PHILIPS
sense and simplicity

Philips Lighting
Lighting Strategy

Rudy Provoost
CEO of Philips Lighting
Agenda

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

**Philips Healthcare**

**Philips Lighting**

**Philips Cons. Lifestyle**

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

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**Vision:**
We lead by setting the pace of the lighting industry

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<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (€ B)</th>
<th>Comp. growth</th>
<th>EBITA (€ M)</th>
<th>as % of sales</th>
<th>Headcount</th>
<th>R&amp;D %</th>
<th>NOC (€ B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>6.1</td>
<td>6%</td>
<td>722</td>
<td>11.9%</td>
<td>54,323</td>
<td>4.5%</td>
<td>3.9</td>
</tr>
</tbody>
</table>
Philips Lighting - key acquisitions

Over time

<table>
<thead>
<tr>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>788</td>
<td>39</td>
<td>7</td>
<td>1805</td>
</tr>
<tr>
<td>Lumileds</td>
<td>Bodine</td>
<td>Photonics</td>
<td>TIR</td>
</tr>
<tr>
<td>561</td>
<td>55</td>
<td>515</td>
<td>3.8 B</td>
</tr>
<tr>
<td>PLI</td>
<td>TIR</td>
<td>CK</td>
<td>LTI</td>
</tr>
<tr>
<td>Genlyte</td>
<td>Total</td>
<td>Acquisitions</td>
<td>in EUR millions</td>
</tr>
</tbody>
</table>

Over value chain

**SSL Sources & Modules**
- Lumileds

**Electronics & Controls**
- Bodine
- TIR Systems

**Systems & Luminaires**
- Genlyte
- Color Kinetics
- Partners in Lighting
- LTI
Philips Lighting – balanced portfolio

**Business structure***

- Lamps: 36%
- Consumer Luminaires: 31%
- Professional Luminaires: 12%
- Automotive & Spec. Lighting Applications: 11%
- Lighting Electronics: 6%
- LED components: 4%

**Market segmentation**

- Homes: 22%
- Offices: 19%
- Industry: 19%
- Shops: 15%
- Outdoor: 15%
- Hospitality: 13%
- Transport: 13%
- Other: 6%

**Geographic distribution***

- West Europe: 35%
- North America: 29%
- Key Emerging: 17%
- Other Emerging: 15%
- Other Mature: 4%

49% Applications
51% Components, Light sources

5 key segments cover 82% of our market

32% of Philips Lighting sales from emerging markets

*) 2008
**) as if Genlyte would be consolidated, 2007
# Philips Lighting – global leadership

![Diagram showing Philips Lighting's global leadership in various categories.](image)

<table>
<thead>
<tr>
<th>Category</th>
<th>Europe</th>
<th>N. America</th>
<th>L. America</th>
<th>Japan</th>
<th>Asia/Pacific</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>LED Components</td>
<td>![Yellow]</td>
<td>![Yellow]</td>
<td>![Yellow]</td>
<td>![Yellow]</td>
<td>![Yellow]</td>
<td>![Yellow]</td>
</tr>
</tbody>
</table>

- **Green** indicates number 1
- **Yellow** indicates number 2 or 3
- **Red** indicates not in top 3
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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    – Growth engines
    – Segment leadership
    – Brand franchise
    – Business models
    – Intellectual property
• Summary
• Q&A
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
Lighting market – full spectrum of measures

Best practices and new ways of working

Adequate strategies to deal with the Lighting industry dynamics

- Mix management
- Cost productivity and efficiency
- Purchasing effectiveness
- Supply chain optimization
- Channel diversification
- Acquisition pipeline

Effective execution of Philips Lighting initiatives

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

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

Transaction Pricing | Project Pricing | Trade Pricing

Components | Light Sources | Applications

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

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%
Agenda

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• Market perspective

**Strategic value drivers**
  – Growth engines
    • Acquisitions
    • Green value propositions
    • Innovative solutions
    • LED/SSL revolution
    • Emerging markets
  – Segment leadership
  – Brand franchise
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Strategic value drivers – a winning formula

Growth Engines
- Acquisitions
- Green value propositions
- Innovative solutions
- LED/SSL revolution
- Emerging markets
Acquisitions – a strong backbone for the future
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
Green value propositions – planned phase-out of incandescent with systematic footprint rationalization

**Phase-out of incandescent lamps park**

<table>
<thead>
<tr>
<th>Year</th>
<th>CFL-I</th>
<th>Other lamps</th>
<th>Incandescent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td></td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>2001</td>
<td></td>
<td></td>
<td>90%</td>
</tr>
<tr>
<td>2002</td>
<td></td>
<td></td>
<td>80%</td>
</tr>
<tr>
<td>2003</td>
<td></td>
<td></td>
<td>70%</td>
</tr>
<tr>
<td>2004</td>
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<td>40%</td>
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<td>2007</td>
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<td>30%</td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td></td>
<td>20%</td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td></td>
<td>10%</td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td></td>
<td>0%</td>
</tr>
</tbody>
</table>

* 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.

