they represent between 9% and 10% of total direct CO_2 emissions related to manufacturing activities, and this is included in our operational carbon footprint. We will adjust our reporting systems in 2008 to include these emissions.

Comparability

The reference year for the EcoVision III program is 2005, therefore no data changes are applicable for the years 2002-2004.

Supplier sustainability

Identified risk suppliers are defined as follows:

- We idenfied risk countries based on the Maplecroft list.
- Suppliers from those identified risk countries with whom we also spend more than EUR 100,000 are identified as risk suppliers.
- Suppliers of new ventures are included to the extent that the integration process of these ventures has been finalized. Normative integration period is two years after closure of the new venture.

Reporting standards

All reporting instructions, including definitions, procedures, calculation methods, etc., are available on our website www.philips.com/sustainability

Glossary

Carbon footprint The measure of carbon dioxide produced by a person, organization or state in a given time.

CE Philips Consumer Electronics, combined with DAP in the Philips Consumer Lifestyle sector.

CFC Chlorofluorocarbon – CFCs are considered deleterious to the ozone layer.

CO_2 Carbon dioxide – The most prevalent greenhouse gas.

CT Computed tomography – A special radiographic technique that uses a computer to assimilate multiple X-ray images into a two-dimensional cross-sectional image.

DAP Philips Domestic Appliances and Personal Care, combined with CE in the Philips Consumer Lifestyle sector.

EICC The Electronic Industry Code of Conduct identifies appropriate standards of conduct for socially responsible entities operating in the electronics industry. www.eicc.info

EMS Part of an organization's general management system, 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.

EU European Union – Formerly known as European Community or European Economic Community, this is a union of 27 independent states based on the European Communities and founded to enhance political, economic and social cooperation. europa.eu

FTE Full-time equivalent – A figure calculated from the number of full-time and part-time employees in an organization that represents these workers as a comparable number of full-time employees.

GHG Protocol The Greenhouse Gas Protocol is the most widely used international accounting tool for government and business leaders to understand, quantify and manage greenhouse gas emissions. The GHG Protocol Initiative, a decade-long partnership between the World Resources Institute and the World Business Council for Sustainable Development, is working with businesses, governments, and environmental groups around the world to build a new generation of credible and effective programs for tackling climate change. www.ghgprotocol.org/

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 zeros).

Global warming The gradual increase of the warming temperature of the earth's lower atmosphere as a result of the increase in greenhouse gases since the Industrial Revolution. Sustained increase causes climatic changes.

GRI Global Reporting Initiative – A worldwide, multi-stakeholder network the GRI's vision is that reporting on economic, environmental and social performance by all organizations is as routine and comparable as financial reporting. www.globalreporting.org

HCFC Chlorofluorocarbon containing one or more hydrogen atoms. HCFCs are an alternative to CFCs, with approximately one-tenth of their ozone-depleting properties and greenhouse effect.

IPCC	The Intergovernmental Panel on Climate Change – Established by the World Meteorological Association (WMO) and United National Environment Programme (UNEP) to assess scientific, technical and socio-economic information relevant for the understanding of climate change, its potential impacts and options for adaptation and mitigation. www.ipcc.ch
ISO 14001	Formulated by the International Standardization Organization (ISO) this standard forms the basis for setting up, auditing and certifying Environmental Management Systems. www.iso.org
KPI	Key Performance Indicator – Financial and non-financial metrics used to quantify objectives to reflect strategic performance of an organization.
NGO	Non-governmental organization – A not-for-profit organization that pursues an issue or issues of interest to its members by lobbying, persuasion and/or direct action.
PET	Positron emission tomography – A highly specialized imaging technique that uses short-lived radioactive substances to produce three-dimensional colored images of those substances functioning within the body.
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 zeros).
Sustainable Development	This concept was first conceived in 1987 by Gro Harlem Bruntland, the premier of Norway, who led the World Commission on Environment and Development. Its report, titled 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."
UN	United Nations – Established in 1945, the purposes of the United Nations, as set forth in its Charter, are to maintain international peace and security; to develop friendly relations among nations; to cooperate in solving international economic, social, cultural and humanitarian problems and in promoting respect for human rights and fundamental freedoms; and to be a centre for harmonizing the actions of nations in attaining these ends. www.un.org
UNFCCC	The United National Framework Convention on Climate Change secretariat supports all institutions involved in the climate change process, particularly the Conference of Parties (which meets once a year to review the Convention's progress), the subsidiary bodies and their Bureau. www.unfccc.int
US GAAP	United States Generally Accepted Accounting Principles
WBCSD	The World Business Council for Sustainable Development is a CEO-led, global association of some 190 companies dealing exclusively with business and sustainable development. www.wbcsd.org
WHO	World Health Organization – The United Nations specialized agency for health, established in 1948. WHO's objective, as set out in its Constitution, is the attainment by all peoples of the highest possible level of health. www.who.int
World Bank	The World Bank provides financial and technical assistance to developing countries. It is comprised of two unique development institutions owned by 185 member countries – the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). www.worldbank.org

How to reach us

Please visit our websites:

- www.philips.com
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- www.philips.com/sustainability/report

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Vision 2010 positions Philips as a market-driven company with an organizational structure that reflects the needs of its customer base.

As of January 1, 2008, our activities are organized on the basis of the following sectors:

Healthcare
Imaging Systems
Clinical Care Systems
Healthcare Informatics
Home Healthcare Solutions
Customer Services

Lighting
Lamps
Professional Luminaires
Consumer Luminaires
Lighting Electronics
Automotive and Special Lighting Applications
Solid-State Lighting Components & Modules

Consumer Lifestyle
Connected Displays
Shaving & Beauty
Video & Multimedia Applications
Domestic Appliances
Audio & Media Applications
Health & Wellness
Peripherals & Accessories

Innovation & Emerging Businesses
Research
Intellectual Property & Standards
Applied Technologies
Healthcare, Lifestyle & Technology Incubators
Design
New Venture Integration Group

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