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sense and simplicity

Philips Lighting

Lighting Strategy

Rudy Provoost
CEO of Philips Lighting

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Agenda

- **Business overview**
- Market perspective
- Strategic value drivers
  - Growth engines
  - Segment leadership
  - Brand franchise
  - Business models
  - Intellectual property
- Summary
- Q&A

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Philips Lighting – strategic cornerstone

Philips Healthcare

Philips Lighting

Philips Cons. Lifestyle

Mission:

We understand people and improve the quality of their lives with lighting

	2007
Sales (€ B)	6.1
Comp. growth	6%
EBITA (€ M)	722
as % of sales	11.9%
Headcount	54,323
R&D %	4.5%
NOC (€ B)	3.9

Vision:

We lead by setting the pace of the the lighting industry

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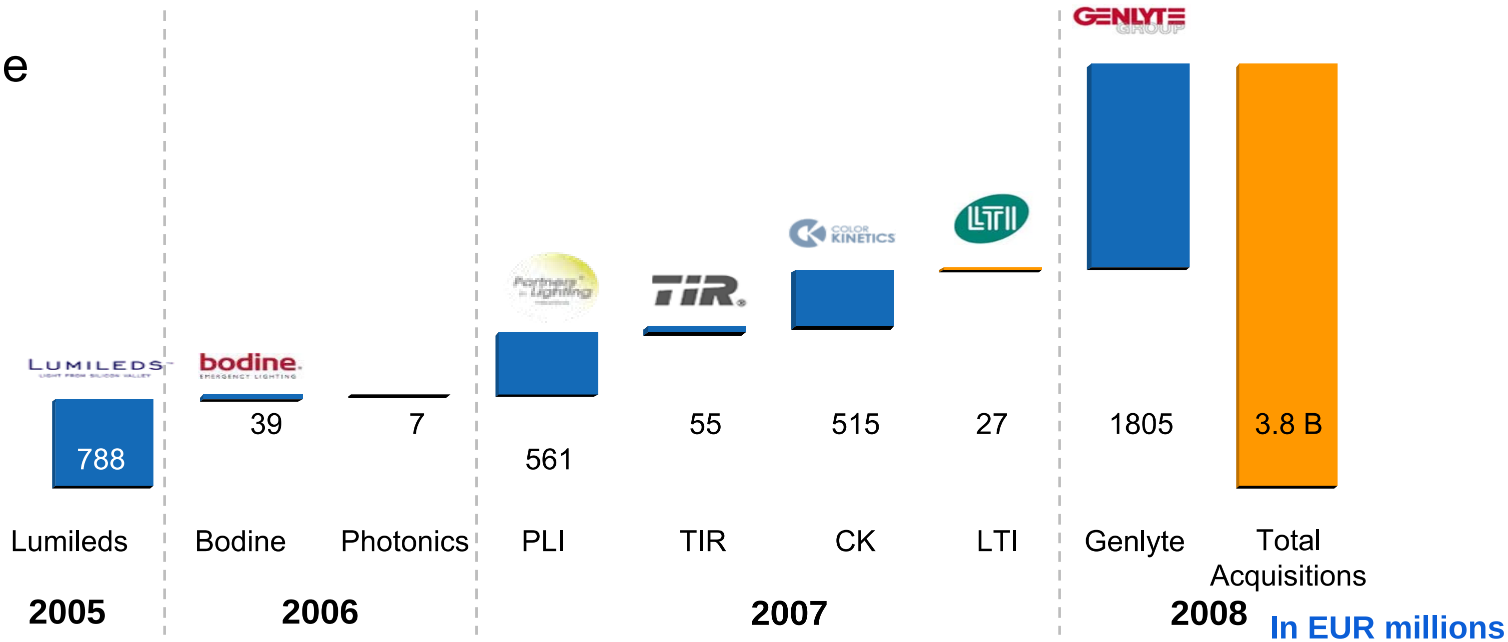
Philips Lighting - key acquisitions

Over time



Over value chain

SSL Sources & Modules → ***Electronics & Controls*** → ***Systems & Luminaires***

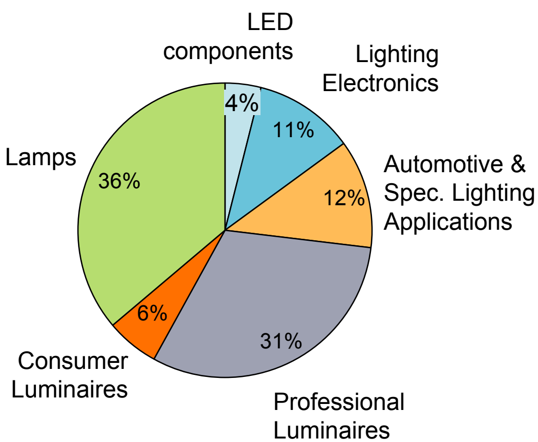
SSL Sources & Modules
- Lumileds

Electronics & Controls
- Bodine
- TIR Systems

Systems & Luminaires
- Genlyte
- Color Kinetics
- Partners in Lighting
- LTI

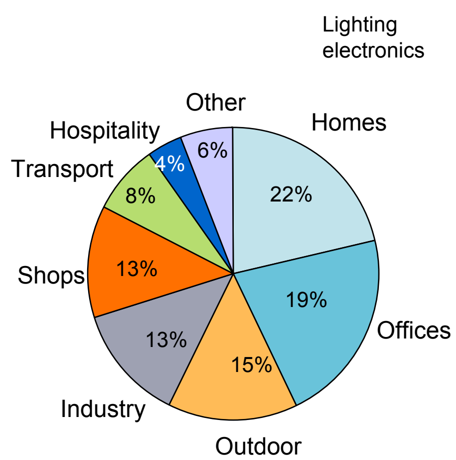
Philips Lighting – balanced portfolio

Business structure*



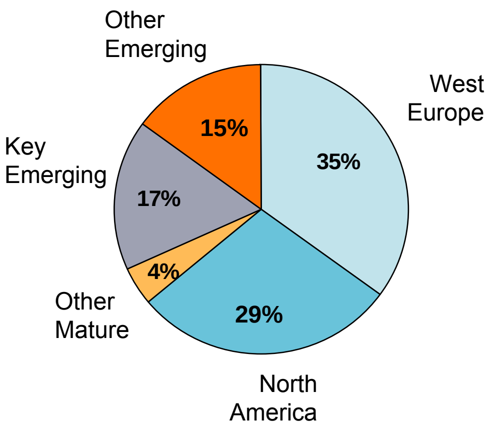
49% Applications
51% Components, Light sources