- **Installed base:**
  - CFL-I
  - Other lamps
  - Incandescent

- **Lamps park:**
  - CFL-I
  - Other lamps
  - Incandescent

- **World Map:**
  - Red circles = rescaled
Green value propositions – enhanced energy savings through system approach and renovation focus

Office energy consumption

- Water heating: 5%
- Heating/cooling/hvac: 26%
- Other uses: 17%
- Refrigeration: 4%
- Cooking: 1%
- Lighting: 39%

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

- 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

- Level 1
- Level 2/3
- Level 4
- Level 5

Upstream

Drivers, controls, modules, engines
Luminaires, systems
Projects, solutions

Downstream

Light sources

Distribution of R&D investments

- Emerging
- Growth
- Mature
- Decline

Improved Product
New to Category
New to Lighting
New to World

Innovation type

- Components
- Applications
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**

- **Philips Lighting sales in general illumination**
- Opportunities new to Philips
- SSL substitute and new applications
- Lumileds
- Classic Lighting

**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

*More opportunity than risk*
**PHILIPS**

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

### Professional
- **Outdoor**
  - City Wing

### Consumer
- **Functional**
  - Ledino
- **Scene setting**
  - Living Colors
  - Light + Building
  - ‘FutureInnovations’ Award

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![Outdoor City Wing](image)

![Functional Ledino](image)

![Scene setting Living Colors](image)

![Light + Building ‘FutureInnovations’ Award](image)
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
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Segment leadership – develop professional project business through multi stakeholder partnerships

Segment specific applications

- Shops
- Hospitality
- Industry
- Healthcare
- Entertainment
- Offices
- Road
- Sports
- City Beautification
- Homes

Multiple stakeholders along value chain

- Raw materials/electrical components
- Philips Professional luminaires
- Sales representative
- Wholesaler
- Contractor
- Architect/Designer Specifier
- Building/project owner
Brand franchise – leverage category management and brand equity

**Drive category management**

- Consumer Luminaires

<table>
<thead>
<tr>
<th>Functional</th>
<th>Living</th>
<th>Kitchen</th>
<th>Bath</th>
<th>Bed</th>
<th>Garden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scene Setting</td>
<td>best</td>
<td>better</td>
<td>good</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Capitalize on brand equity**

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

**PES**
Contracts to help energy companies meet CO₂ emission targets

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

**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**
- Cities: Significant € & CO₂ savings
- Install/maintain cpy: revenuestream
- Philips: Added value - green - sales

**Benefits**
- Consumer: € & CO₂ savings
- Utility cpy: growth customer base
- Philips: Added value - green base sales

**Benefits**
- Government/companies; Energy saving, CO₂, cost reduction
- Philips: Added value - green sales
Intellectual property – develop the SSL market through a dedicated IP licensing program

SSL technology platform

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 – value creation @ work

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<tr>
<th>Acquisitions</th>
<th>Green</th>
<th>Innovation</th>
<th>LED’s</th>
<th>Emerging Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price Management</td>
<td>Cost Effectiveness</td>
<td>Asset Productivity</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Growth
- Margin
- Capital Efficiency

Value Creation @Work
Philips Luminaires – in shape for the future

- **Acquisitions**

- **Green Value Propositions**

- **Emerging Markets**

- **Innovative Solutions**

- **LED/SSL Revolution**

- **Philips Luminaires Total Sales 2004-2007**

  - **Year**
  - **Total Sales**

  - **Philips Luminaires**
  - **Genlyte**
  - **CK Modular**
  - **PLI-Homes**

- **CAGR 04-'07** 8%
Philips – Delighting with Lighting

- Clear on strategic direction and intention

Growth Engines
- Acquisitions
- Green value propositions
- Innovative solutions
- LED/SSL revolution
- Emerging markets

- Confident in making the Vision 2010 targets
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