

# PHILIPS

Lighting:  
Building on Strength - Thinking the Future

**Theo van Deursen**  
CEO Philips Lighting

November 23, 2004

# Agenda

- Mission, Vision & Strategy
- We improve people's lives
- Building on Strength - securing financial results
- Thinking the Future - profitable growth
- Conclusion

## Philips Lighting: Mission statement

### We understand people

Light is a visible form of energy

It pushes back the night

Welcomes the weary

Protects those you love

Banishes monsters from under beds

Makes eyes sparkle



.....and improve their lives with lighting

## Philips Lighting: Vision statement

To be recognized by all our stakeholders as

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

- the best partner to do business with
- the best company to work for
- the best company to invest in
- a responsible citizen contributing to the sustainability of society at large



# Lighting Strategy Overview

## Ambition

### Profitable Growth:

- In developing markets
- With leading global customers
- In existing markets
- In new segments

Recognized by our stakeholders as

### “The Clear Leader:

Setting the pace in the industry”

## Key Business Drivers

- End user driven Innovation
- Marketing Excellence
- Supply Excellence
- Committed and competent people, living our values

### On the basis of:

- A learning organization (Continuous improvement)
- Control of costs and assets

## Strategic Challenges

### Building on Strength:

- China
- Key Account Management
- Business to Business

### Think the Future:

- Consumer Electr. Applications
- Solid State Lighting

# Agenda

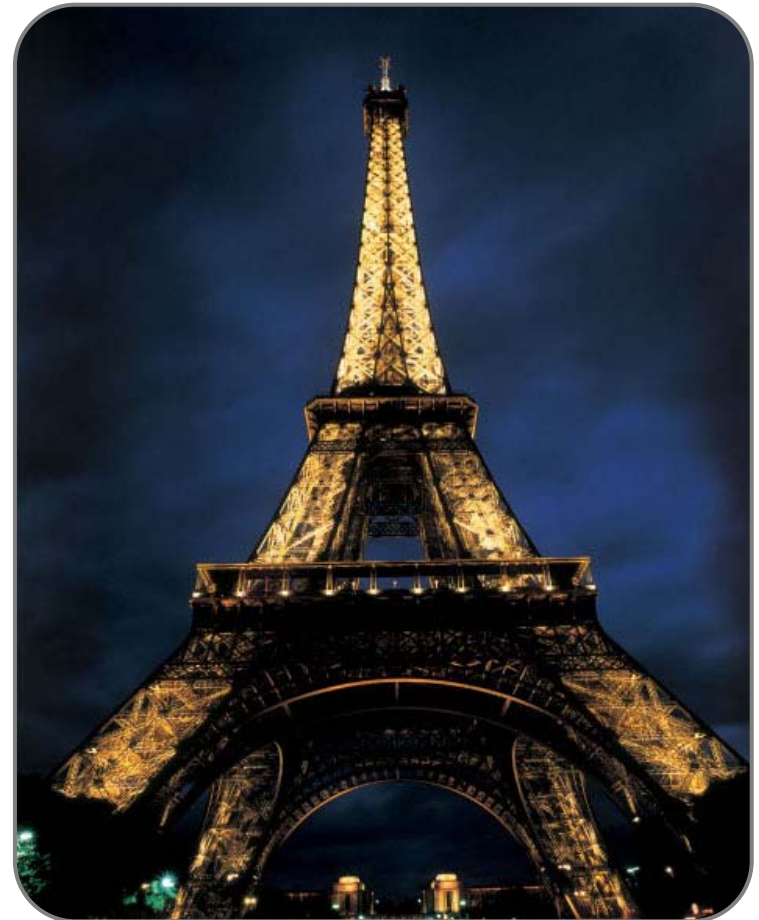
- Mission, Vision & Strategy
- We improve people's lives
  - Marketing Excellence: Brand foundation
  - End user driven innovation
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## Philips Lighting: Sense and simplicity

