

# PHILIPS

Lighting Strategy: Accelerating profitable growth

- Building on strength in existing businesses
- Shaping the future in new business areas

**Theo van Deursen, President & CEO Philips Lighting**

Financial Analysts Meeting

December 7, 2005

# Forward Looking Statements

## *Forward Looking Statements*

This document 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 (including, but not limited to, cost savings) in particular the outlook paragraph in this report. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, levels of consumer and business spending in major economies, changes in consumer tastes and preferences, changes in law, the performance of the financial markets, pension costs, the levels of marketing and promotional expenditures by Philips and its competitors, raw materials and employee costs, changes in exchange and interest rates (in particular, changes in the euro and the US dollar can materially affect results), changes in tax rates and future business combinations, acquisitions or dispositions and the rate of technological changes. 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.

## *Use of non-GAAP Information*

In presenting and discussing the Philips Group's financial position, operating results and cash flows, management uses certain non-GAAP financial measures. These non-GAAP financial measures should not be viewed in isolation as alternatives to the equivalent GAAP measure and should be used in conjunction with the most directly comparable US GAAP measure(s). A discussion of the non-GAAP measures included in this document and a reconciliation of such measures to the most directly comparable US GAAP measure(s) are contained in this document.

## Agenda

- Philips Lighting
- Shaping the future
  - LCD backlighting
  - Solid State Lighting
- Profitable growth via key business drivers
- Continuous improvement, control of costs and assets

## Philips Lighting

### Our Mission

**We understand people  
...and improve their lives with lighting**

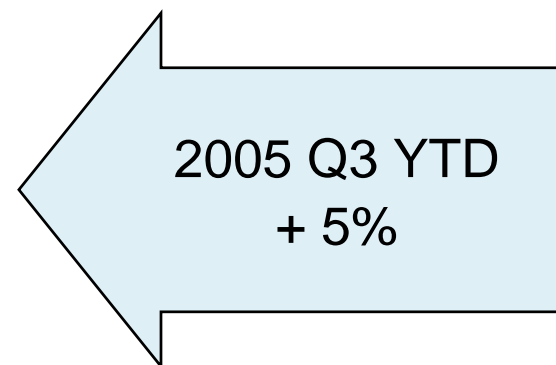
### Our Vision

**The Clear Leader;  
Setting the pace in the lighting industry**



# Philips Lighting

	2004
Sales Comparable Sales growth	EUR 4.6 billion +5%
EBIT	EUR 591 million or 13.1% of sales
Net Operating Capital	EUR 1.5 billion
Return on NOC	37%
Employees	44,000
Capital expenditure Depreciation	EUR 189 million EUR 201 million



Excl. Lumileds

# Philips Lighting: Key Product Areas

**Lamps**



**Lighting Electronics**



**Luminaires**



**Automotive,  
Special Lighting  
& UHP**



**Solid State  
Lighting  
Modules**



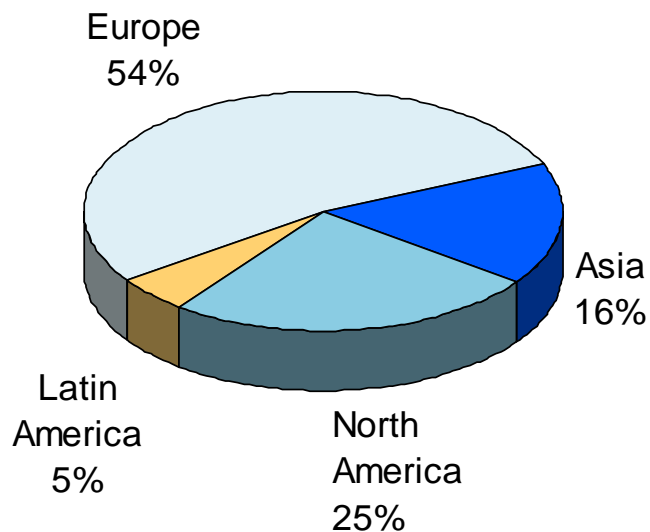
**LUMILEDS™**

LIGHT FROM SILICON VALLEY

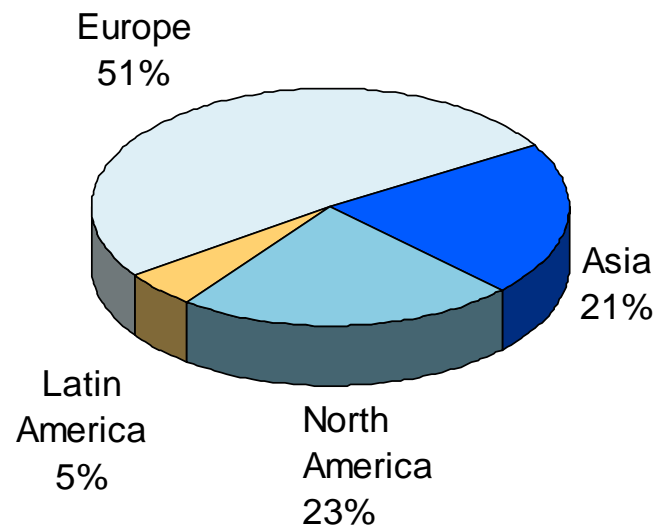


# Philips Lighting 2000-2005 Sales distribution by region

2000



2005 Q3 YTD



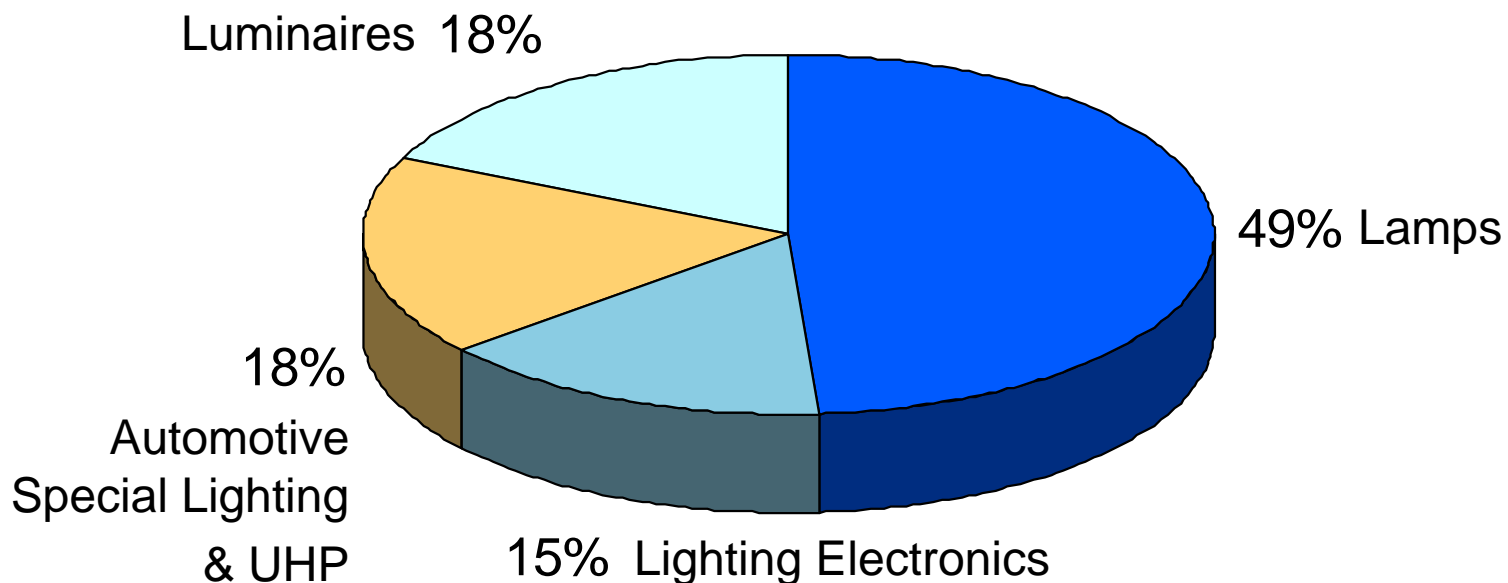
## Comp. Annual Growth 2000-2005

Europe	3%	N. America	1%
Asia Pac.	9%	L. America	3%

Both at currency rates 2005, and excl. Lumileds

# Philips Lighting – Sales per Business Group

2005 Q3 YTD



## Comp. Annual Growth 2000-2005

Lamps	3%	ASU	9%
Luminares	0%	Lighting Electronics	2%

Excl. Lumileds



# Philips Lighting: leading around the world

## Value market shares per business per region 2005



# Philips Lighting strategy

- Profitable growth via
- Building on strength
  - In emerging countries
  - With leading (global) accounts
  - In Business to Business
- Shaping the future
  - In (consumer) display applications
  - In Solid State Lighting (LEDs, OLEDs, lasers)

# Philips Lighting strategy

- Building on strength, Shaping the future via
- Key business drivers
  - End user driven innovation, building on technology leadership
  - Marketing excellence
  - Supply excellence
  - Committed and competent people, living our values
- on basis of:
  - A learning organization (continuous improvement)
  - Control of costs and assets

## Agenda

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  - LCD backlighting
  - Solid State Lighting
- Profitable growth via key business drivers
- Continuous improvement, control of costs and assets