Market segmentation**



5 key segments cover
82% of our market

Geographic distribution*



32% of Philips Lighting sales
from emerging markets

*) 2008
**) as if Genlyte would be consolidated,2007

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Philips Lighting – global leadership

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Philips Lighting – commitment to Vision 2010

Royal Philips Vision 2010

- Comparable annual average growth of 6% for 2008-2010
- Double EBITA per share from 2007 level and improve EBITA margin to 10% - 11%

Philips Lighting 2007

- Sales of 6.1 billion Euro in 2007 excl. Genlyte
- EBITA of 11.9%
- Application focus : 1/3
- R&D % of sales : >4%

Philips Lighting 2010

- Comparable annual average growth of 6% for 2008-2010
- EBITA of 12% - 14%
- Application focus : 2/3
- R&D as % of sales : >4%

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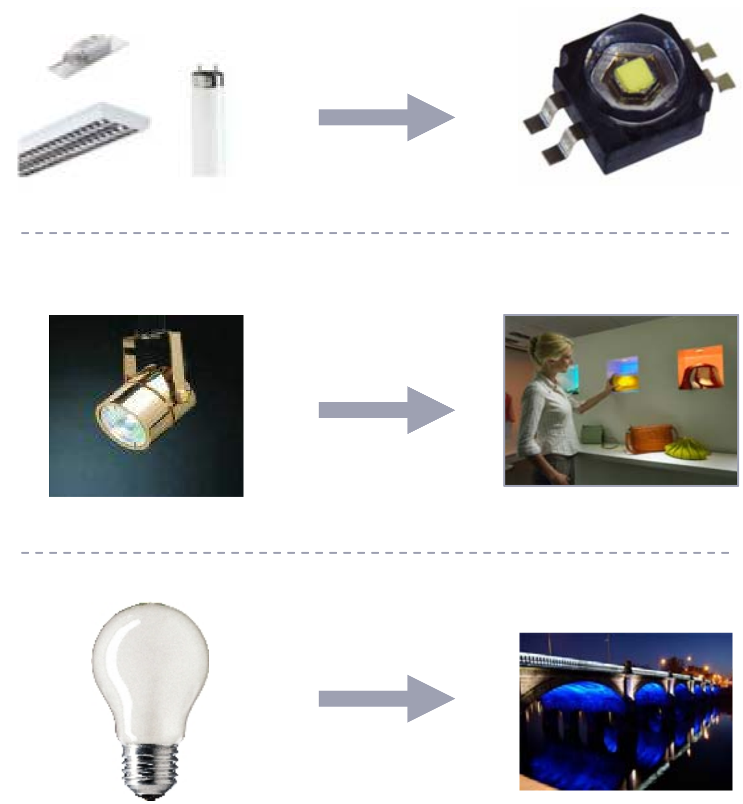
Lighting market – significant opportunities

From conventional light sources to *solid state lighting*

From component and product to *applications and solutions focus*

From incandescent bulbs to *energy efficient lighting*



Lighting market - dynamic economic conditions

Building & construction industry dynamics*

Philips Lighting revenues
100%

W-Eu / NA
64%

Emerging/Oth
36%

New
40%

Replacement
24%

Home* 7%
Professional* 20%
Other* 13%

Medium to High correlation with industry dynamics but with significant variances by country and segment

Energy & commodity price dynamics

- Higher energy prices
  - Transport
  - Manufacturing
  - …
- Increases in commodity prices
  - Copper
  - Steel
  - …

* Home; Residential, Housing
Professional; Retail, Office, Industrial, Hospitals, Schools, Hotels, …
Other; Road& Tunnel, City Beatification, Sport & Area, Automotive
Philips Lighting estimates

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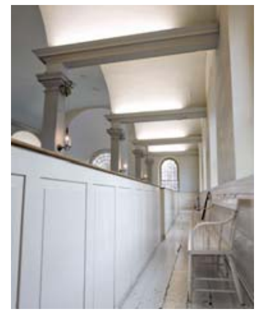
Lighting market – full spectrum of measures

Best practices and new ways of working

Adequate strategies to deal with the Lighting industry dynamics	Effective execution of Philips Lighting initiatives
• Mix management	✓
• Cost productivity and efficiency	✓
• Purchasing effectiveness	✓
• Supply chain optimization	✓
• Channel diversification	✓
• Acquisition pipeline	✓

Faster and better innovation



- Highly energy efficient solutions
- New Solid State Lighting applications
- Symbiosis between art and science, function and fashion

State-of-the-art price management

Transaction Pricing → Project Pricing → Trade Pricing

Components → Light Sources → Applications

e.g. Lumileds | e.g. Lamps | Prof Lum | Cons Lum

- Active price management in all parts of our business
- Active focus on customer profitability

Focus on renovation & Total Cost of Ownership

Rundbau Gerling Konzern, Cologne, Germany

- Renovation, 40 year old building.
- TL-5 luminaires with omnisense;
  - Presence detection
  - Daylight regulation
- Energy saving of up to 70%