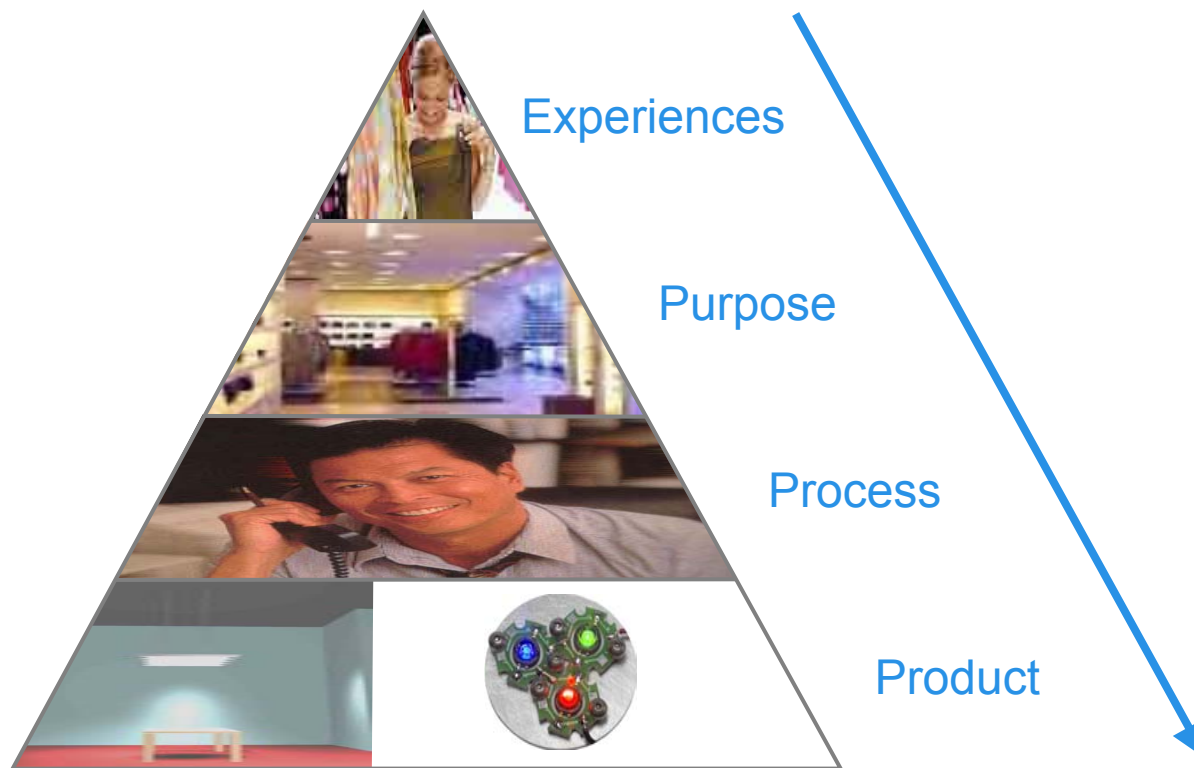
Upgrade light-system

without interruption  
of the light effect

and save 30% energy



# Designed around you: End User Driven Innovation





# Easy to Experience: 2 in 1 Nightlight

Unique combination of energy saver and LED

One click: night light

Two clicks: normal light



# Advanced: Based on Leading edge R&D

Even experimenting in non-gravity environments



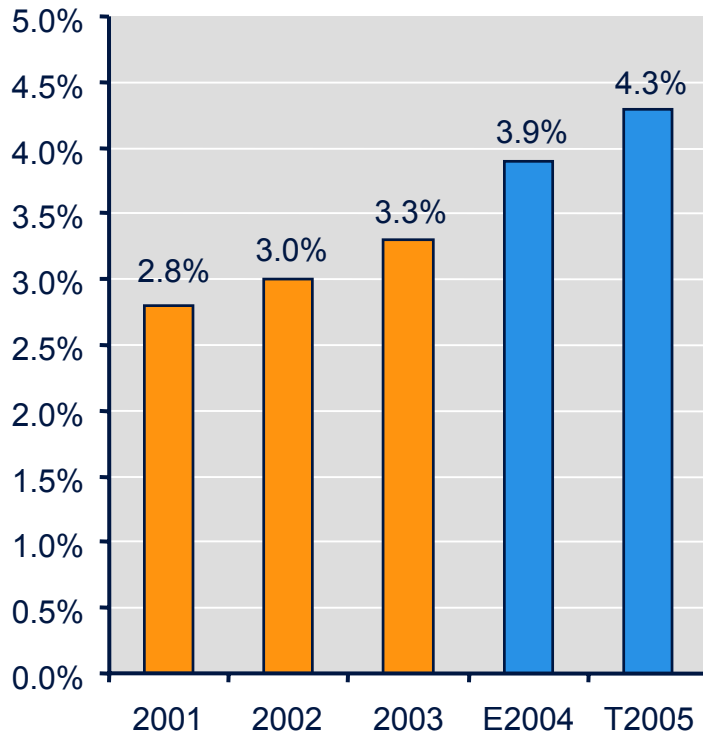
**International Space Station (April 2004):**  
to improve High Intensity Discharge Lamps  
together with Technical University  
Eindhoven



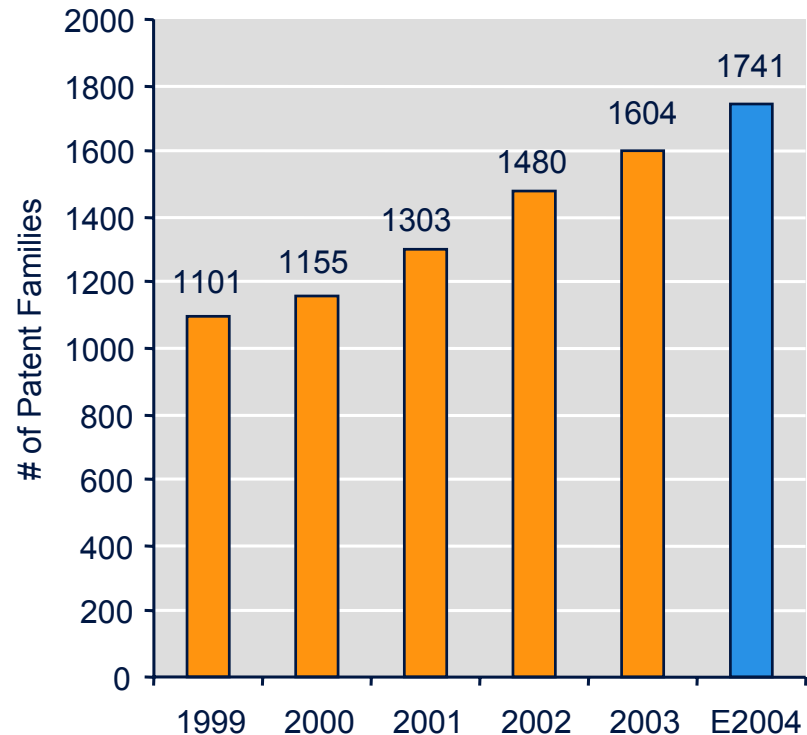
Parabolic flights to test  
filament of halogen bulb

# Development R&D % and Size Patent Portfolio

**Increasing R&D effort**



**Patent Portfolio Increase  
1999 – 2004: 58%**



# Philips Lighting - Recent Innovations

1994	CDM MasterColour (high efficacy and “white light” colour)
1995	Low mercury fluorescent lamp TL5 (narrow diameter fluorescent) Xenon Automotive Head Lamp UHP (Ultra High Power light system for projectors)
1997	Fully recyclable fluorescent lamp
1999	HiPerVision (High performance car signalling lamp)
2001	Luxeon LEDs
2002	Improved and smaller UHP
2003	Night-light (hybrid LED-Compact Fluorescent)
2004	Mini CDM MasterColour (white light mini-spots) LED-modules (building blocks for luminaires) Night-guide car light (more-non-blinding-light, better reflection) Mercury free Xenon Automotive Head Lamp 12 watt Extreme Ultraviolet source (for Lithography)