## Growth in (consumer) display applications Philips Aptura for LCD backlighting systems

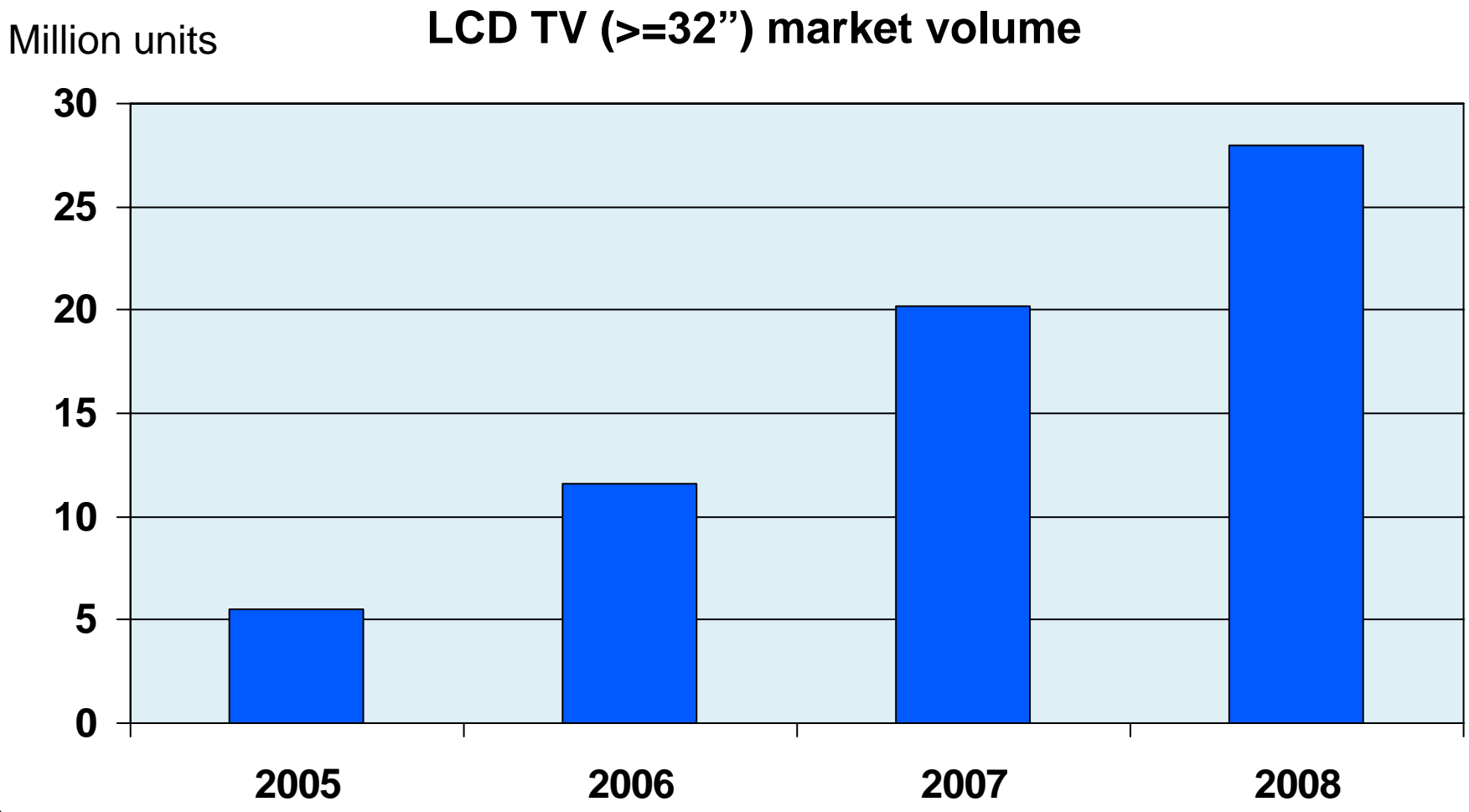
- New fluorescent solution for LCD:  
Creating a new viewing experience

- Wider viewing angle
- Better contrast
- Less motion blur

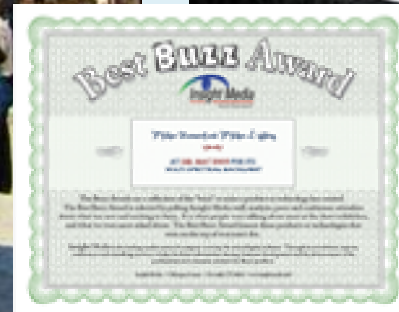
- Launch Q1 2006



# The LCD TV market is growing fast



## Aptura creates clear market excitement



Aptura is awarded at the CES (Jan.'05), at the SID (May'05) and received the Eisa Innovation Award at the IFA Sept.'05.





# Aptura LCD backlighting: Advanced manufacturing capabilities (China)





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# A brief history of (white) light sources



Open wood fire



Oil



Filament



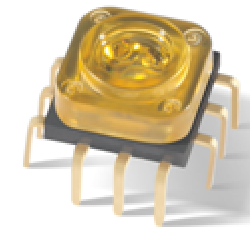
Gas discharge



Inorganic LED



Organic LED



Solid State Laser

## Lumileds' leadership in high power in-organic LEDs

- JV established in 1999
- Philips increased ownership to 96.5% in November 2005
- Industry leader in high power LED's (LUXEON platform)

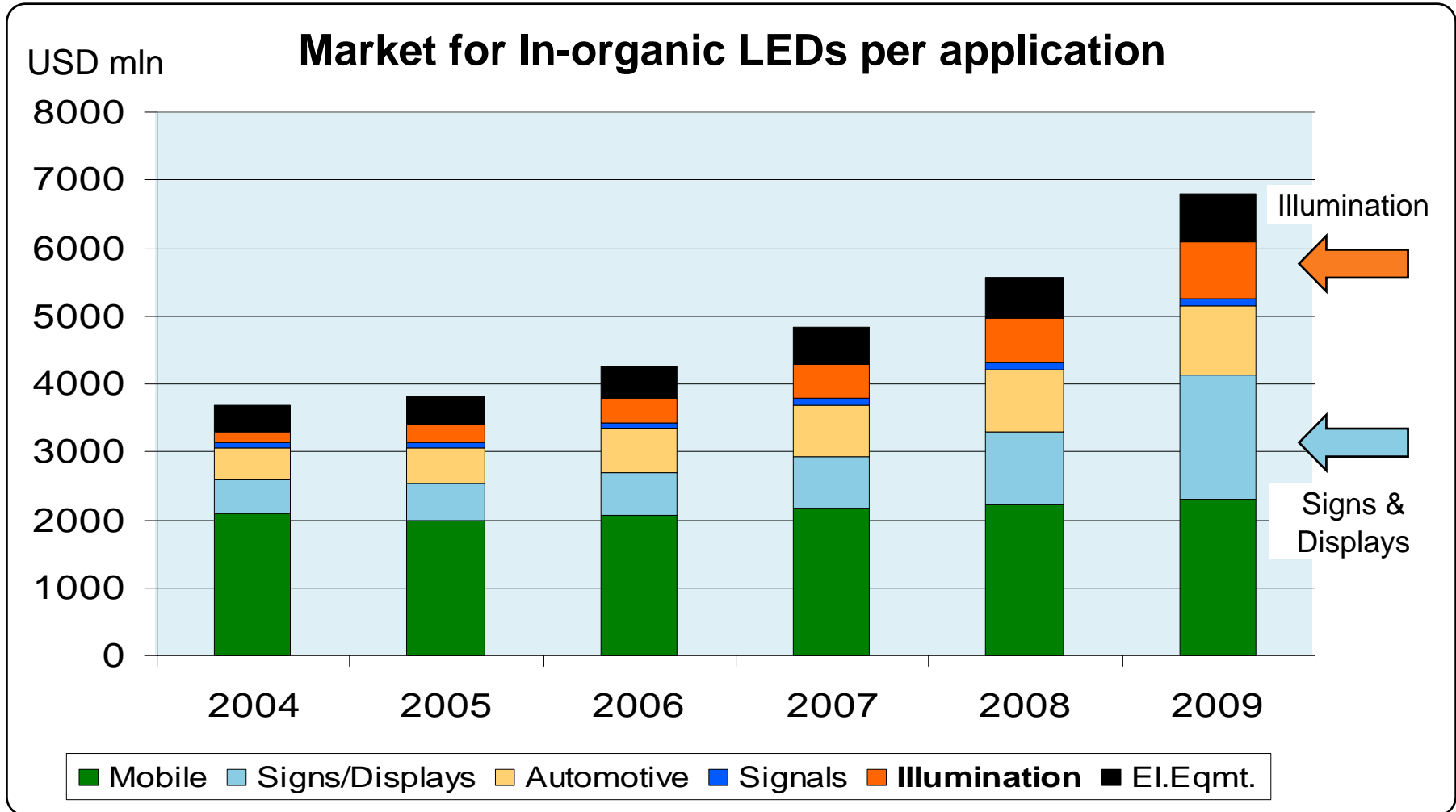


## Lumileds Leadership

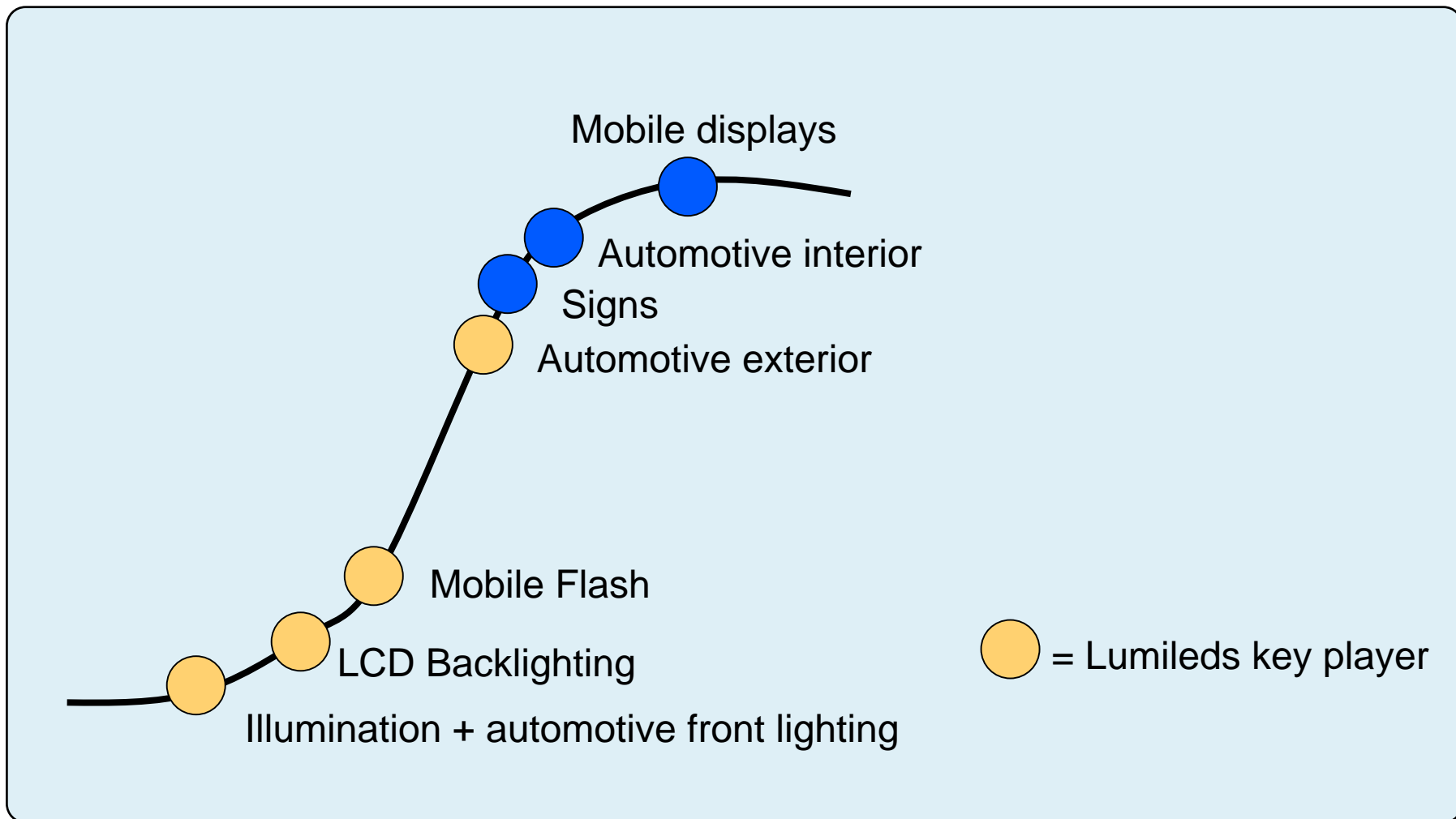
### Luxeon High Power LED

- In all 3 colours and white
- Highest performance in
  - Lumens/Watt
  - Lumens/\$
  - Lumens/cm<sup>2</sup>
- Longest life (50K hrs at 70%)