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- **Strategic value drivers**
  - Growth engines
    - Acquisitions
    - Green value propositions
    - Innovative solutions
    - LED/SSL revolution
    - Emerging markets
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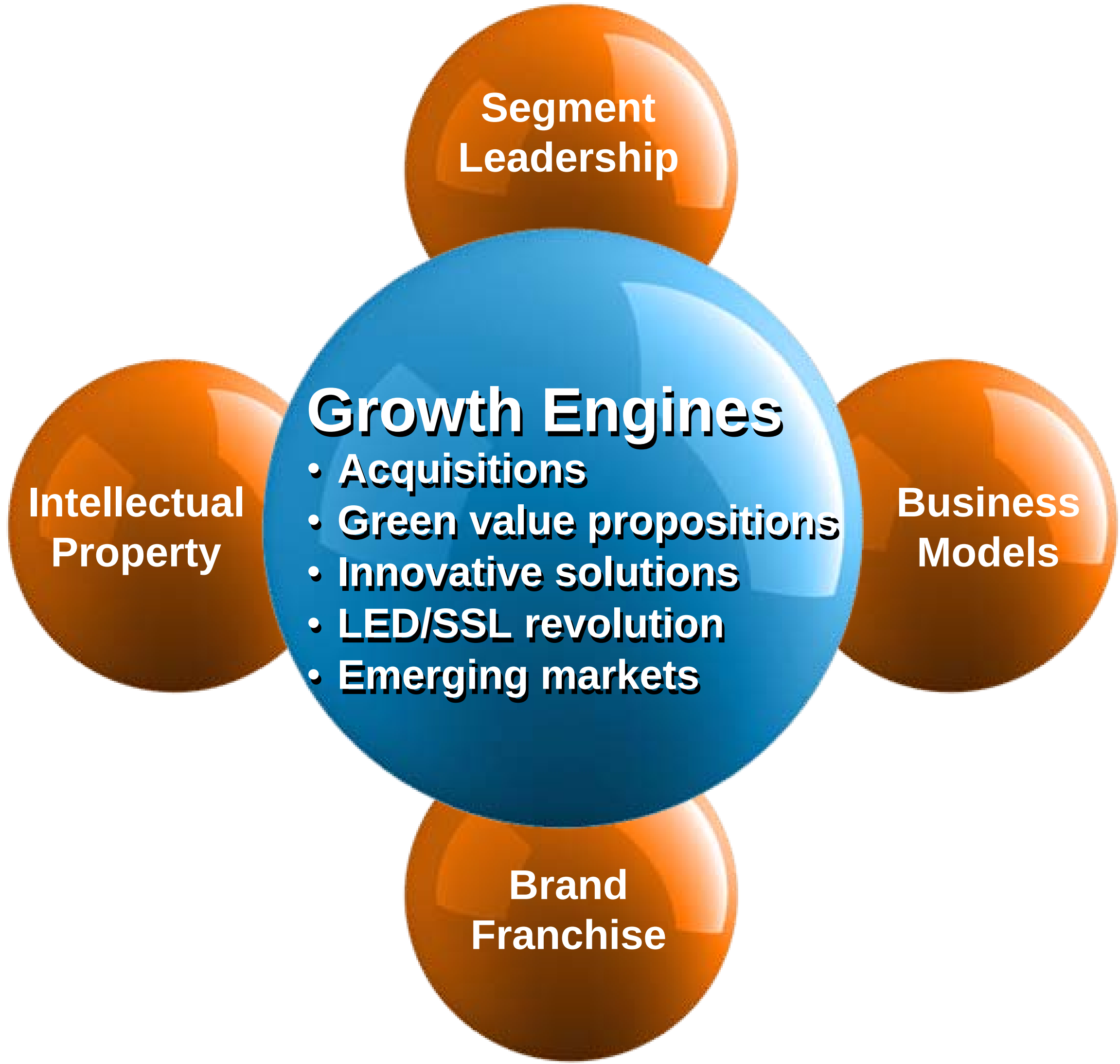
Strategic value drivers – a winning formula



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Acquisitions – a strong backbone for the future

Partners in Lighting

LUMILEDS

LIGHT FROM SILICON VALLEY

GENLYTE GROUP

COLOR KINETICS

Acquisitions – value creation through synergies, global reach and combined innovation power

Successful Post-Merger Integration

PLI
- Integration on schedule
- Expansion outside Europe

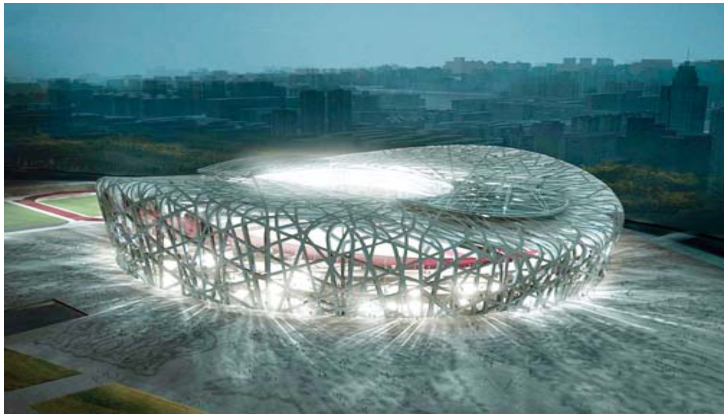
Genlyte
- Integration well under way
- Significant synergies

✓ **Color Kinetics fully embedded and leveraged across the chain**

Unique innovation platform

- Combination of Color Kinetics technology with task lighting know how of Philips Professsional Luminaires NA