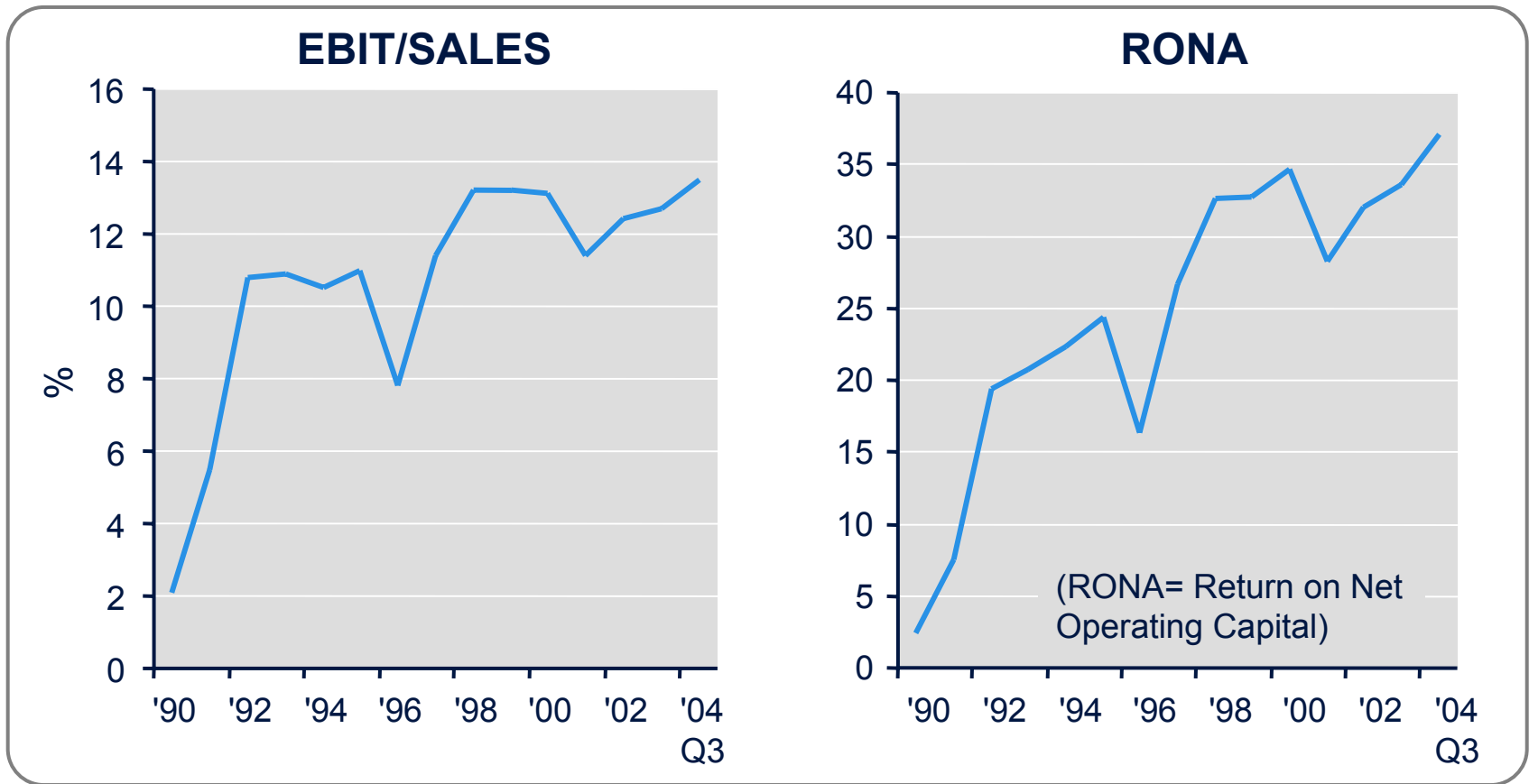
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- Mission, Vision & Strategy
- We improve people's lives
- Building on Strength – securing financial results
  - Financial results
  - China
  - Key account management
  - Business to Business
  - Supply excellence
- Thinking the Future - profitable growth
- Conclusion

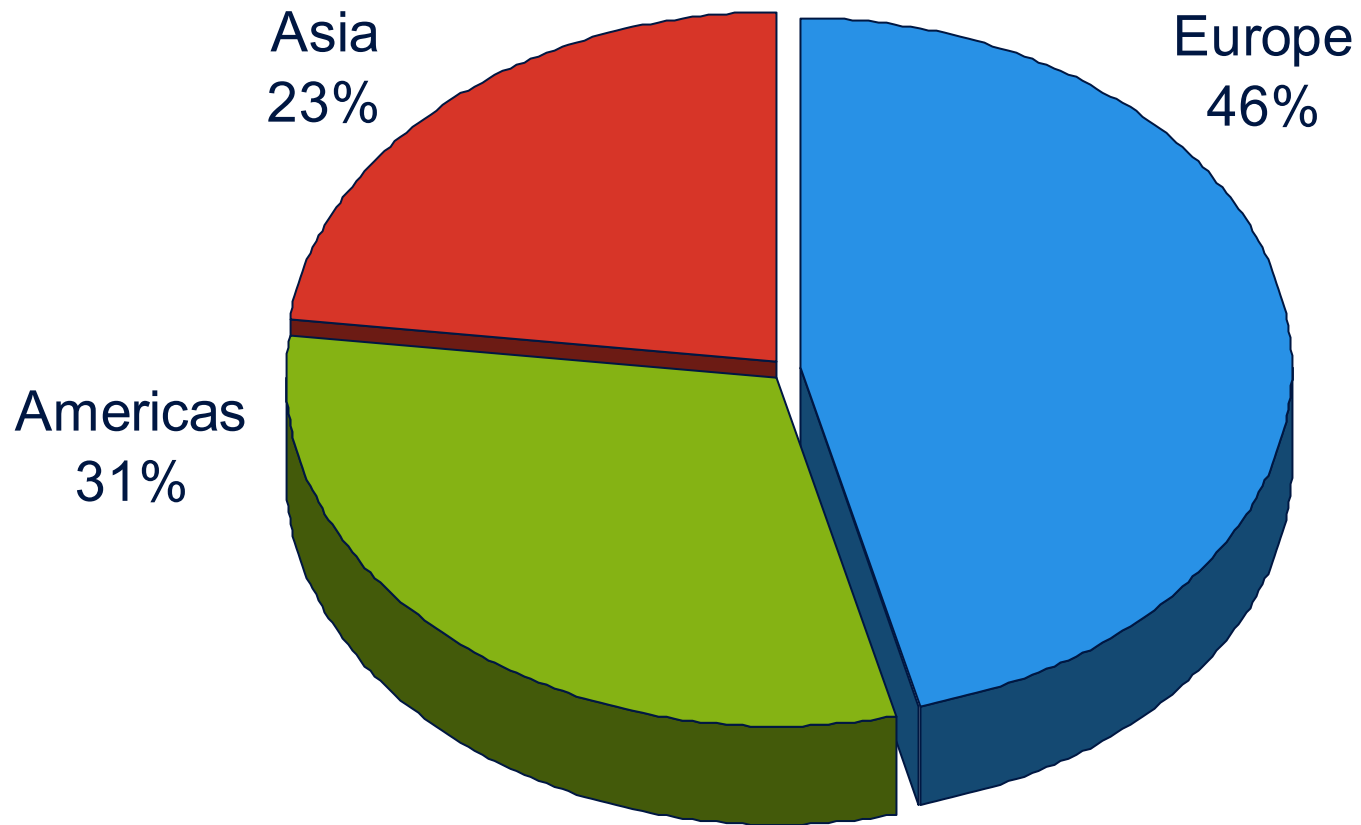
# Philips Lighting

	2003	Q1-Q3 2004
Revenues:	EUR 4.5 billion	5% comparable growth
EBIT:	EUR 577 million, or 12.8% of sales	13.5%
Net operating capital (NOC):	EUR 1.5 billion	
Return on NOC	34%	37%
Employees:	43,800	
Capital expenditure:	EUR 164 million	