# Lumileds has a much broader scope than illumination



# Lumileds is well positioned to continue its past (above market average) growth

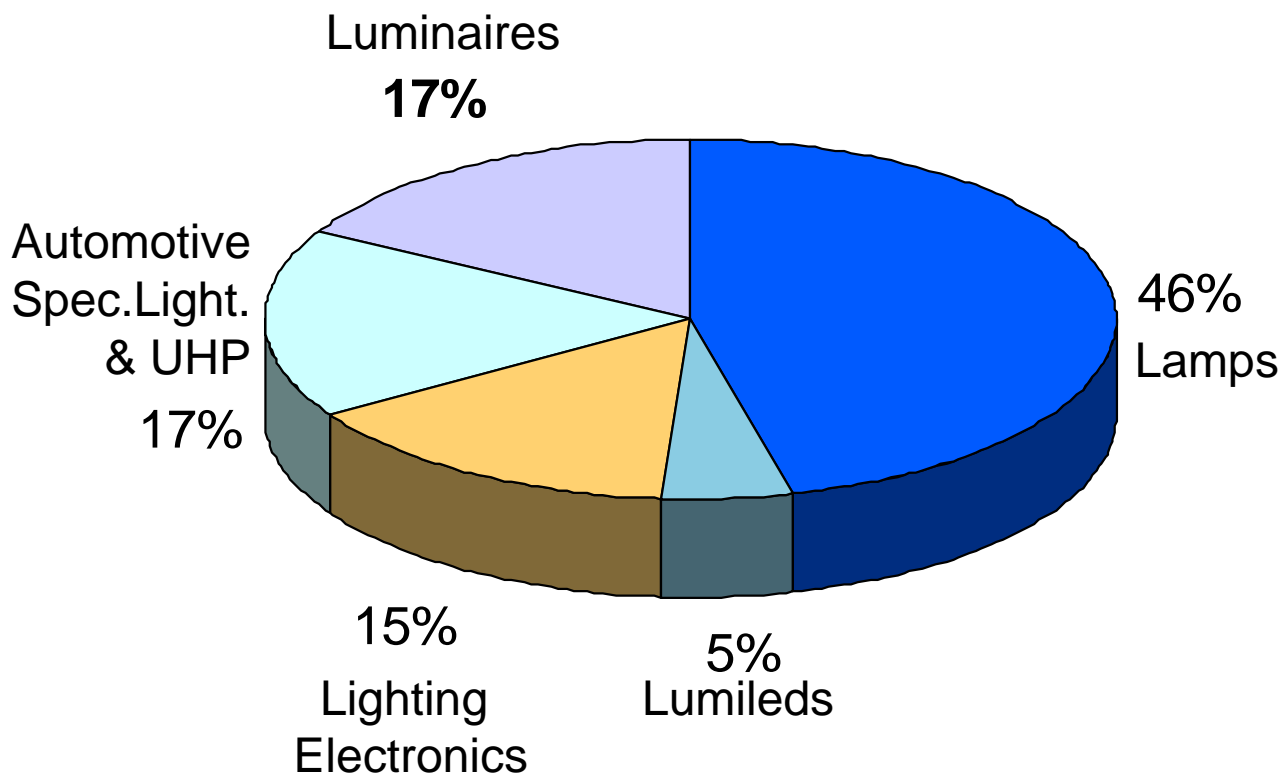


# Lumileds performance

<b>August 04 / July 05</b>	
Sales:	US\$ 324 million
EBIT:	US\$ 83 million
Annual Growth:	28%
Operating margin:	25.6%
Employees:	1760

# Lumileds: Increases Philips Lighting growth by 1%

**2005 Q3 YTD**



Comp.An.Growth 2000-2005	
Lamps	3%
Luminaires	0%
ASU	9%
L.Electr.	2%
<b>Lighting</b>	<b>2,8%</b>
Lumileds	27%
<b>Together</b>	<b>3,8%</b>



# Why acquire Agilent's stake in Lumileds?

- Builds on Philips' leading global position in lighting
- Gives Philips a controlling share in the leading LED company
- Extends Philips' involvement to all segments of the LED value chain
- Gives Philips access to strong portfolio of over 200 LED patents
- Deepens Philips' presence in the higher-growth, higher-margin segments of the LED market

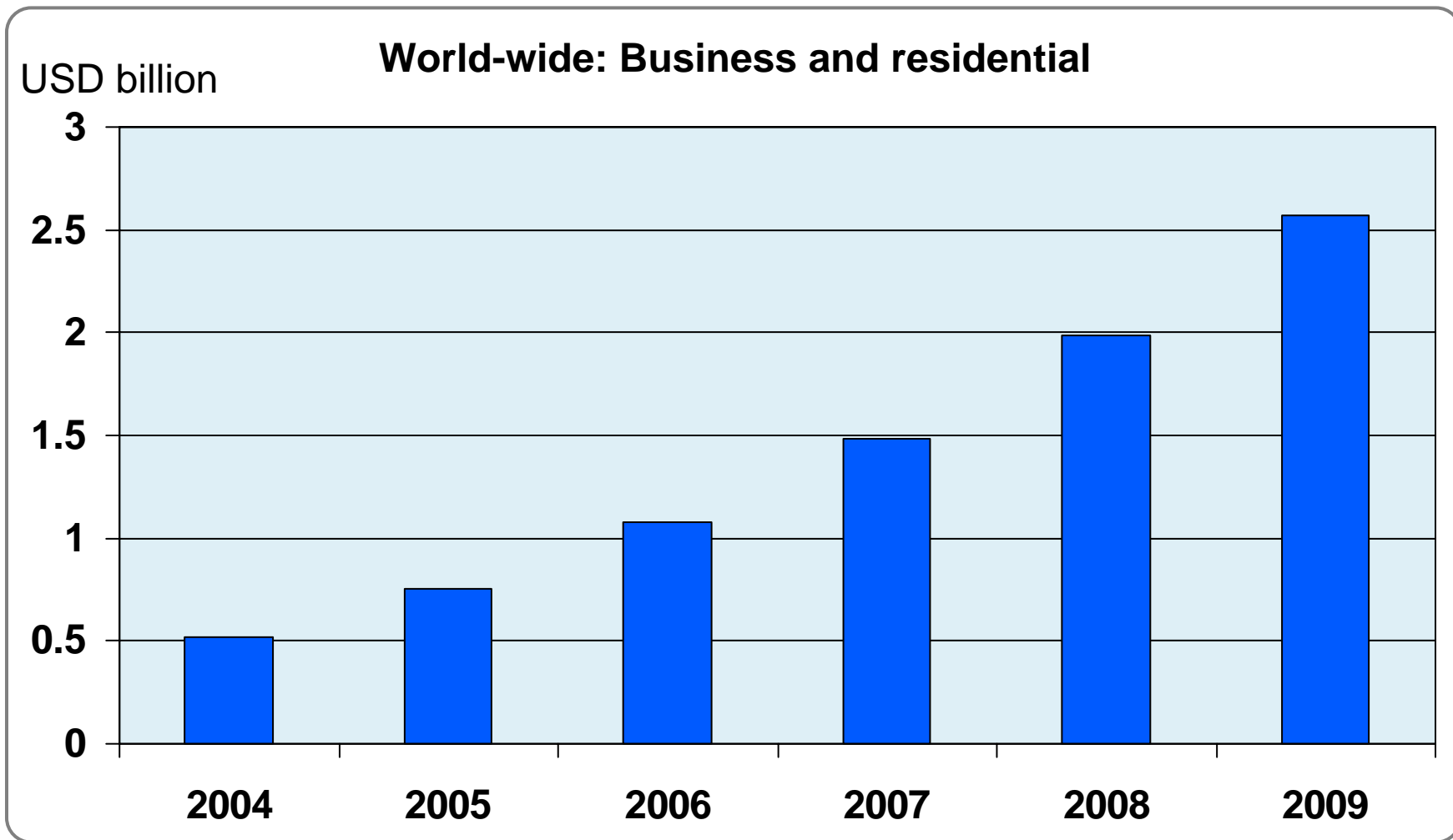
# We will continue the value creation

- Lumileds will **continue** with its **success in value creation**
  - High % of Lumileds activities are outside Lighting business scope
  - Lumileds will operate separately in these markets
  - They will drive the technology and learning curve
- Lumileds and existing Lighting Businesses will be aligned in addressing existing Lighting markets and customers
- In short:
  - Lumileds is now a separate unit in Lighting
  - Alignment with existing businesses where it makes business sense

# Financial targets of Lumileds

- Philips will consolidate Lumileds as of November 28, 2005.
- We aim for Lumileds to achieve annual **Sales growth of 25%, and 25% EBIT based on pre-acquisition accounting.**
- The purchase price allocation will result in one-time charges for in process R&D assets and for continued amortization of other intangible assets.
- Impact on EBIT of Lighting will be known by year-end.