Global presence and expansion



Continuous acquisition pipeline

Sportlite, USA
- Bought in 2008
- Via Genlyte/Daybrite

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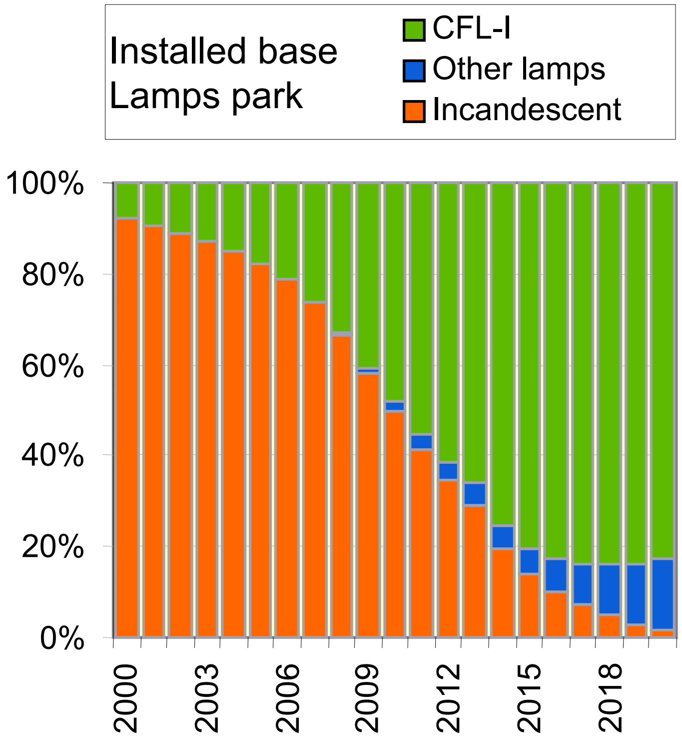
Green value propositions – planned phase-out of incandescent with systematic footprint rationalization

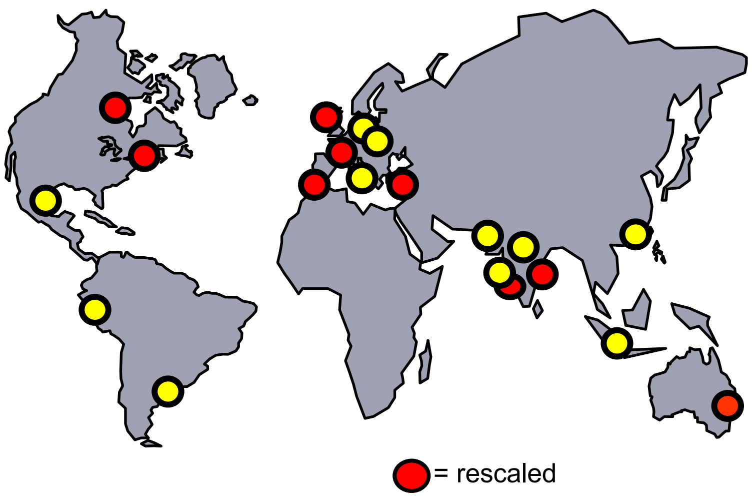
Phase-out of incandescent lamps park



* This plot is only relevant for the GLS / CFL category, not Fluo, HID etc.

Incandescent lamps footprint rationalization

- From 2001 till 2008 rescaled from 20 to 11 incandescent factories; further reductions are planned following demand curves



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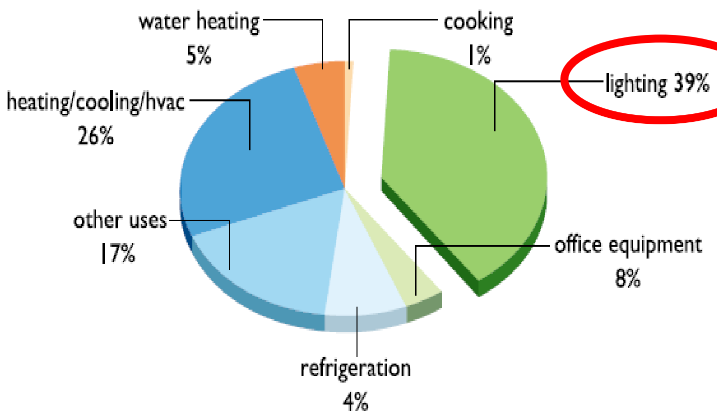
Green value propositions – enhanced energy savings through system approach and renovation focus

Office energy consumption

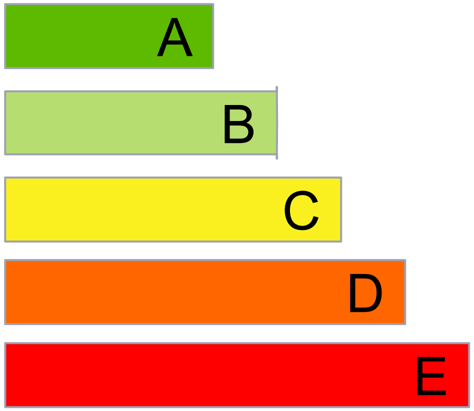


Energy savings opportunity

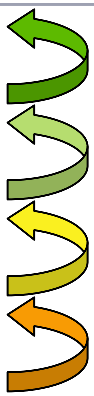
- Energy prices keep on rising
- Up to 60 to 70% of savings feasible on lighting energy consumption in offices,schools, hospitals, etc. through energy efficient Lighting System upgrades

Environmental efficiency metrics

Application of building performance standards and energy certificates



System approach



New system (incl. Controls)