# Philips Lighting: EBIT margin and RONA

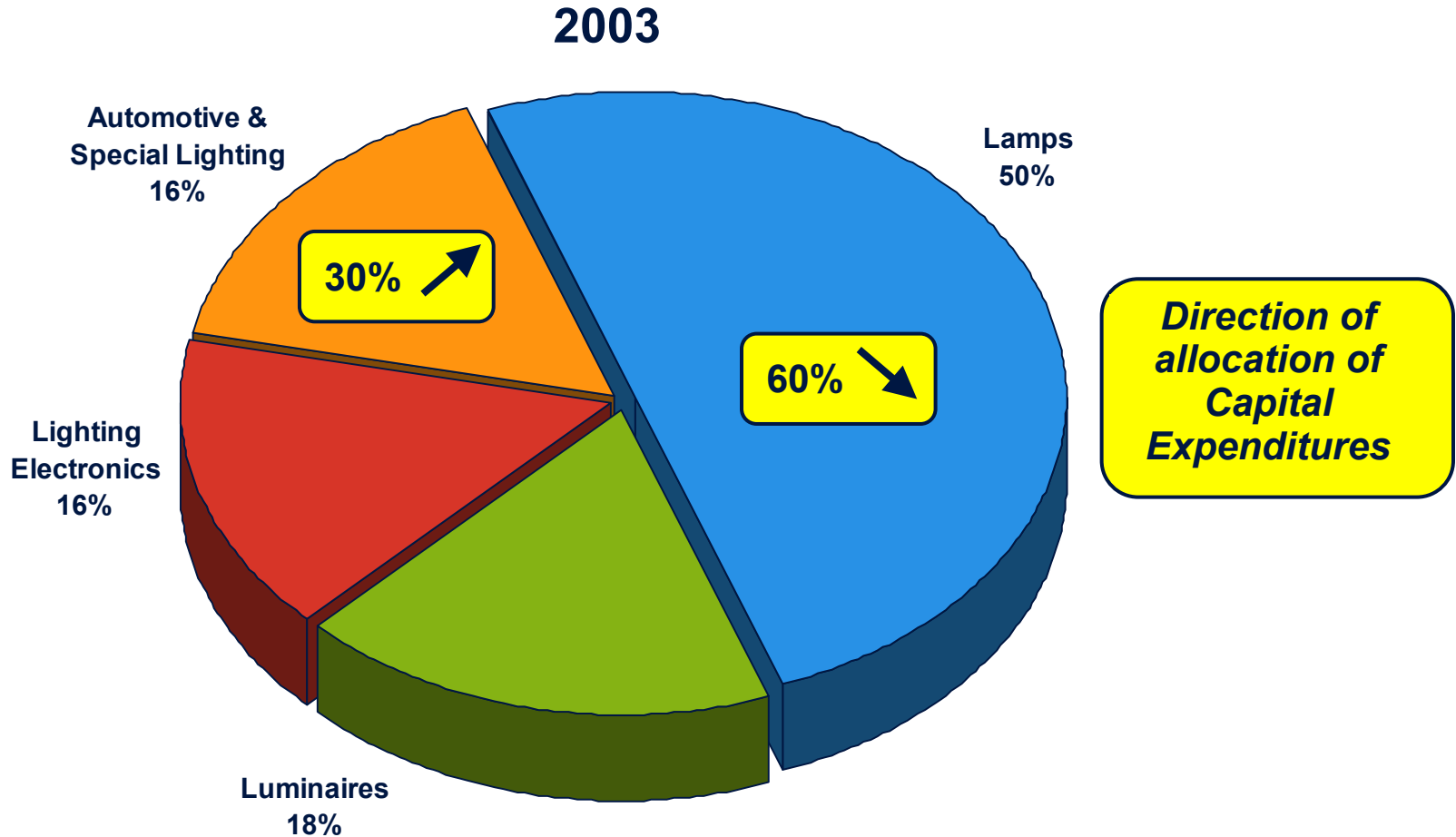


# Philips Lighting 2003 Sales by Region





# Philips Lighting – Sales per Business Group



**Total Sales to thirds: EUR 4.5 billion**

# 2003 Market Position

Philips position



Size of market  
as % of world



# PD Lighting

Comparable sales growth in Emerging markets

	2004 vs. 2003 (Q1-Q3) Comparable growth	Lamps Market share 2003
Brazil	5%	32%
C & E Europe	12%	27%
China	8%	14%
India	13%	36%

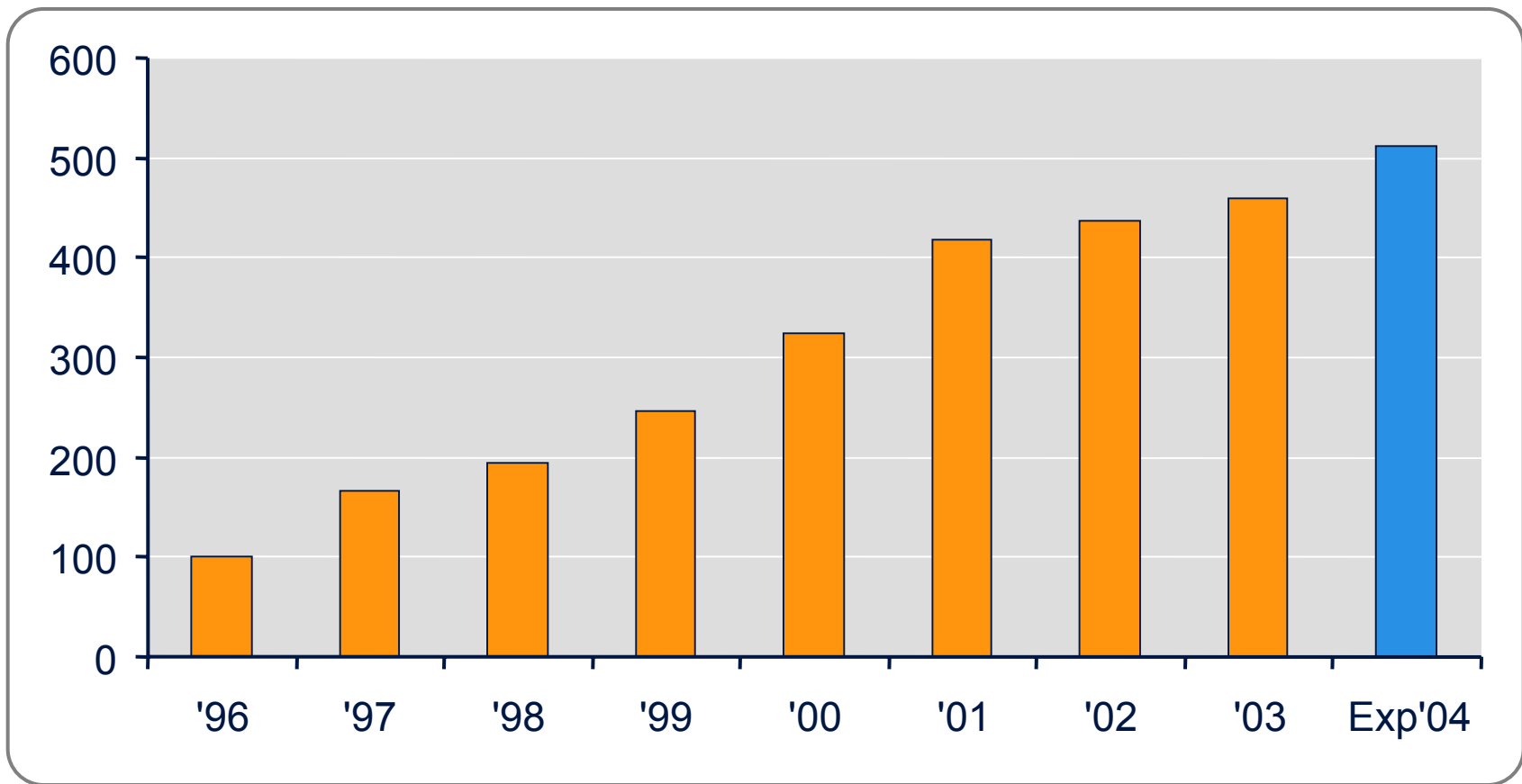
# China: a fast expanding market



- Large market potential
- Philips #1 player in China
- We create and extend distribution
  - with 100+ preferred partners
  - Internet enabled: supplies, inventories, cash
- We extend into Mid-end of the market with dedicated products
- Track record of profitability