# Philips Lighting operates in the In-organic LED system illumination market

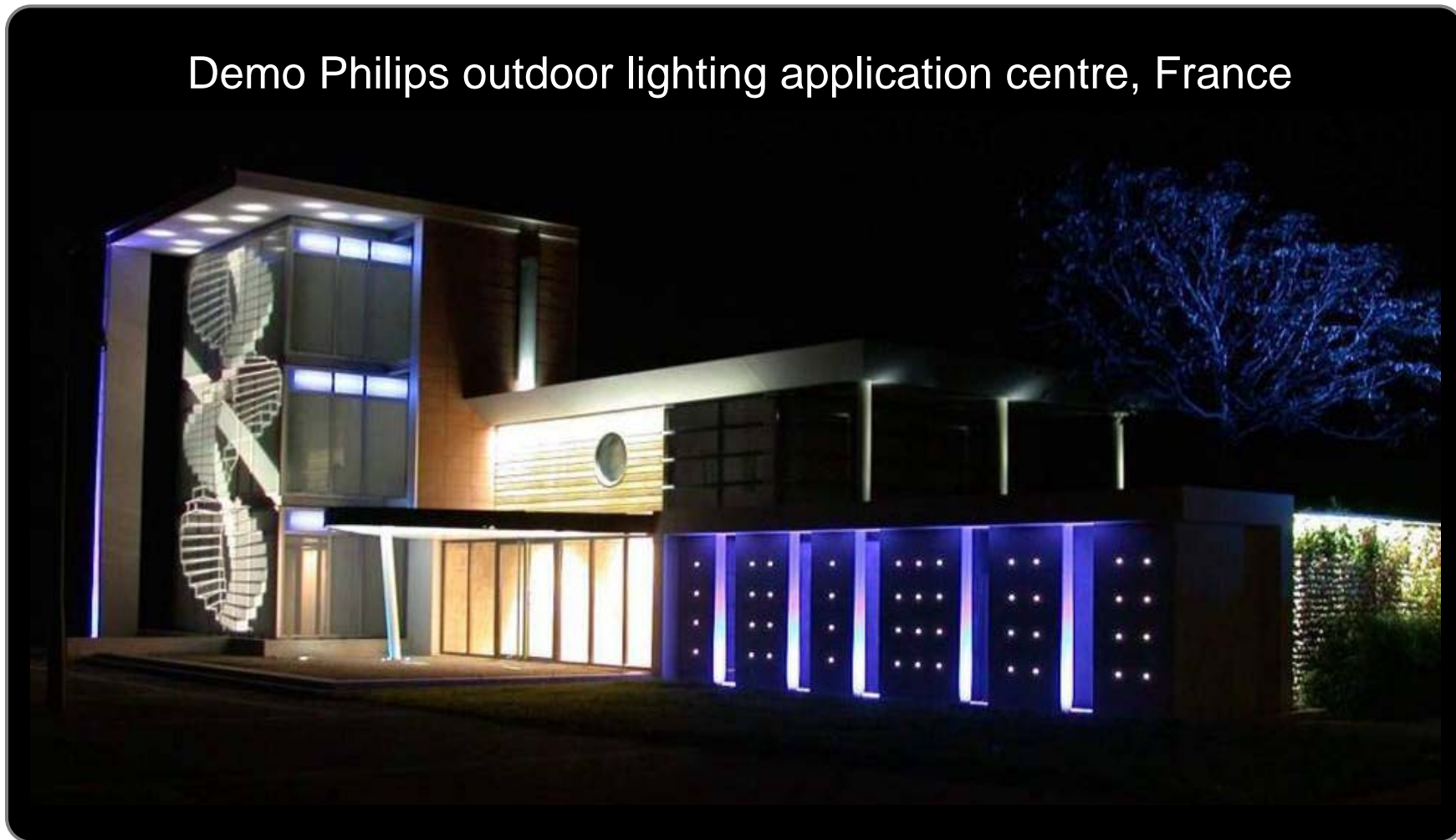


Philips Lighting is with In-organic LEDs especially active in decorative outdoor and shop lighting...



# Creating atmosphere in cities

Demo Philips outdoor lighting application centre, France



# Creating atmosphere in cities

Demo Philips outdoor lighting application centre, France





# Creating atmosphere in cities

Demo Philips outdoor lighting application centre, France





# Examples of projects installed in 2005

Palacio Diputación de Palencia, Spain



# Examples of projects installed in 2005

Lagos Martianez, Spain



# ...and creating atmospheres in shops

Winter



Spring



Summer



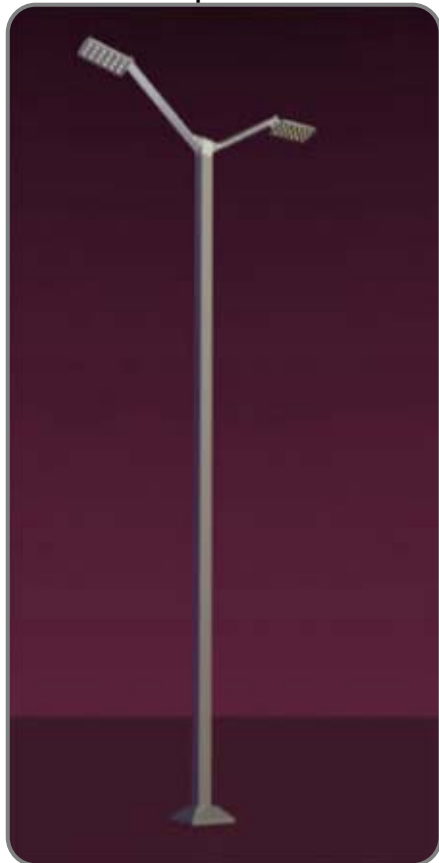
Autumn





## Product portfolio 2005

Equinox



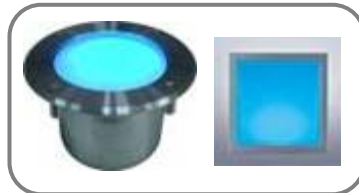
Ledline<sup>2</sup>



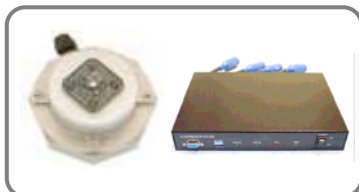
LEDFlood



LED uplighter / step



LEDspot & controller



Origami



Minicolour



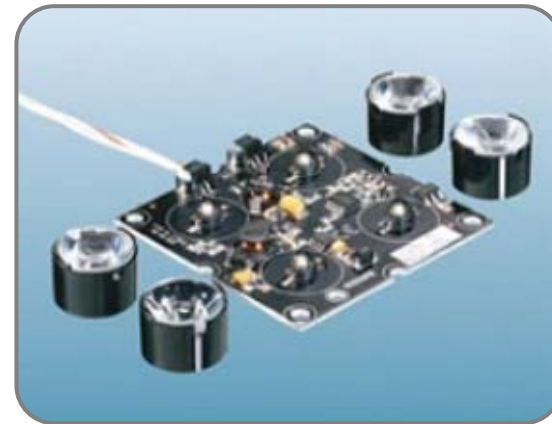
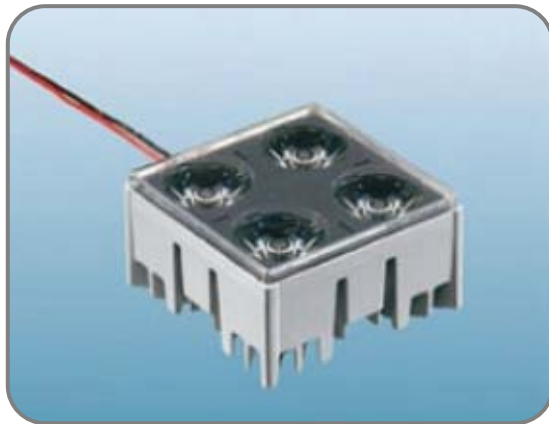
LEDAmazon



Roadstud



# Solid State Lighting modules .... .....enabling OEM luminaires concepts

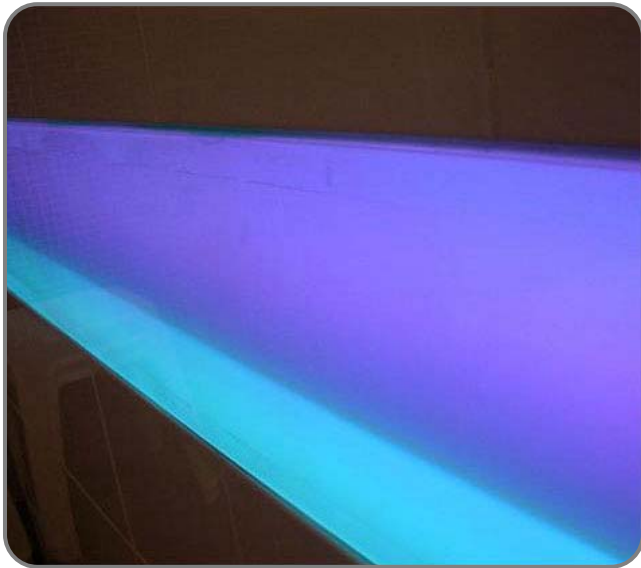


We explore new applications....  
e.g. with Philips Medical Systems creating an  
Ambient Experience during hospital diagnostics



We explore new applications.....  
.....or creating a Bathroom experience.....

**Tiles**



**Bath**



**Shower**



Demo in Philips Lighting Application Centre Eindhoven

We explore new applications  
..... light in textiles, controlled by SMS messages



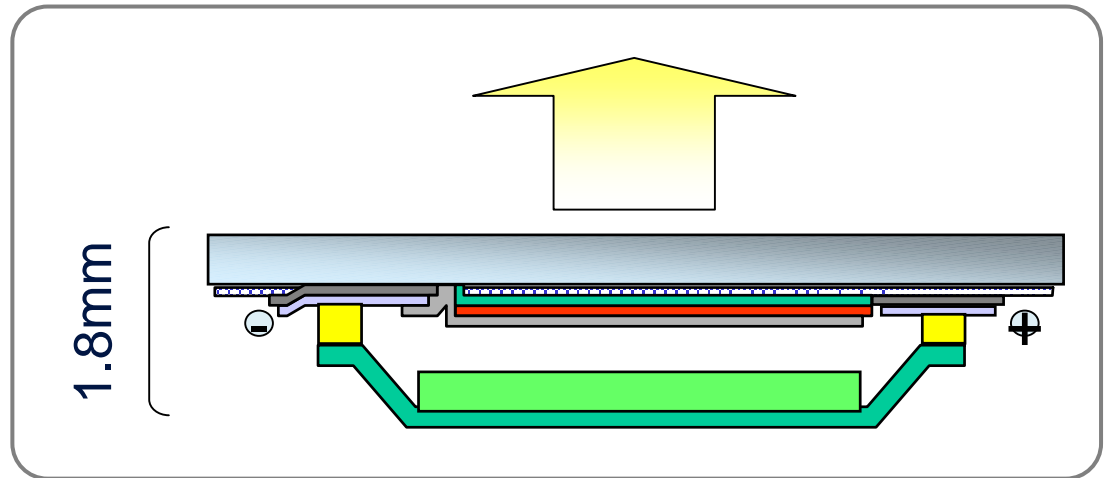


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- Shaping the future
  - LCD backlighting
  - Solid State Lighting: OLEDs
- Profitable growth via key business drivers
- Continuous improvement, control of costs and assets