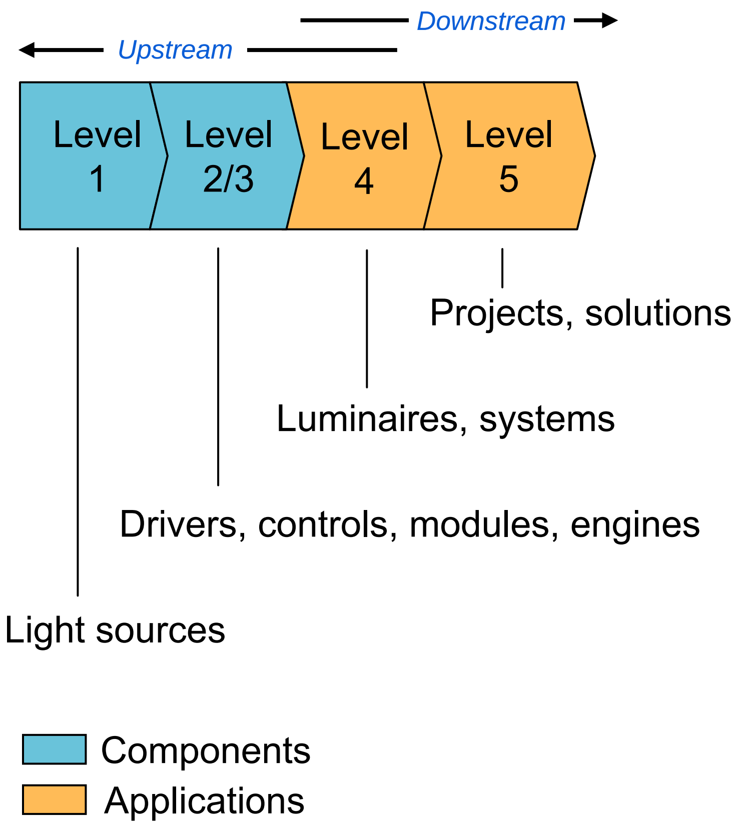
New luminaires

New lamps, new gear

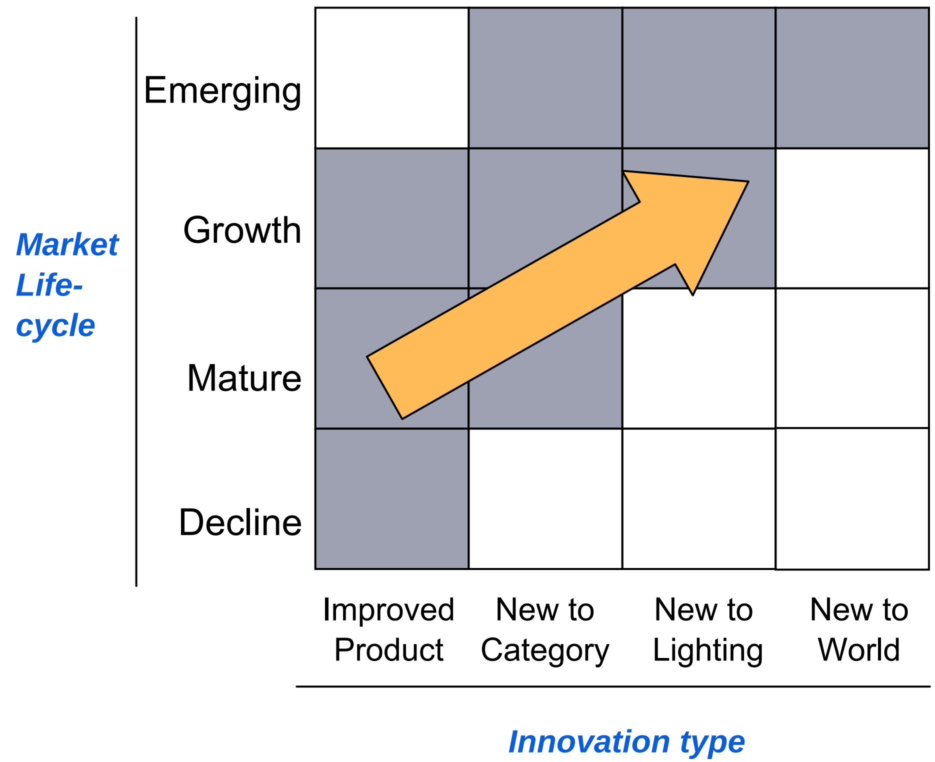
New lamps

Innovative solutions – transition from components to applications requires a shift in R&D investments

From components to applications



Distribution of R&D investments



Innovative solutions – from technological invention to end user insight design and business creation