# Continuous profitable sales growth in China

Total Lighting  
Index based on USD



## China: a vast supply base

- Access to vast supply base via fast growing China Sourcing Group (From USD 100 mln in 2004 to over USD 600 mln in 2007)
- Business Groups have 8 factories

**our leading edge assembly  
of UHP projection systems**



## China: Increasingly innovative

- Increasing local innovation resources:  
from 110 engineers in 2003 to 250 in 2007
- Today: Shanghai Global Competence center  
for Compact Fluorescent



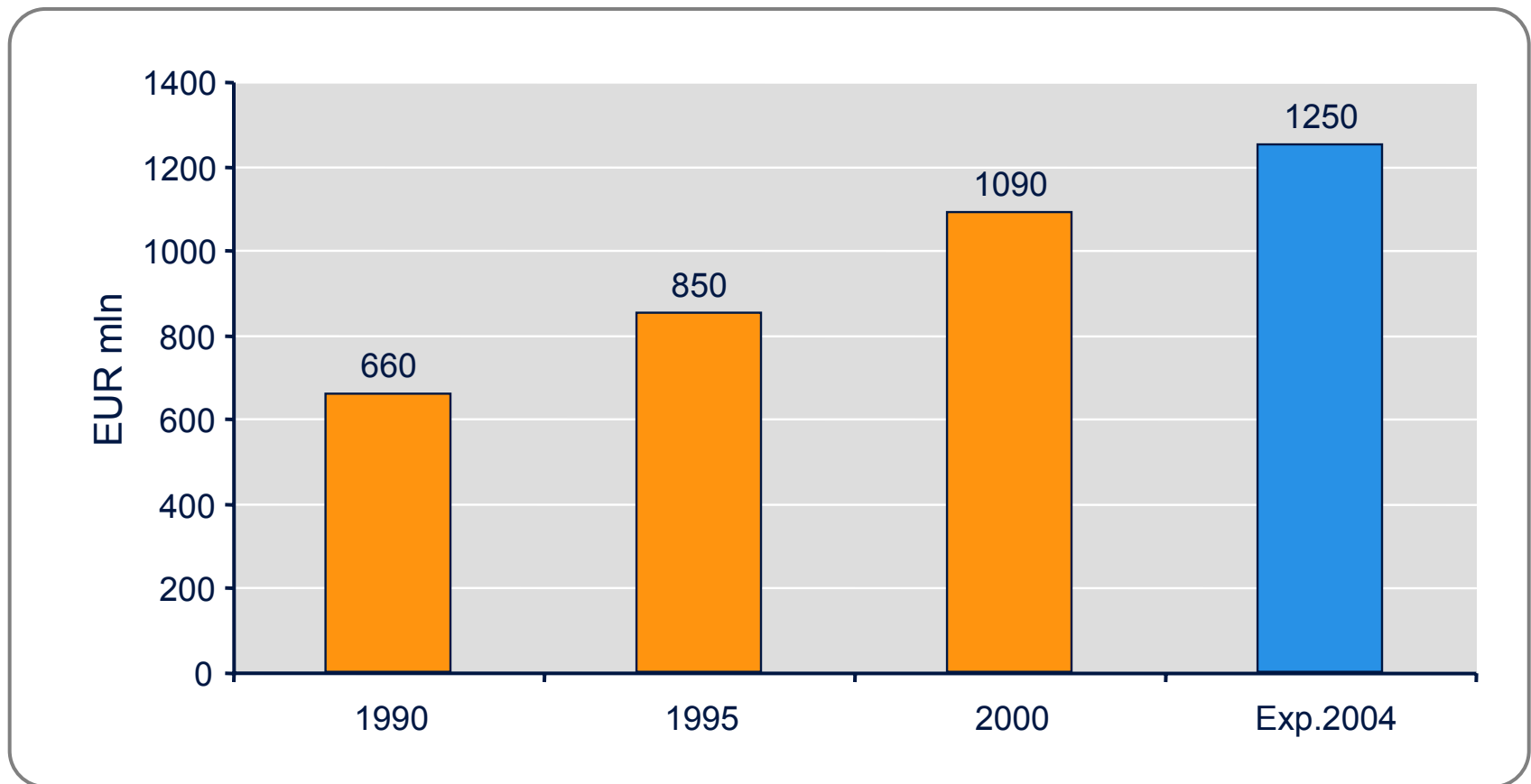


# Growth partnerships with leading (global) Key Accounts





# International Key Account Management drives sales top Key Accounts Philips Lighting

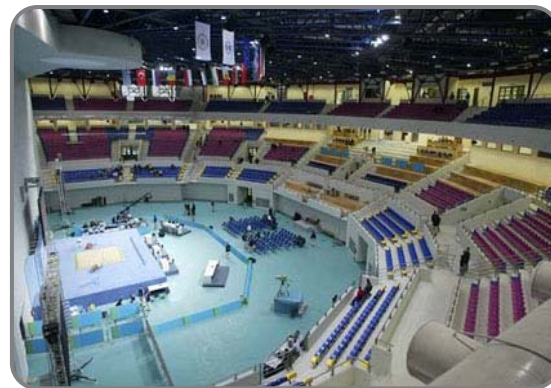


# Strength in Business to Business: Olympic Games 2004 Athens

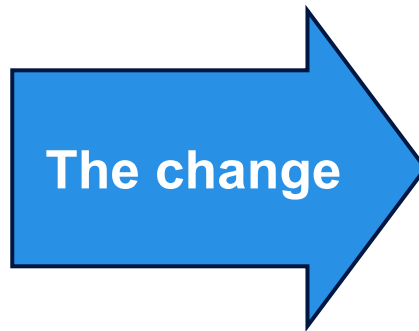
28 out of 33 venues (85%) with Philips Lighting

## Partnering with:

- Government & Municipality
- Olympic Committee
- TV Broadcasters
- International Sport Federations