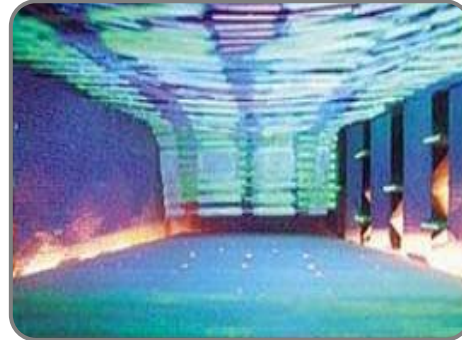
# Organic LEDs

- Organic LEDs are flat diffuse light sources
- Potential for large area light sources
- Many new design-options (thin, flat, transparent, tunable, flexible...)
- New business opportunities for the lighting world



# OLED initially targeted lighting markets

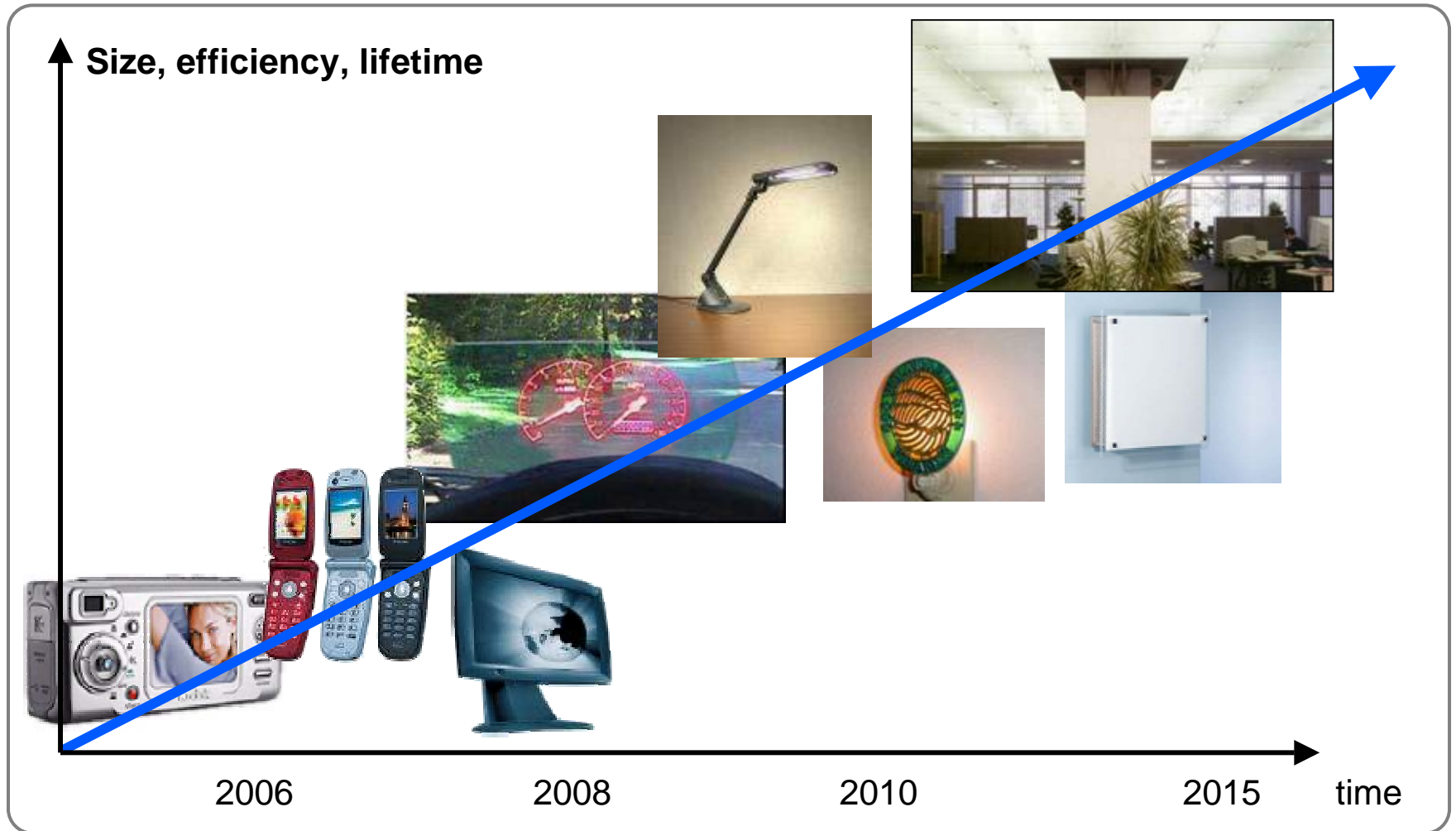
- Automotive
  - Signaling
  - Interior
  
- Signage
  - Advertising
  - Emergency lighting
  
- Special Lighting
  - Decorative
  - Accent lighting



## Some samples of Philips OLED solutions



# Roadmap for OLED Lighting



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# Laser applications in Lighting

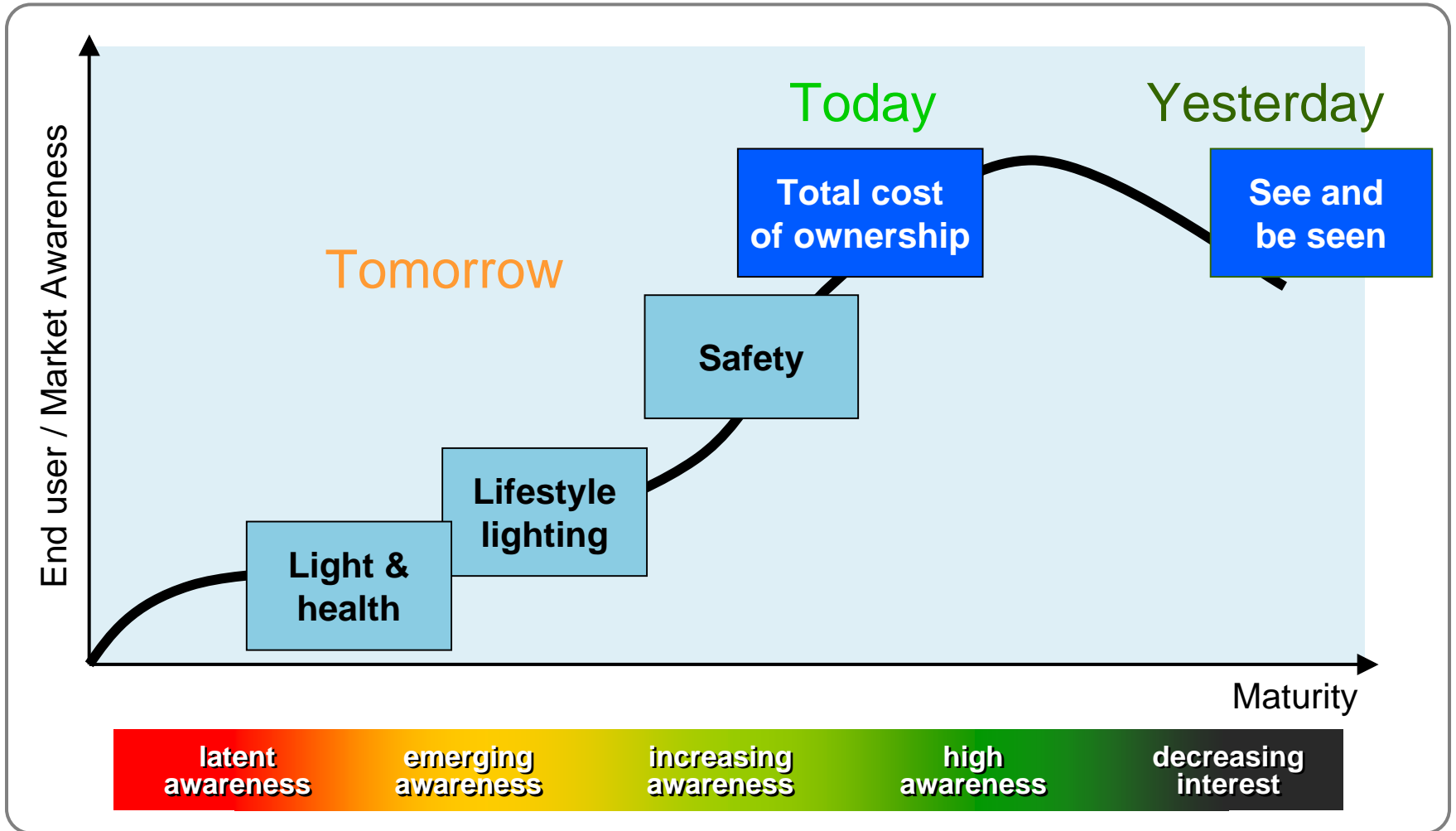
- Develop basic laser technology
  - We acquired 49% stake and obtained management control in Cedova, a start-up venture for laser manufacturing
- First volume laser application: movement-sensor
  - Mouse launched with Logitech
- Monitor laser developments for projection systems

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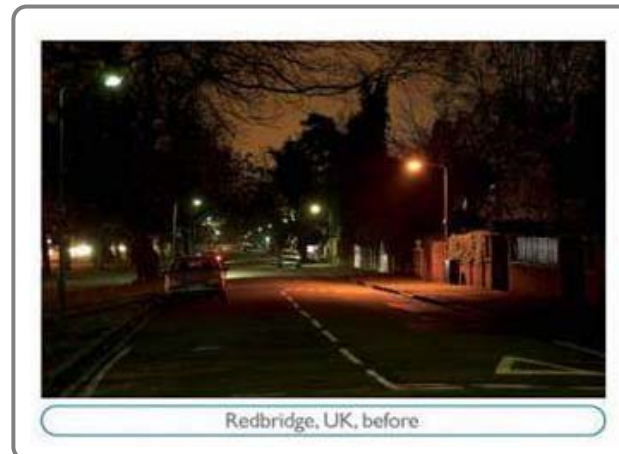
# New market themes drive growth in Lighting



## Market theme concept: Safety

The same street before and after

- The street with new solution
  - Uses less energy
  - Provides higher quality light
  - Provides greater safety



Redbridge, UK, before



Redbridge, UK, after installation of CosmoWhite (Philips)