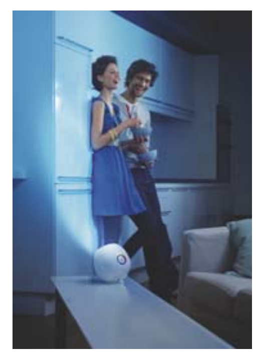
Light generation




Ambience creation

Ambience creation
for shops with Ambiscene

City beautification
National Theatre
London

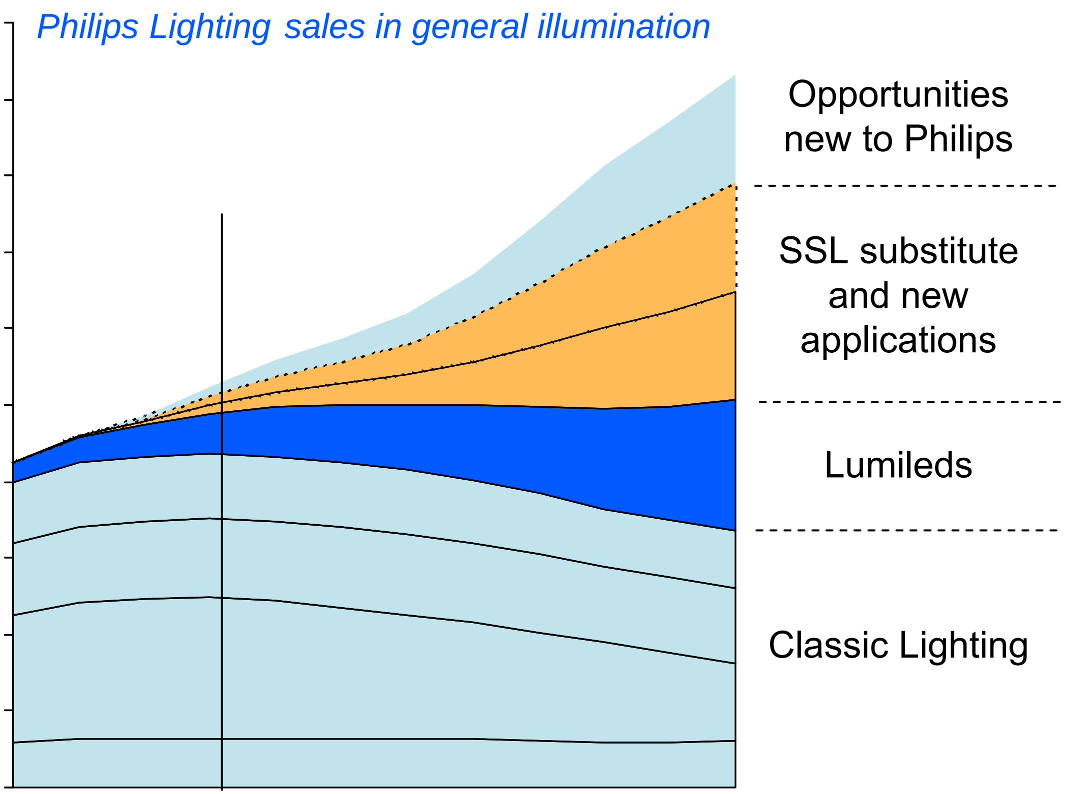


Ambience creation at home
with Living Colors Mini

End user driven market insights
Application development and design

LED/SSL revolution – driving the transformation of our business and capturing the opportunities

Illustrative SSL projections



More opportunity than risk

Solid state lighting components and light sources: Grow our Lumileds and SSL modules business

Systems: Move into controls through own development and Acquisitions

Applications: Grow our Luminaires business

- → Double-the-market sales growth rate
- → Above-the-sector average gross margin realization
- → Higher return on R&D investment
- → Extra IP value creation
- → New revenue models

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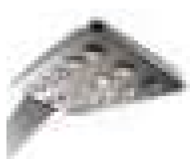
LED/SSL revolution – leading in both consumer and professional application development with great design

Professional

Outdoor
City Wing



Indoor
Spot Led

Consumer

Functional
Ledino

Light + Building
‘FutureInnovations’ Award

Scene setting
Living Colors

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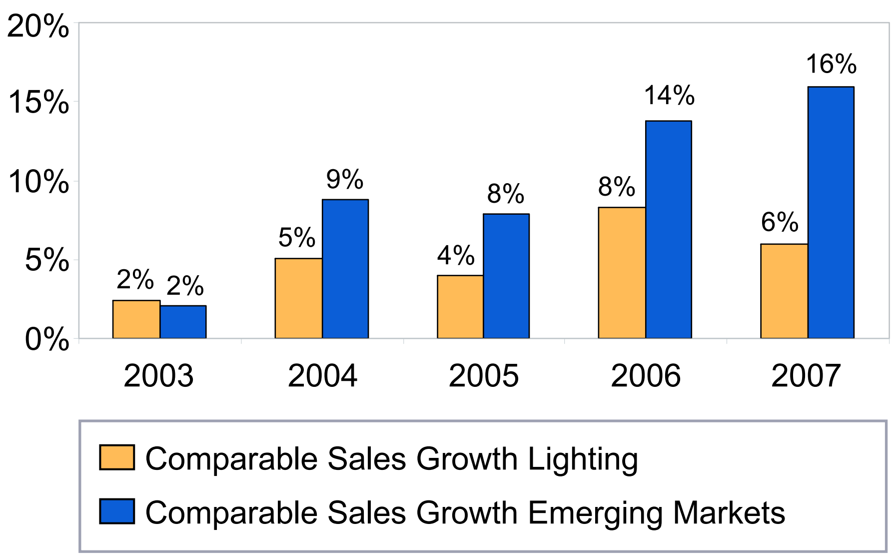
Emerging markets – double-digit growth with compelling business cases

Emerging Markets growth



Latam

- Bridge in Sao Paulo, Brasil
  - State-of-the-art city beautification project
  - 53% reduction in energy consumption

Emerging markets – expanding across Asia and engaging in partnerships in Africa

Asia

- Singapore Flyer

Africa

- SESA* partnership with UN/governments
  - Safe and reliable lighting solutions
  - higher-quality light
  - renewable or mechanical energy
  - cost-competitive with fuel-based lamps
  - payback 6-12 months, target is 3-6 months

* SESA; Sustainable Energy Solutions for Africa

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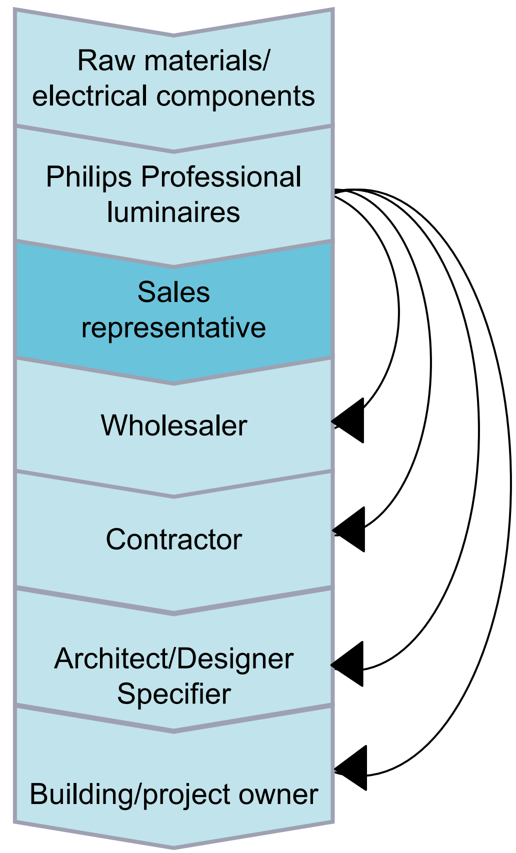
Segment leadership – develop professional project business through multi stakeholder partnerships