# Strength in Business to Business: Philips market leader with MasterColour CDM

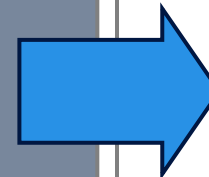


Today 5% penetration in shops

**Miniaturization:**

Lead to increasing # of light points

Resulting in acceleration of growth:  
10% pa in value

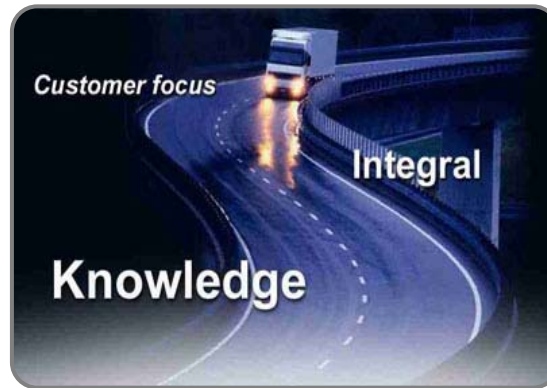


**Mini-Master Colour**



# Supply Excellence

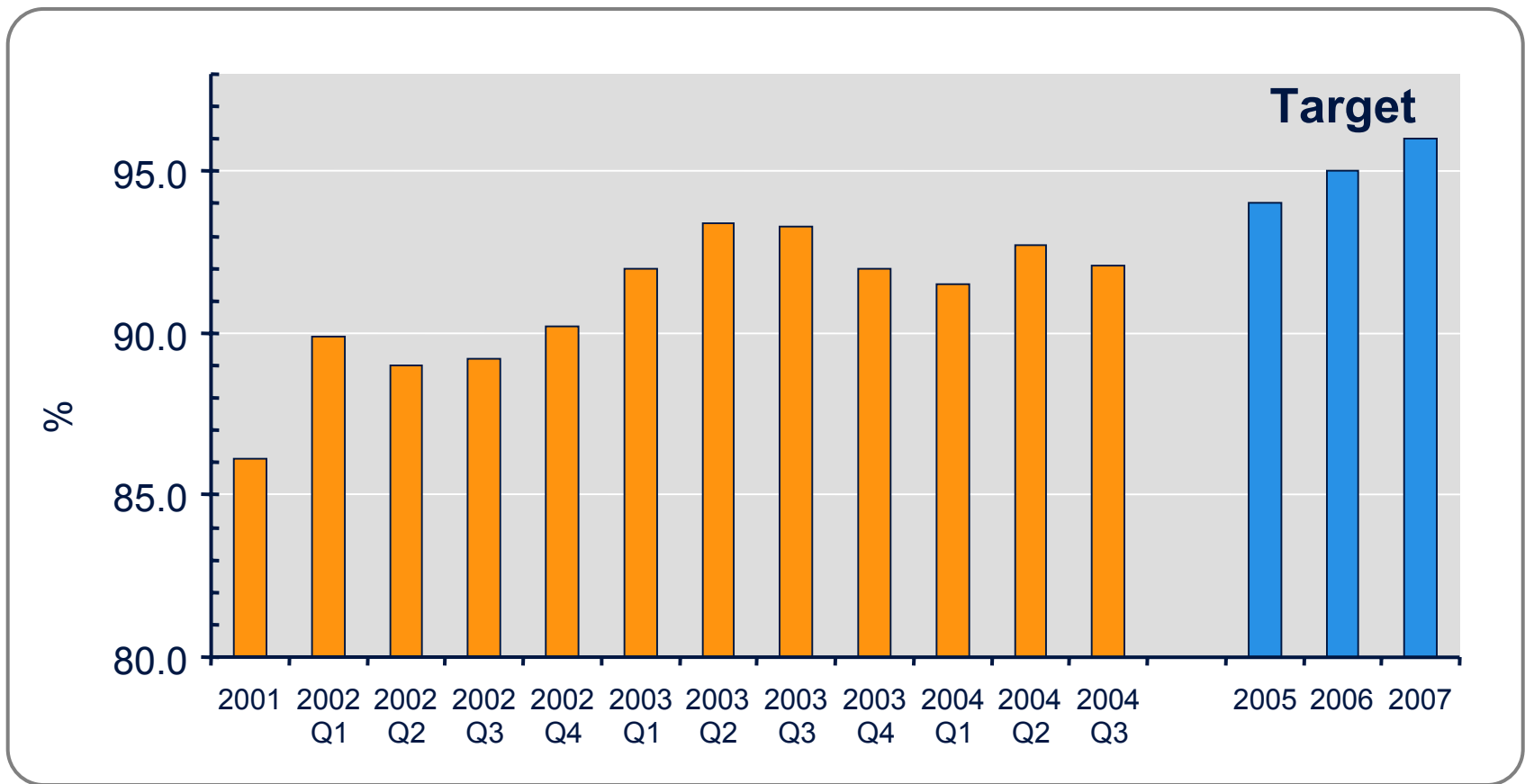
- Impeccable quality:
  - Towards “0” ppm level
- Integrated demand and supply planning
  - suppliers → customers
- High delivery reliability - Quick response



# Supply Excellence

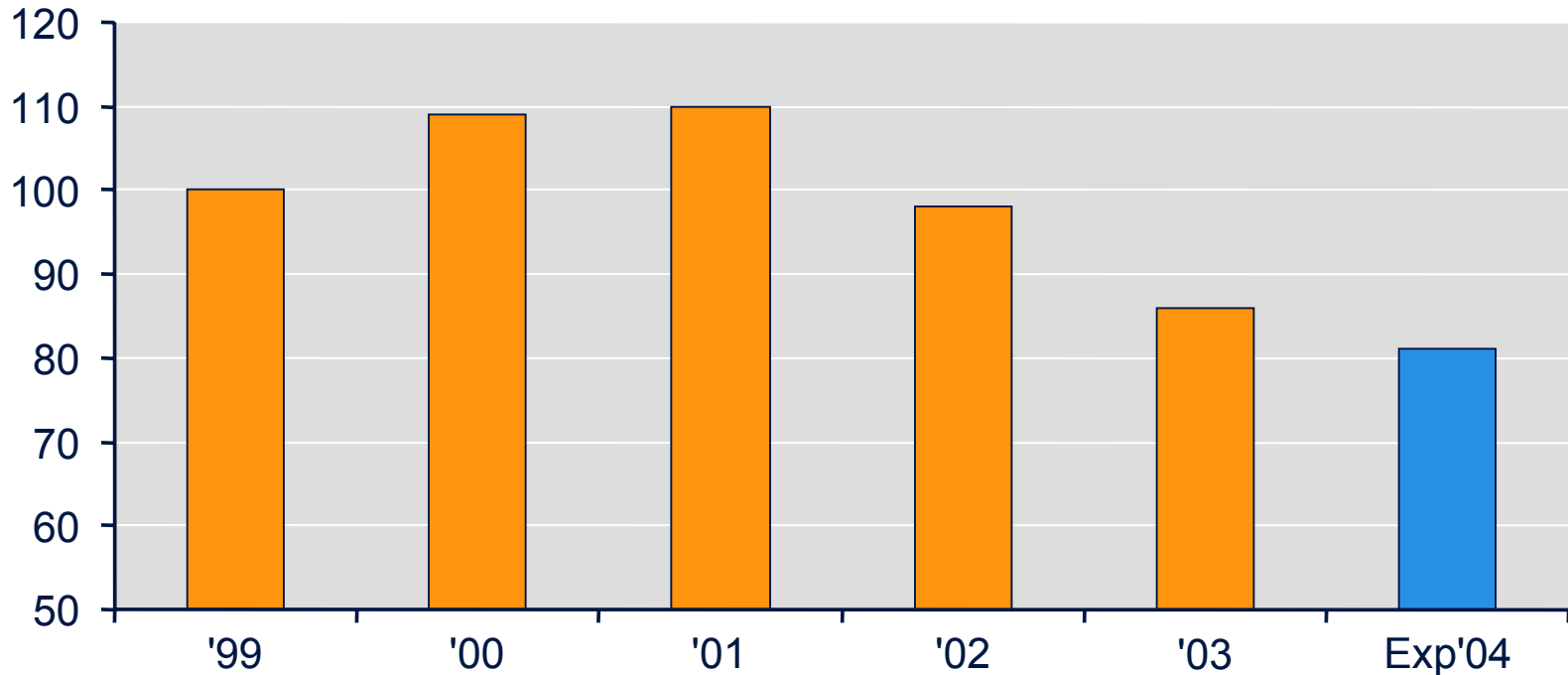
Delivery Reliability: complete & on time

