Our economic performance

In 2007 we continued to advance well in our drive to become a truly market-focused, people-centric company that is geared to creating value through sustained profitable growth. Operationally, we delivered once again on our Group targets, with 5% comparable sales growth and an EBITA margin of 7.7%, thanks to good execution, a strong innovation pipeline and a balanced portfolio that proved its robustness in a weakening economic environment.

Economic stakeholders

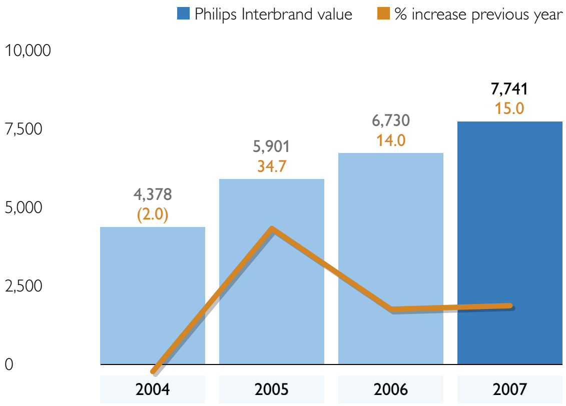
Many stakeholders have a direct or indirect economic interest in our company's performance. Direct economic impacts are often measured as the value of transactions between the reporting organization, the Philips company and its stakeholders. Customers, suppliers and employees are clearly main groups in terms of direct transactions.

Indirect impacts are important to assess in relation to local communities and regional economies. These indirect economic impacts can provide an indication of where reputational risks may develop, or where opportunities may emerge to expand market access or a social license to operate. In this report, however, we limit the scope to direct economic impacts on a global level, representing the company as a whole.

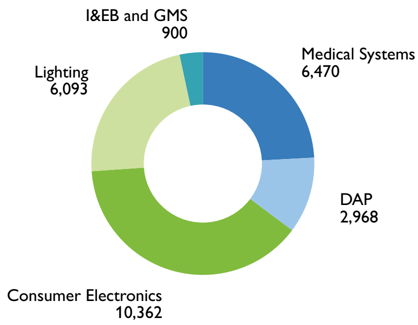
Customers

Loyal and satisfied customers are the longer-term lifeline for any company. Strategically, we made significant steps in building strong market leadership positions across the portfolio, by investing in high-growth high-margin businesses while continuing to divest some low-growth low-margin businesses, largely completing our portfolio transformation. In particular, the announced acquisitions of Genlyte and Respironics will boost our leadership position in Lighting and Home Healthcare respectively.

Brand value
in millions of US dollars



Sales by sector 2007
in millions of euros



Brand value

In 2007, we continued to invest in building the Philips brand, supported by the EUR 111 million investment in the global brand campaign. These efforts resulted in a substantial increase in our brand value as reported by Interbrand. Philips' brand value increased by 15%, to USD 7.7 billion from USD 6.7 billion. The Philips brand was ranked the 42nd most valuable global brand in 2007, up from the 48th in 2006.

This development is primarily driven by increased appreciation of our Medical Systems businesses, which currently represent the highest brand value within the group. The Interbrand analysis showed that 35% of sales decisions in the healthcare sector are made based on brand. This demonstrates the importance of a strong brand for driving sales in the business-to-business as well as the business-to-consumer environment. The Philips brand is strongly positioned to do so.

Sales of the Philips Group

We delivered on our growth target, realizing 5% comparable sales growth, despite unfavorable currency movements. Our strong innovation pipeline and balanced portfolio proved their robustness in a weakening economic environment. Growth was realized by all divisions, with DAP (15%) and Lighting (6%) delivering particularly strong growth. With market share losses and an increasingly competitive market environment for Consumer Electronics in 2007, especially Connected Displays in the United States, comparable sales growth at CE was limited to 1%. At Medical Systems, comparable sales increased by 4%, despite a softening of the imaging market in the United States, due in part to the impact of the Deficit Reduction Act, and in Japan.

Geographic sales distribution

We monitor our performance on a geographical axis based on the following market clusters:

- key emerging markets, including China, India and Latin America
- other emerging markets, including emerging markets in Central and Eastern Europe, Russia, Ukraine and Central Asia, the Middle East and Africa, Turkey and the ASEAN zone
- mature markets, including Western Europe, North America, Japan, Australia and New Zealand.