# Market theme concept: Lifestyle lighting



# Market theme concept: Light & Health

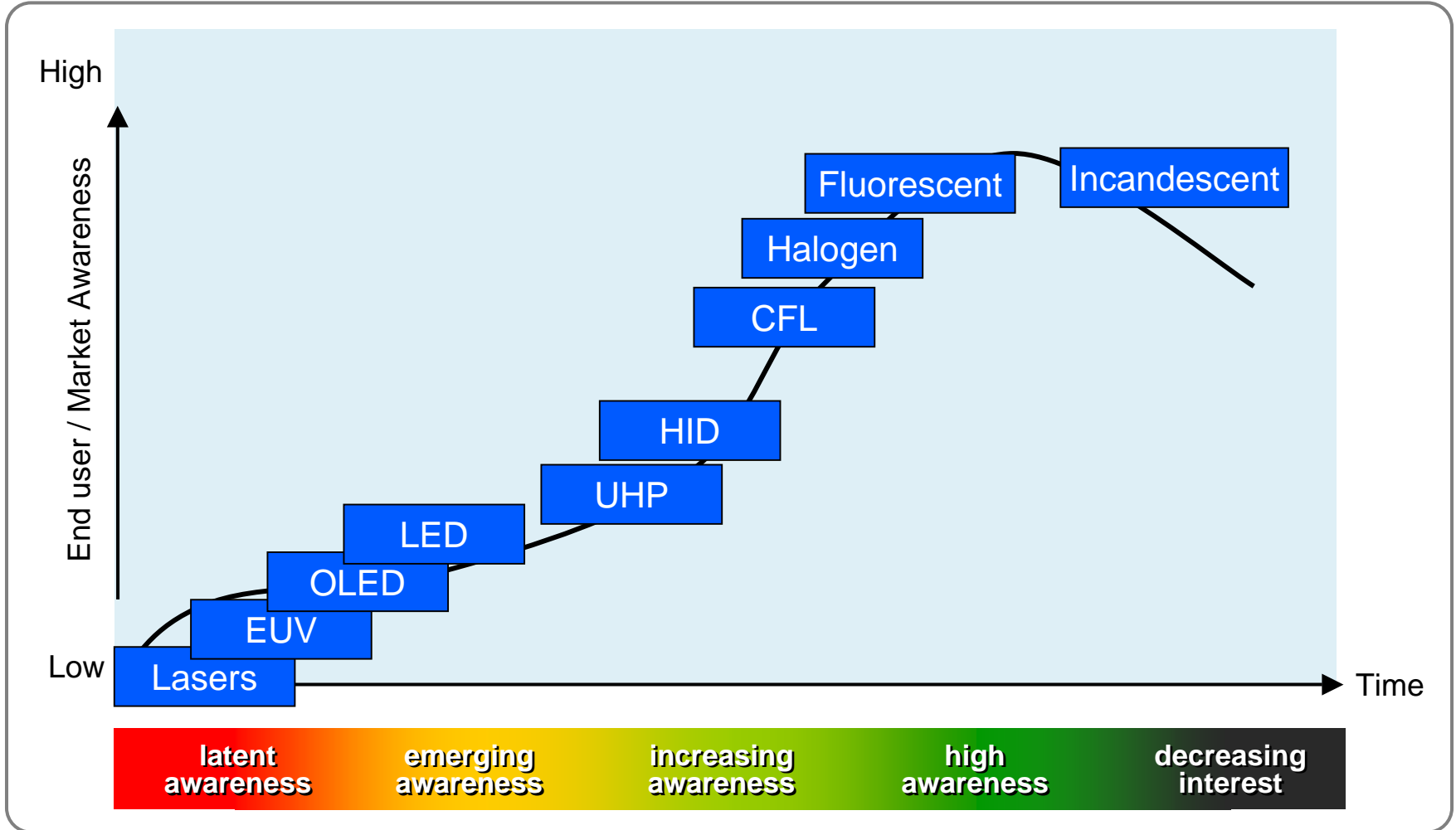


Water purification



Infra red sauna

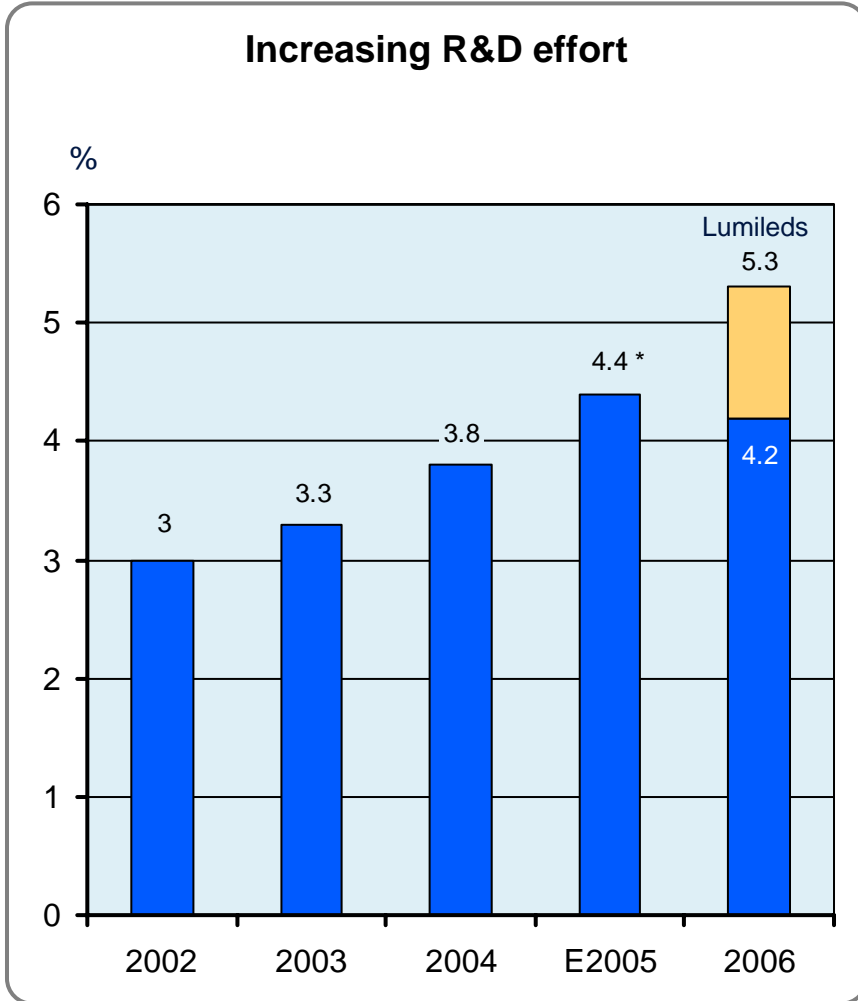
# Also product-technology innovation will continue to drive growth in Lighting