Lighting Total



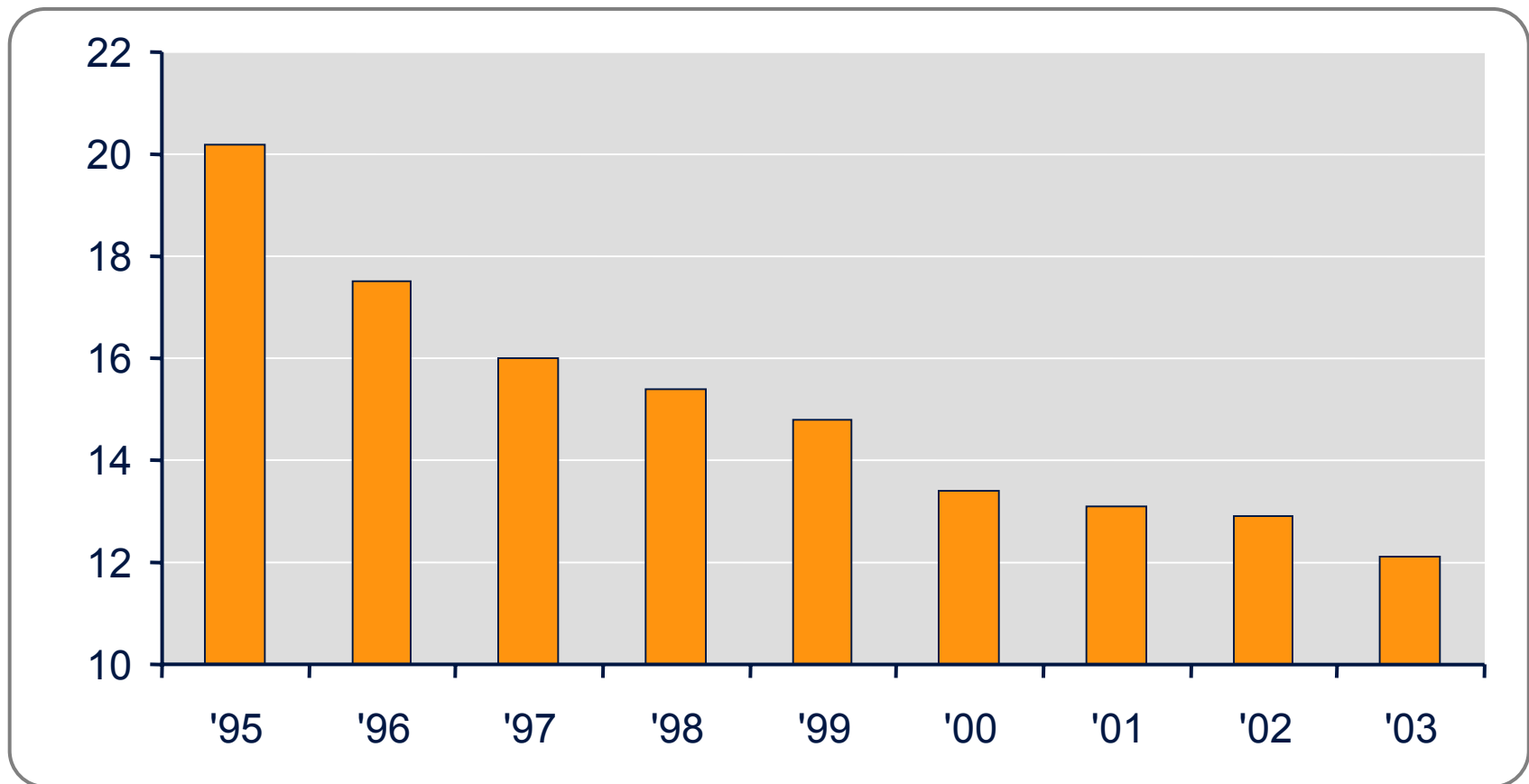
# Lighting IT Costs: ERP systems installed

Index based on EUR mln



**Further investment in IT to include supplier and customer in supply chain management, and to support account management and global R&D**