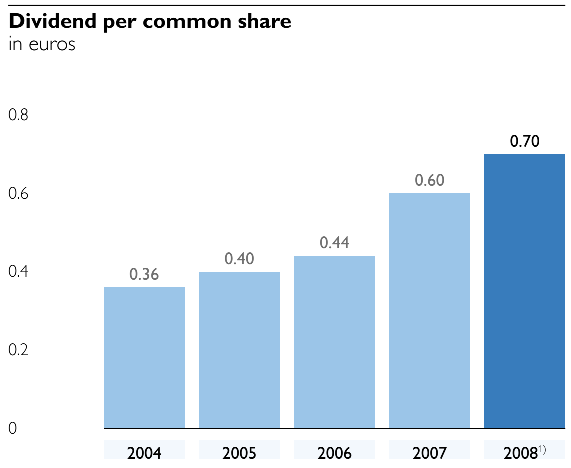
In 2007, sales growth was particularly strong in emerging markets, which will continue to be a focal area of growth for Philips. Emerging markets, most notably China, Russia and India, contributed 60% to our comparable sales increase in value, while accounting for approximately one third of total revenues.

Key emerging markets showed strong comparable growth, primarily driven by Lighting, Medical Systems and DAP, partly offset by a sales decline at CE, mainly due to Connected Displays in Latin America. Other emerging markets delivered strong double-digit sales growth compared to 2006, driven by the outstanding performance of DAP and CE as well as robust expansion of Lighting and Medical Systems in these countries.

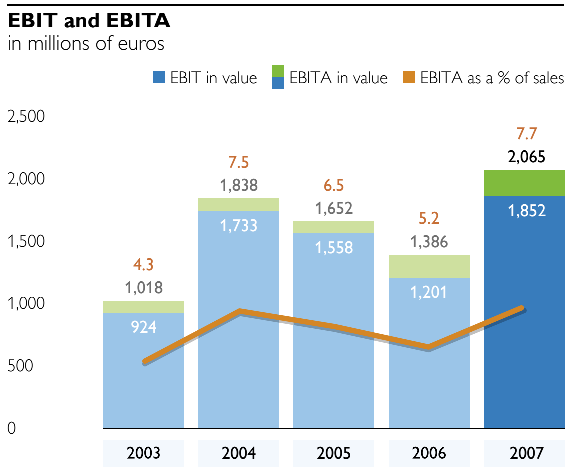
Sales in Western Europe showed a solid increase on a comparable basis, visible in all sectors. In North America, sales on a comparable basis remained stable compared to 2006. A strong performance by DAP, driven by the successful introduction of new shaving and oral healthcare products, and moderate growth at Medical Systems, despite a decline at Imaging Systems, were largely offset by lower comparable sales at CE, predominantly attributable to strong competition and price pressure in FlatTV.

Suppliers

Total products and services purchased in 2007 amounted to EUR 19.2 billion, representing 72% of total sales.



[1)] Subject to approval by the 2008 Annual General Meeting of Shareholders



2007 marks the fourth year of a comprehensive change program. Supply Management plays a key role in value creation, and 77% of Philips' spend is now centralized or center-led. From 2003 until 2007 the total number of active suppliers was reduced from more than 50,000 to less than 20,000.

80% of spend on Bill of Material is now concentrated on fewer than 300 suppliers, and in non-product related on less than 800 suppliers world wide. This drive plays a strategic role in value creation for our company and stimulates suppliers to be strategic partners for the future. Further details on supply spend are included in the section on "Our suppliers."

Employees

Wages

The composition of our workforce and the changes in 2007 are addressed on page 72. The total wage bill in 2007 was EUR 3,904 million, compared with 4,612 million in 2006. Salaries and wages include an amount of EUR 35 million (2006: EUR 78 million) relating to restructuring charges.

Pensions

In 2007, net periodic pension costs of defined-benefit pension plans amounted to EUR 27 million, compared with EUR 75 million in 2006, mainly due to an increase in plan assets in 2006. The payments to defined-contribution pension plans amounted to EUR 84 million, EUR 4 million higher than in 2006, largely due to acquisitions.

Providers of capital

Interest income in 2007 was EUR 236 million, an increase of EUR 86 million compared to 2006, mainly as a result of higher average cash balances and higher average interest rates. Interest expense was EUR 279 million, a decrease of EUR 60 million from 2006, mainly as a result of lower average debt positions and lower interest costs on derivatives related to hedging of Philips foreign currency denominated cash balances and inter-company funding positions.

The net interest expense in 2007 was EUR 43 million, a decrease of EUR 146 million compared to 2006.

Shareholders

Economic benefits for the shareholders include several aspects. The direct impact relates to payments of dividends, totaling EUR 639 million in 2007, or EUR 0.60 per common share. It is proposed to increase the dividend for 2007 by 17% to EUR 0.70 per common share.

Another direct effect came from the repurchasing program of shares. During the year 2007, we repurchased EUR 1.6 million of our shares. Following an amendment to Dutch tax legislation, we announced of further EUR 5 billion (tax-free) share repurchase plan.