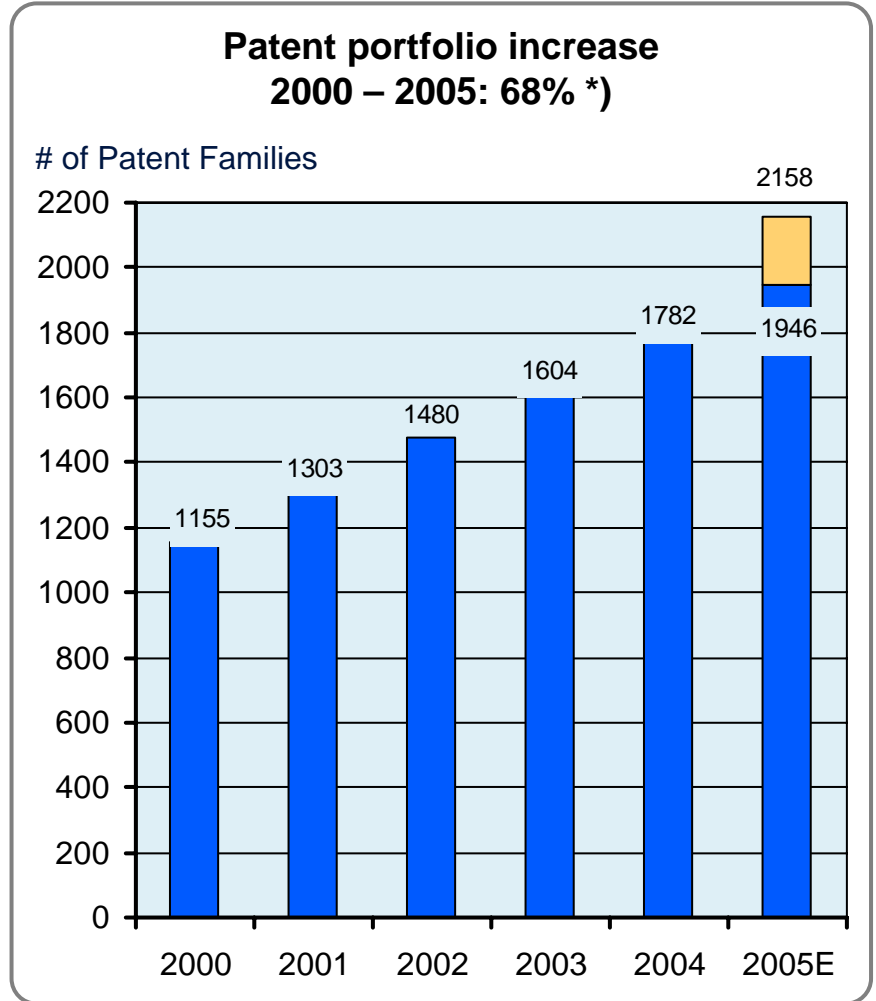


# Building on technology leadership

## Development R&D % and size patent portfolio

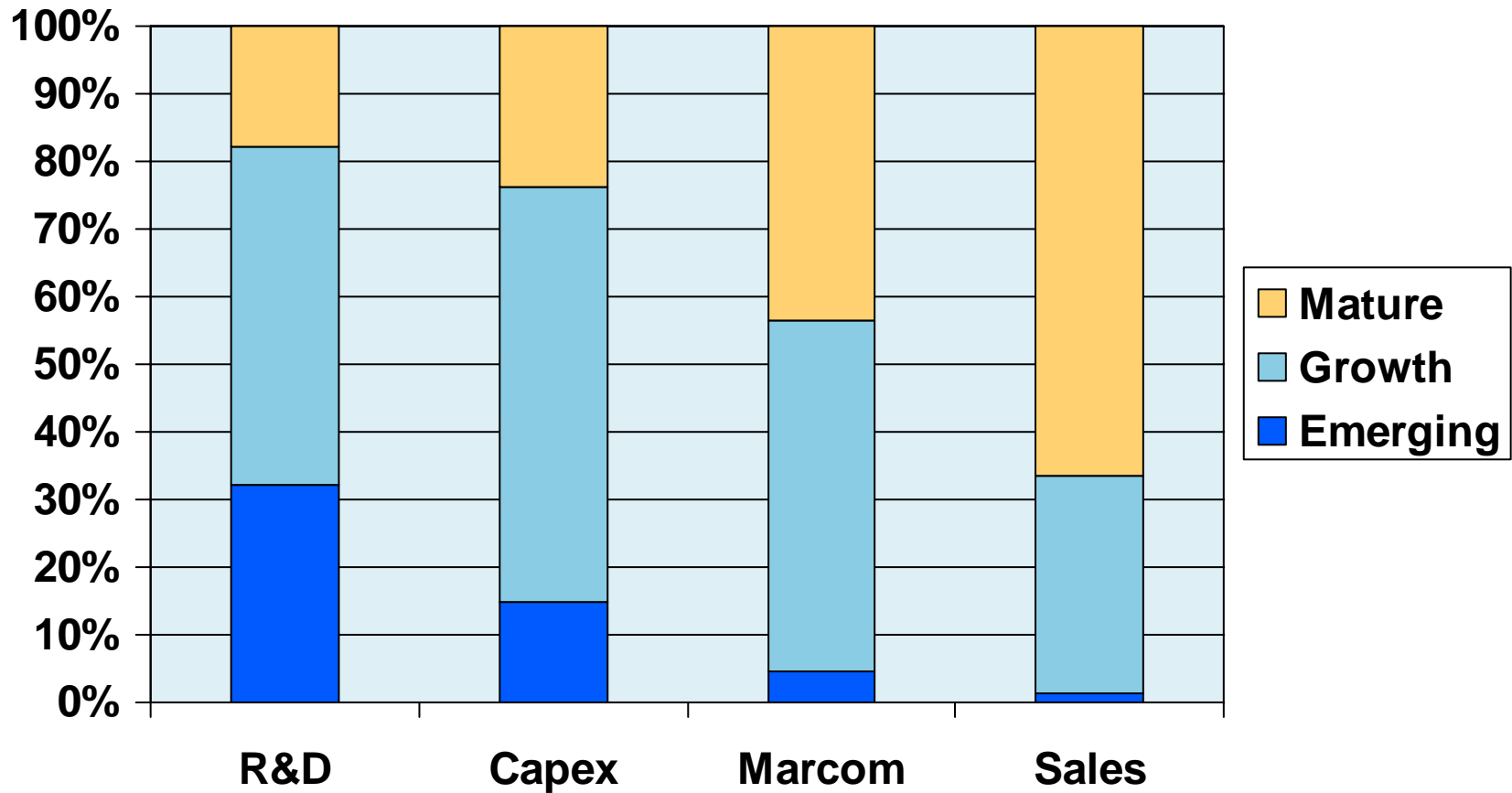


\*) Excluding Lumileds



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# Innovation drives investment for growth (2005)



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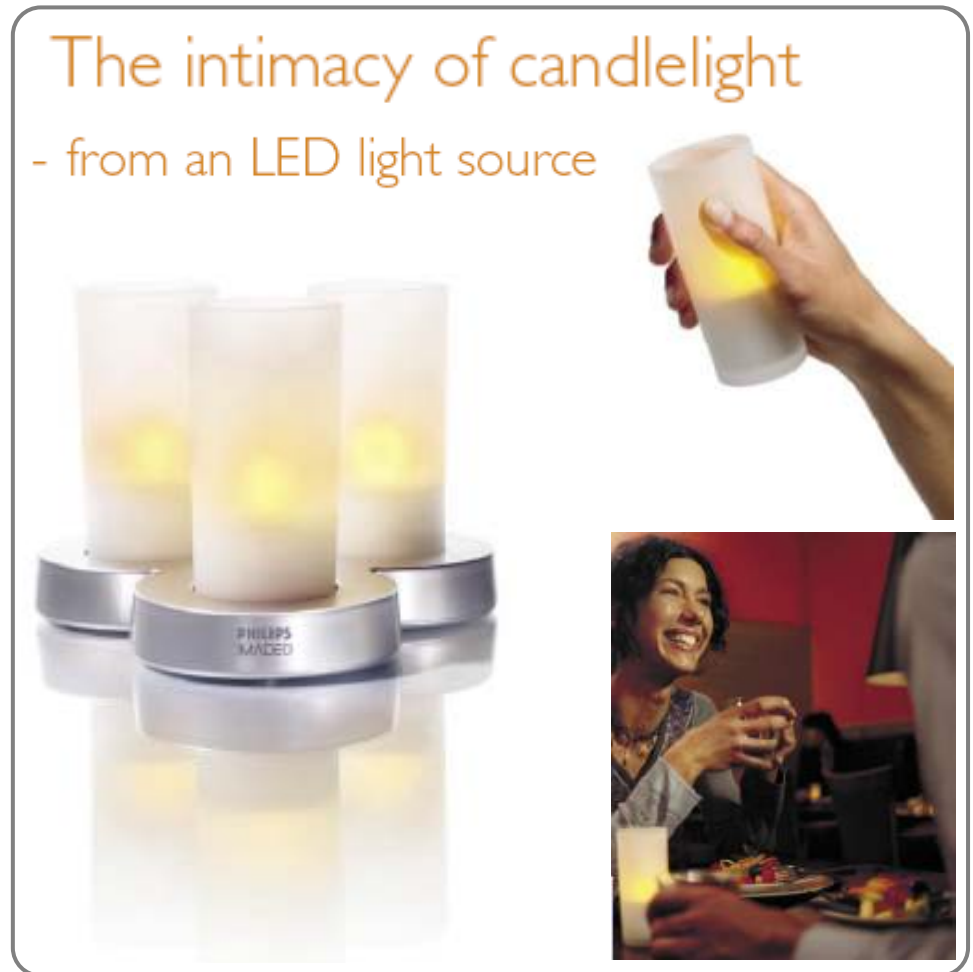
# Marketing Excellence: building the Brand

**PHILIPS**

**sense and simplicity**

# Sense & Simplicity: Philips IMAGEO

- Candle-like ambience without flames
- Last for more than 24 hours, before recharging
- Rechargeable without taking the LED out of the glass
- Switch on/off by tilting the glass



## Sense & Simplicity: Philips IMAGEO

The intimacy of real candle-light, but more colorful

- Real candle with battery operated LED inside
- Long lasting: 100 hours

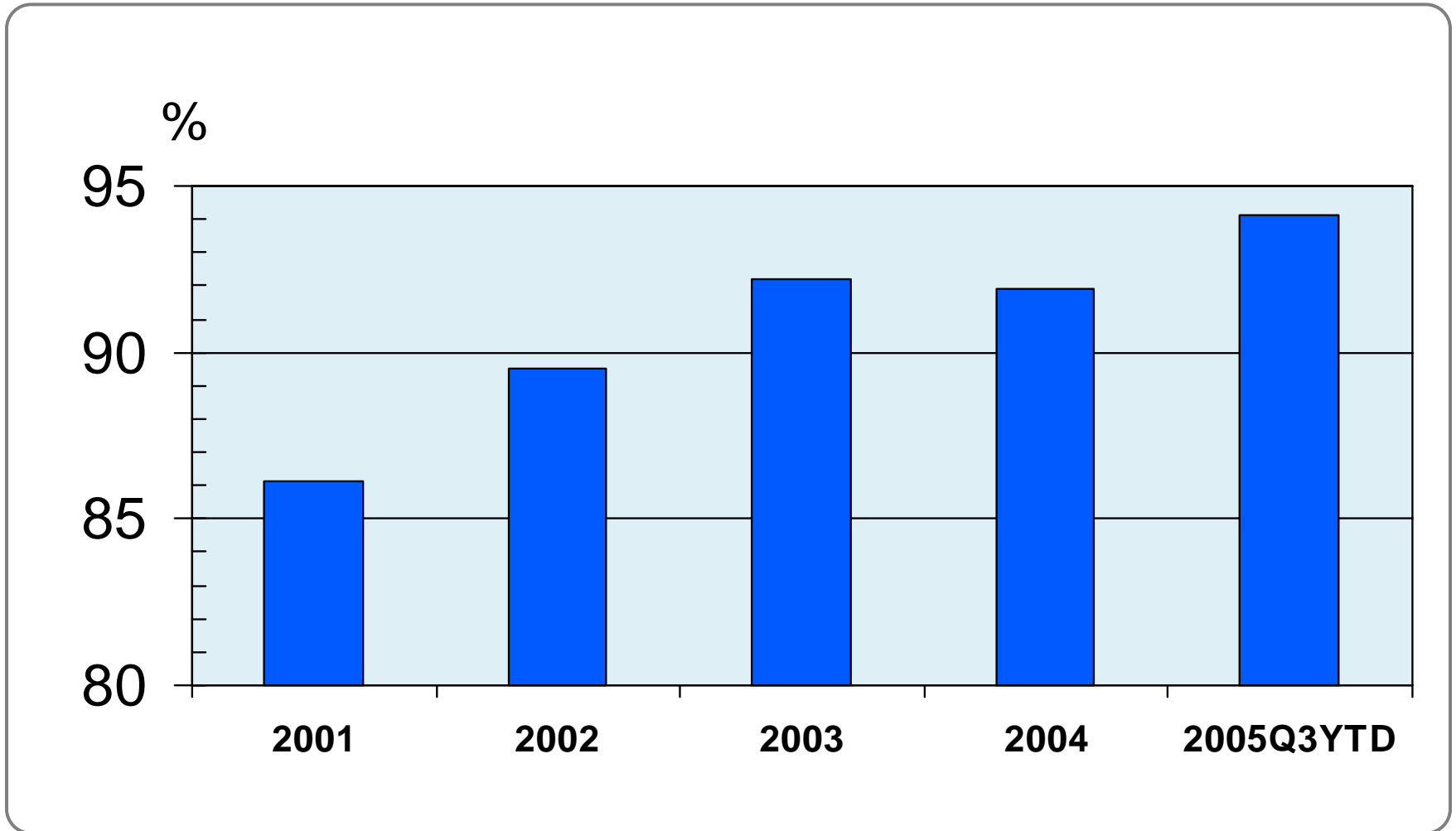


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# Supply excellence: delivery reliability