# Continuing Inventory Reduction as % of Sales

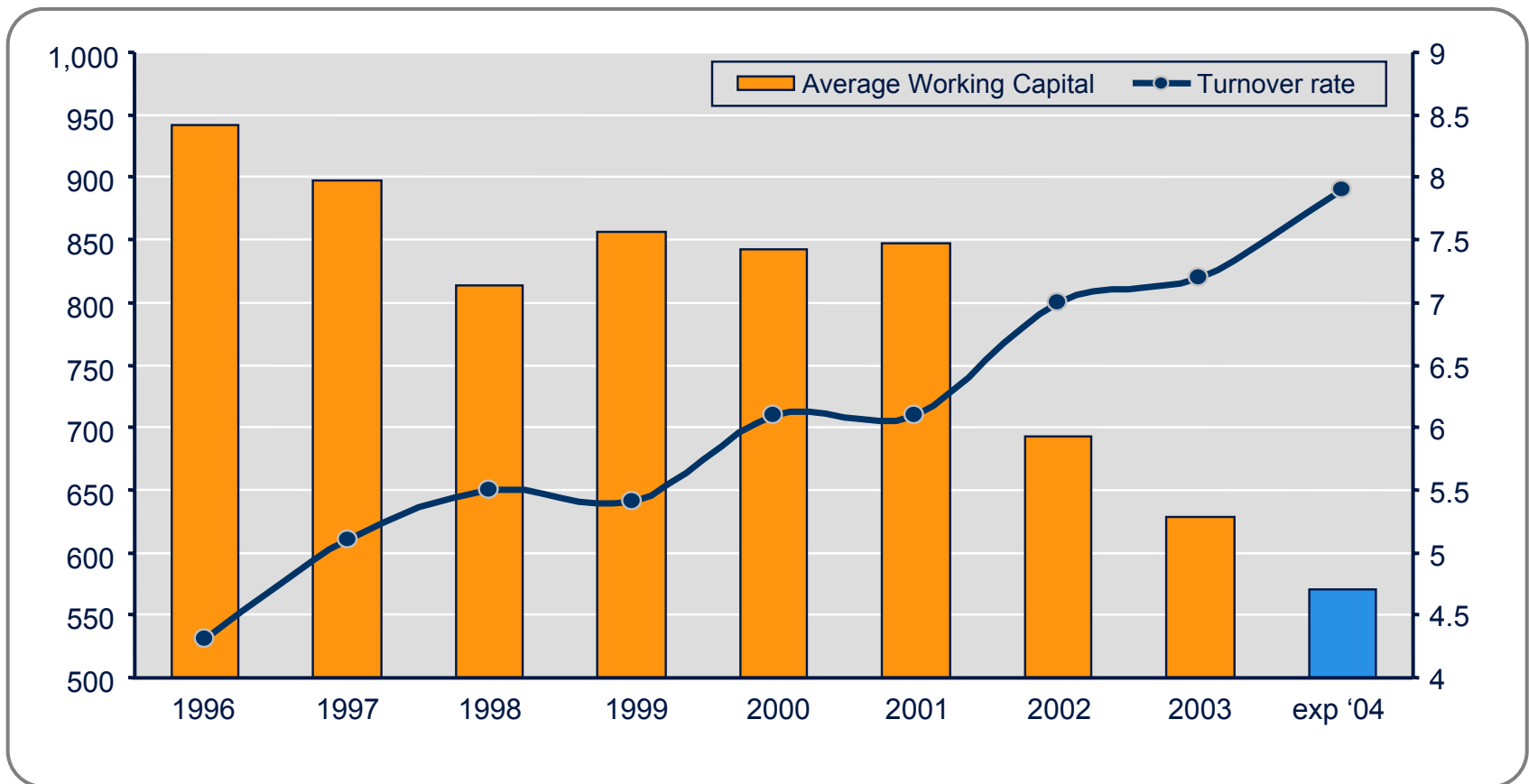


# PD Lighting

## Working Capital 1996 - 2004

in mln EUR

Turnover rate





# Continuous Improvement: Business Excellence in Philips Lighting

## All metrics show ample room for improvement

- Applying model from **E**uropean **F**oundation for **Q**uality **M**anagement we measure our progress: from 600 points today towards 700 in next two years
- Business Balanced Scorecards: focus on essentials
- Improve Business processes through:
  - Systematic deployment of breakthrough plans
  - Black Belts – Green Belts
  - Process Survey Tools
- Quality Improvement Competition: from 30 towards 40 % participation

# Conclusion

## **We improve people's lives**

- Marketing Excellence: Brand foundation
- End user driven innovation

## **Building on strength – securing financial results**

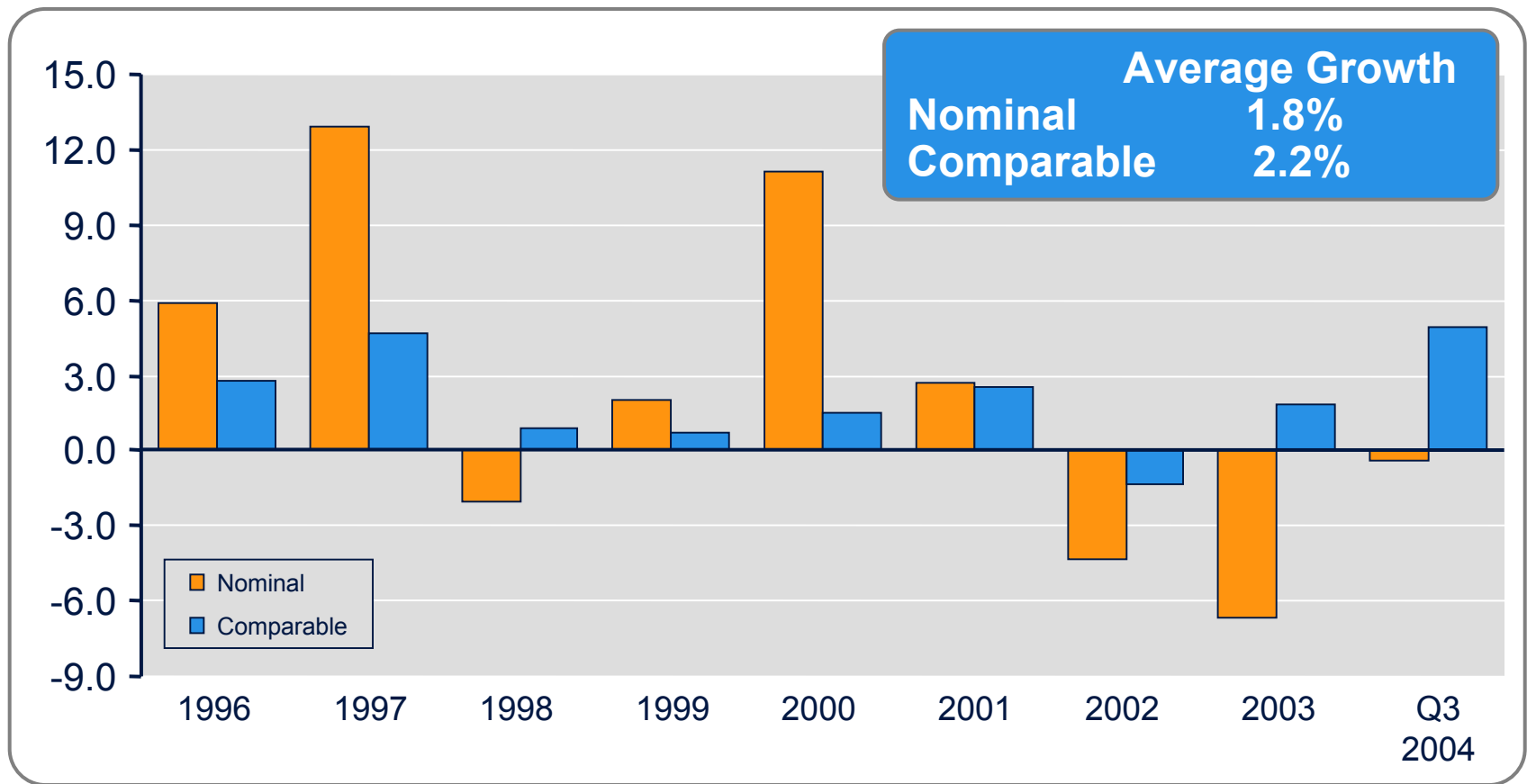
- China
- Key account management
- Business to Business
- Supply excellence

## **Room for improvement**

- In all our business processes
- In Margin and NOC turns
- But especially in accelerating profitable growth

# We will accelerate profitable growth, breaking away from historic pattern

Philips Lighting Sales growth %



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  - Automotive, Special Lighting & UHP
  - Solid State Lighting
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