Segment specific applications

Multiple stakeholders along value chain



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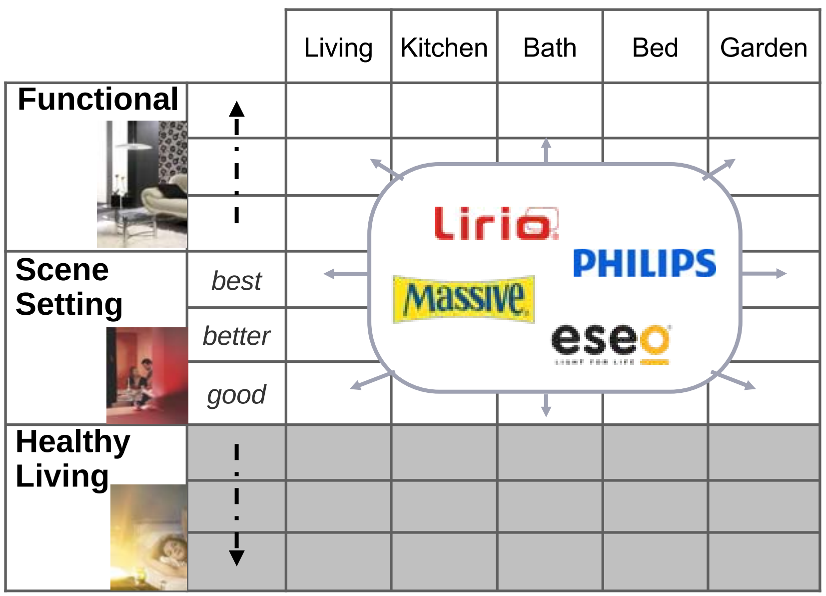
Brand franchise – leverage category management and brand equity

Drive category management

Consumer Luminaires



Capitalize on brand equity

Professional Luminaires

- Growing Philips as global brand of choice and partner of preference

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- Leveraging specialized acquired brands with strong reputation in specific segments - examples
  - Lightolier for indoor specification business in North America
  - Varilite and Strand with world class entertainment products

LIGHTOLIER

Strand LIGHTING

VARI*LITE

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Business models – create new forms of cooperation and ways of working

PPP

PPP contract with VINCI for the City of Rouen

- 120 000 inhabitants
  Normandy Regional Urban Pole
- VINCI's PPP contract amount: €100M, a large 18-years Design, Build, Finance, Operate & Maintain contract in the area of:
  - Public lighting (15.000 public lighting points)
  - Wireless local loop in the old center & Traffic management

Benefits

- Cities: Significant € & CO_2 savings
- Install/maintain cpy: revenuestream
- Philips: Added value - green - sales

PES

Contracts to help energy companies meet CO_2 emission targets

- Contract with British Gas for 52m energy saving lamps
- Sales of PES contracts > € 100M

Benefits

- Consumer: € & CO_2 savings
- Utility cpy: growth customer base
- Philips: Added value - green sales

Carbon trading

Three types of carbon financing mechanisms

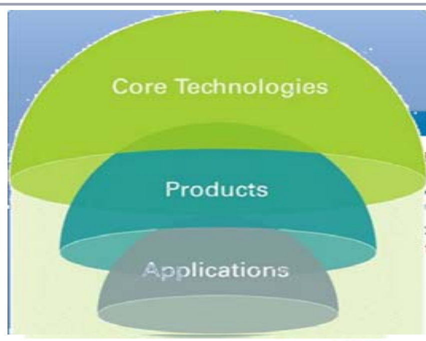
- Emissions Trading Scheme (ETS) primarily between governments in Western Europe
- Joint Implementation (JI) primarily between Western Europe and Eastern Europe (transition economies)
- Clean Development Mechanism (CDM), between Europe and developing countries (BICA+)

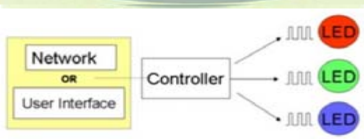
Benefits

- Government/companies ; Energy saving, CO_2□, cost reduction
- Philips: Added value - green sales

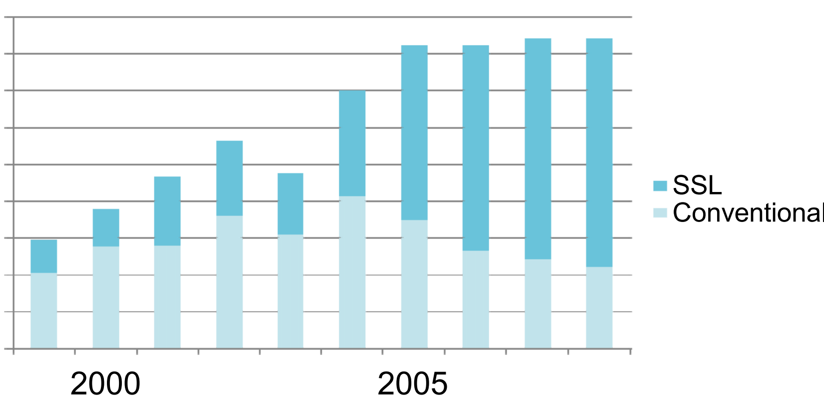
Intellectual property – develop the SSL market through a dedicated IP licensing program