Governments

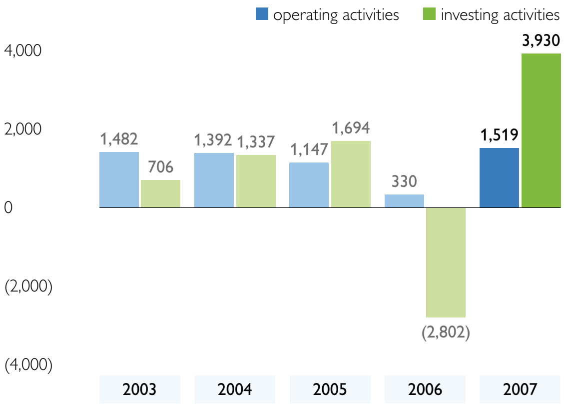
Income taxes amounted to EUR 622 million, compared to EUR 167 million in 2006. The tax burden in 2007 corresponded to an effective tax rate of 13.9% on pre-tax income, compared to 13.6% in 2006. The effective tax rate in 2007 was affected by tax-exempt items such as the non-taxable gain on the sale of shares in TSMC, the market-value adjustment of JDS Uniphase and the fair-value adjustment of TSMC shares and the TPV convertible bond. For 2008, the effective tax rate excluding non-taxable items is expected to be around 30%, broadly in line with 2007.

Financial performance in 2007

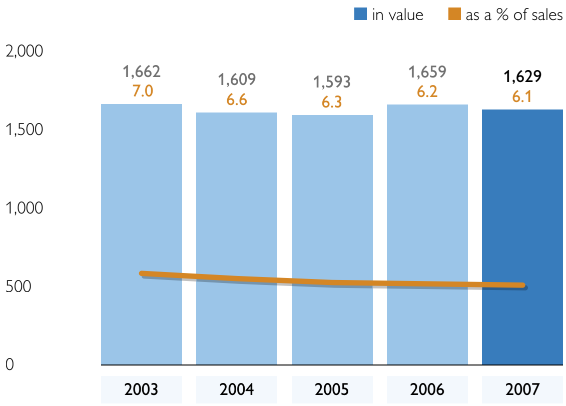
For a full understanding of the company's financial performance in 2007, please refer to the *Philips Annual Report 2007*.

In 2007, our gross margin of EUR 9,169 million, or 34.2% of sales, improved by EUR 919 million compared

Cash flows from operating and investing activities
in millions of euros



Research and development expenditures [1)]
in millions of euros



1) Restated to present the MedQuist business as a discontinued operation

to 2006 (EUR 8,250 million, or 30.9%). Adjusted for the asbestos-related product liability charge in 2006 (EUR 256 million), gross margin improved from 31.9% of sales to 34.2%. This improvement was primarily driven by higher gross margins at Medical Systems and Lighting.

In 2007, EBIT increased by EUR 651 million compared to 2006, to EUR 1,852 million or 6.9% of sales. Excluding the EUR 256 million asbestos-related product liability charge which was recognized in 2006, EBIT profitability improved by 1.4% in relation to sales, driven by the improved performance of DAP, Lighting and Group Management & Services.

Total EBITA for the Group increased from EUR 1,386 million, or 5.2% of sales, in 2006 to EUR 2,065 million, or 7.7% of sales in 2007, exceeding the Group's profitability target of 7.5%. The main drivers of the year-on-year EBITA improvement were the strong, mainly sales-driven performance at DAP (EUR 145 million) and higher earnings at Lighting (EUR 114 million), as a result of higher sales across almost all businesses and a lower loss in the fluorescent-based LCD Backlighting business. Excluding the EUR 256 million negative impact of product liability charges in 2006, Group Management & Services' result improved by EUR 146 million due to reduced corporate and regional costs as well as lower pension and brand campaign costs.

Net income from continuing operations amounted to EUR 4,601 million, an increase of EUR 3,700 million compared to 2006. The improvement was driven by EUR 651 million higher operational earnings and EUR 2,585 million increased financial income, primarily due to the sales of shares of TSMC.

Cash flows from operating activities increased to EUR 1,519 million in 2007, up from EUR 330 million in 2006, mainly due to higher operating results in 2007 and accelerated pension contributions in the United Kingdom and the United States.

Research & development

Strong performance in innovation is critical for Philips to maintain and increase its market competitiveness. Through substantial investments in research & development (R&D), Philips has created a vast knowledge base.

The Chief Technology Officer (CTO) of Philips manages the enabling technologies across the company. Corporate Technologies, employing 2,800 people, invests in world-class competencies and technologies that are relevant to the entire Philips Group. In the operating divisions, some 7,800 employees in 26 countries are predominantly engaged in the development of products and applications.

In 2007, we invested EUR 1.6 billion, or 6.1% of sales, in research & development, slightly less than in 2006. Higher investments in Medical Systems, Lighting, DAP and Innovation & Emerging Businesses were more than offset by lower expenditures in CE, largely due to the divestment of Mobile Phones.