## Total Philips Lighting

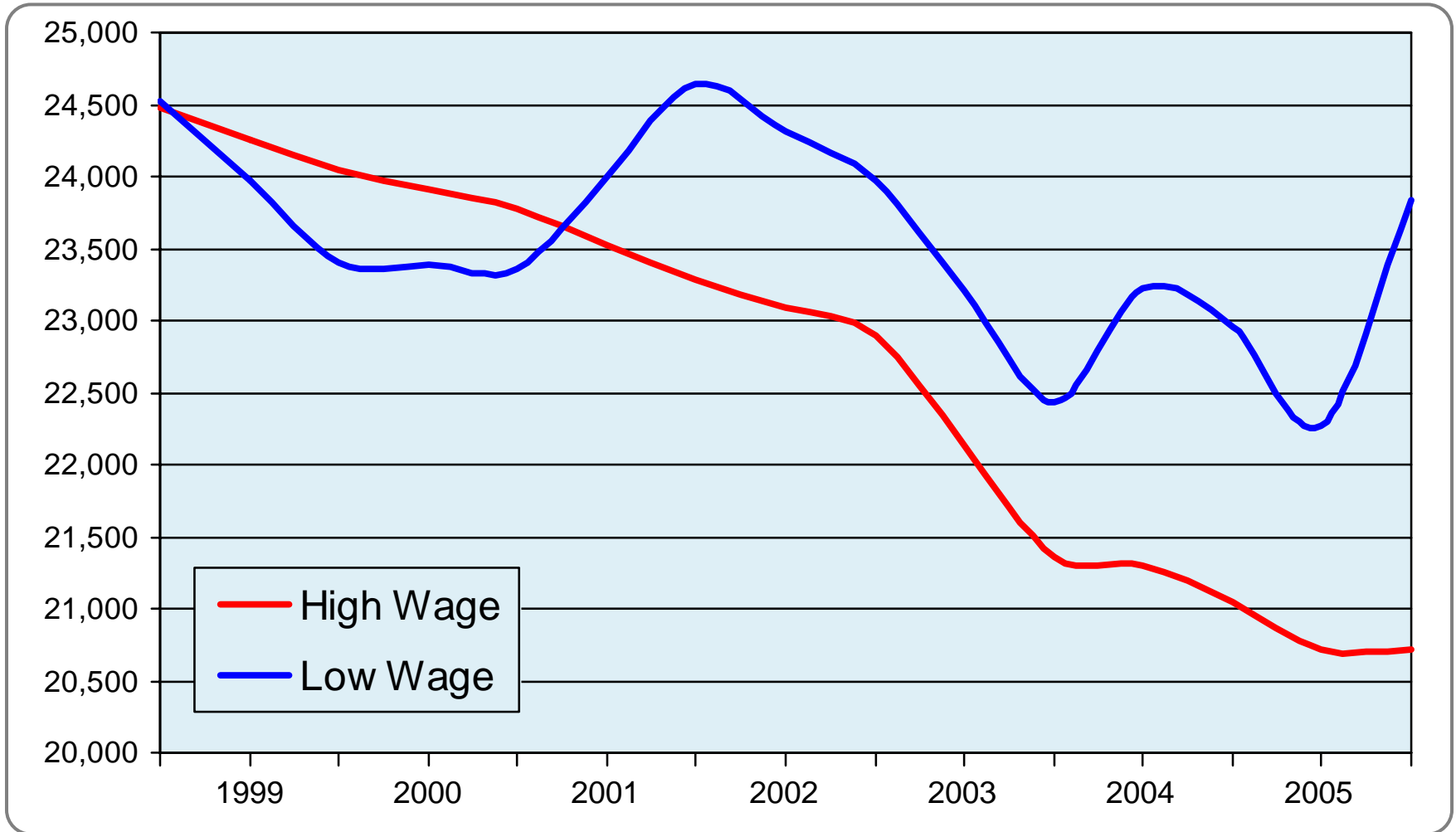


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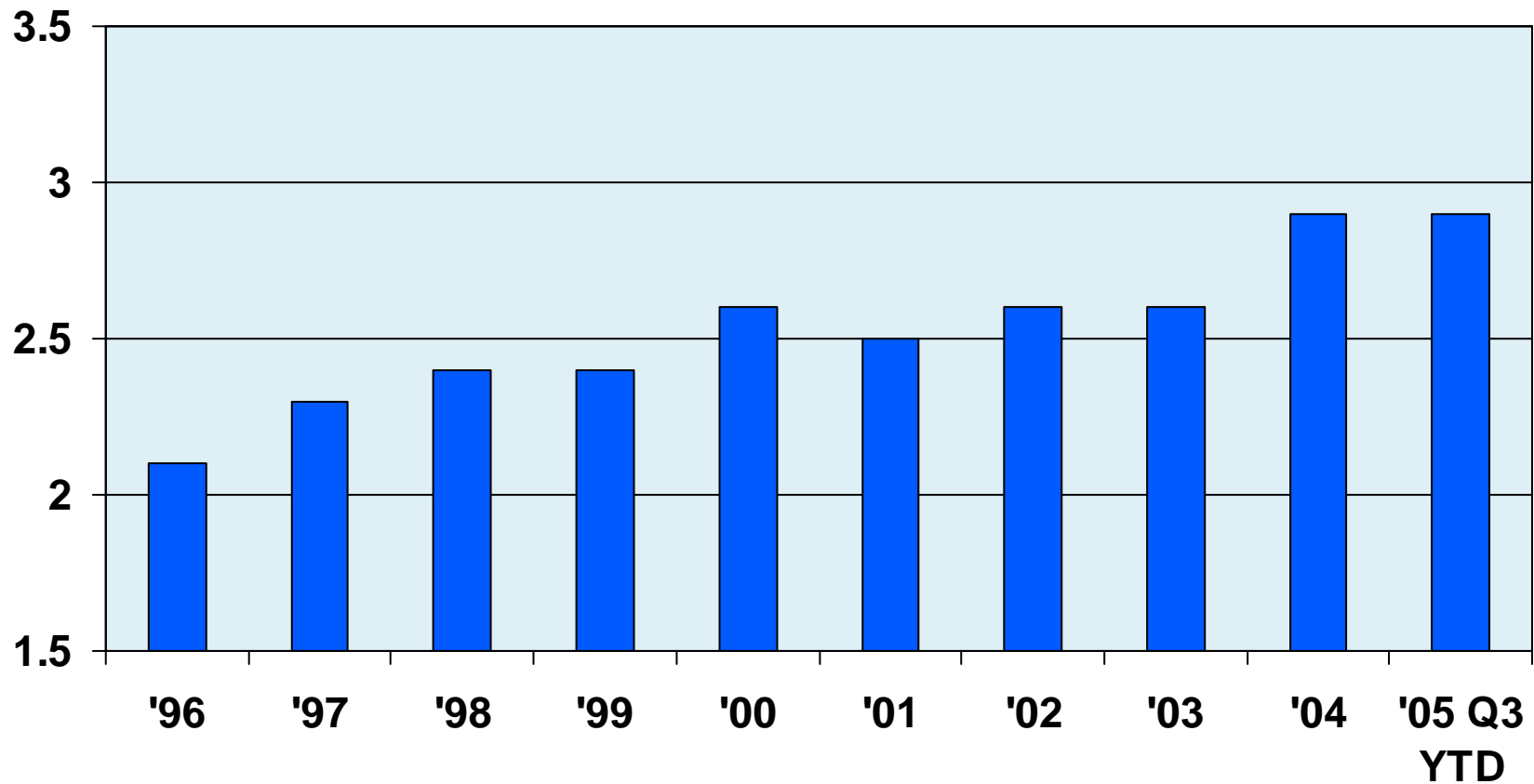
# On-Going Industrial Transformation

## High Wage / Low Wage personnel



# Net Operating Capital turns

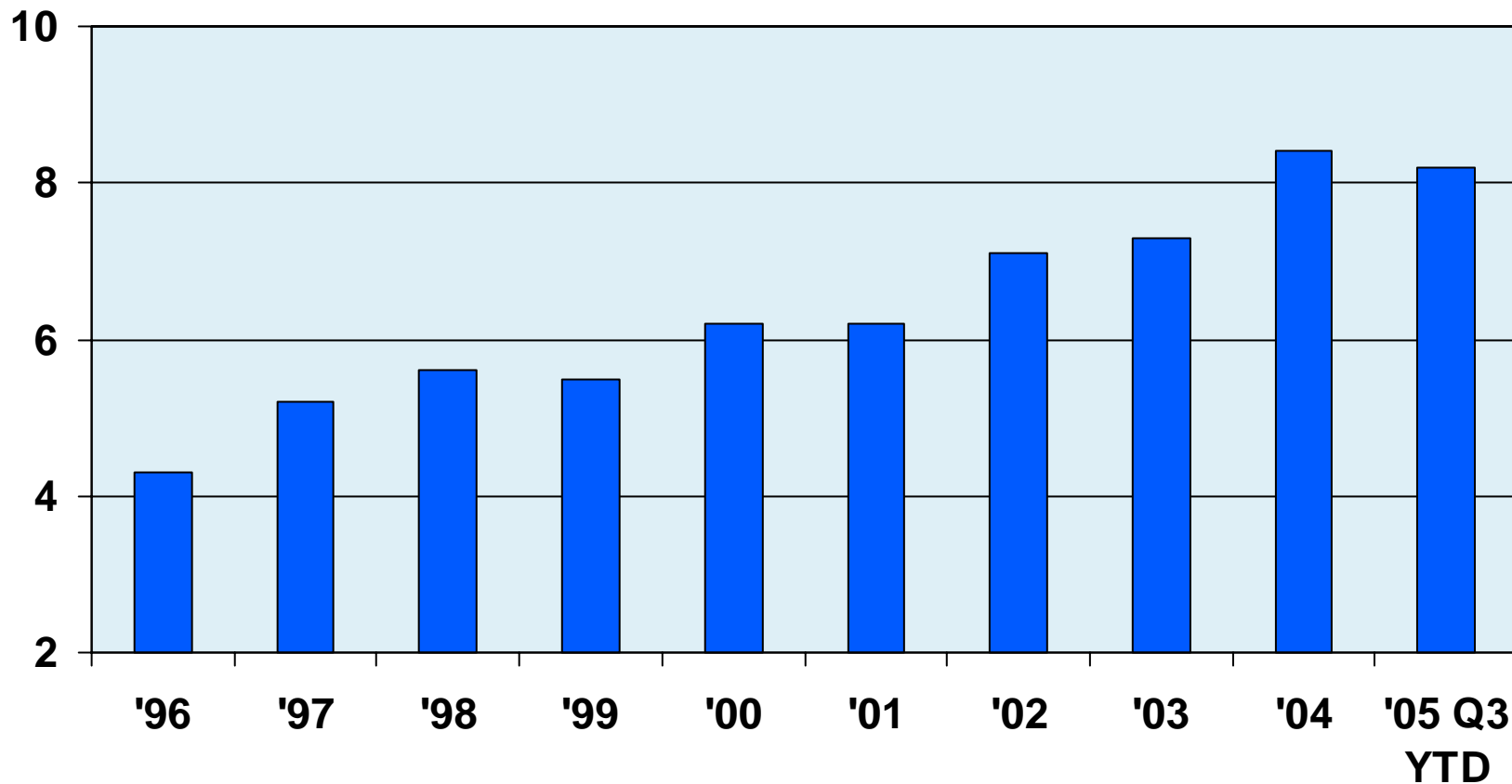
## Continuous improvement





# Working Capital turns

## Continuous improvement



## Continuous Improvement: BEST in Philips Lighting

All metrics show ample room for improvement

- Applying model from European Foundation for Quality Management: from 600 points today towards 700 in coming years
- Business Balanced Scorecards: focus on essentials
- Improve business processes
  - Systematic deployment of business targets into concrete action plans on all levels
  - Cycle time reduction
  - Black belts: growing population of process champions
  - Process survey tools: from 5 towards 7 level
- Quality improvement competition: 40 % participation of all employees