SSL technology platform





IP patent portfolio



IP policy

- Luminaires
  - 3% Single Color
  - 4% Tunable White
  - 5% Color Change
- Retrofit units
  - 5%
- Standard royalties are due on luminaires with only some components from Philips (e.g. only the LEDs)

IP business case

- Leading position with Philips brand
- Accelerated adoption of SSL increasing market size
- Continuous income and cash streams from licensing

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Philips Lighting – commitment to Vision 2010

Royal Philips Vision 2010

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Philips Lighting 2007

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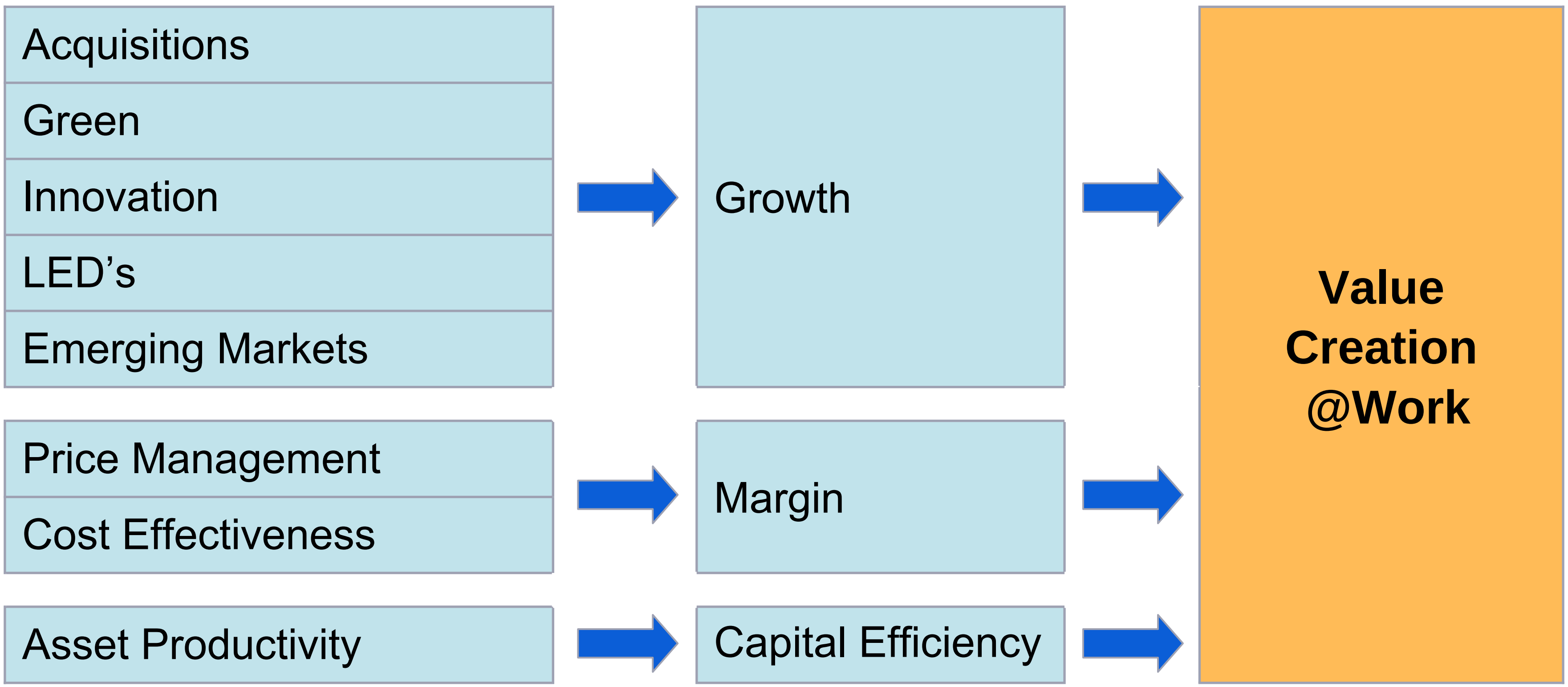
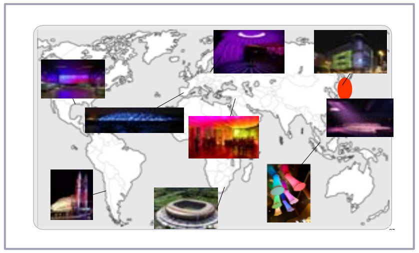
Philips Lighting – value creation @ work



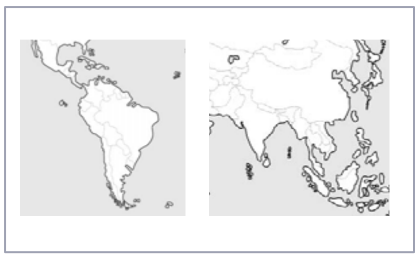
Philips Luminaires – in shape for the future

Acquisitions

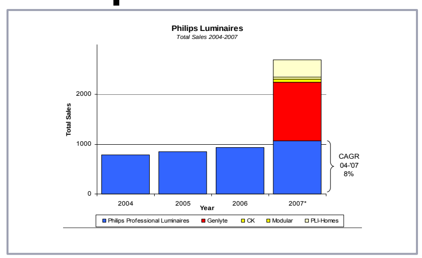


Green Value Propositions

Emerging Markets

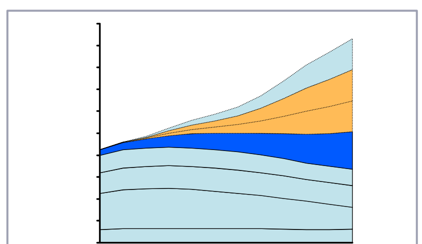


Luminaires
In shape for the future



Innovative Solutions

LED/SSL Revolution



Philips – Delighting with Lighting

- Clear on strategic direction and intention

- Confident in making the Vision 2010 targets

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