

# PHILIPS

sense and simplicity

## Lighting Strategy

*Lighting Capital Markets Day*

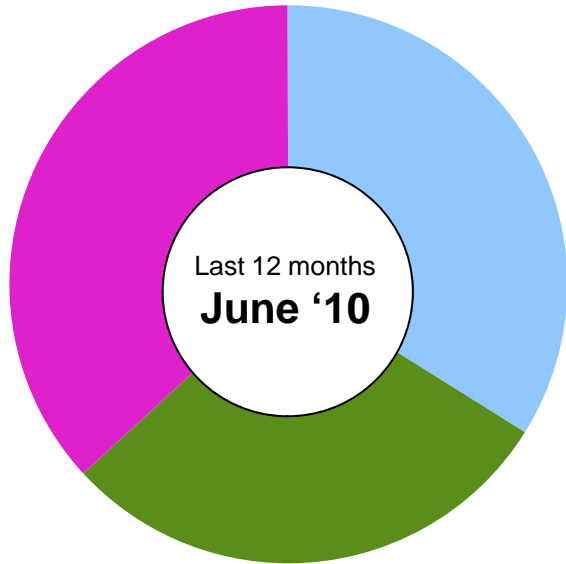
Rudy Provoost  
CEO Philips Lighting

# Lighting is essential to the success of Philips

**Lighting an important cornerstone...**

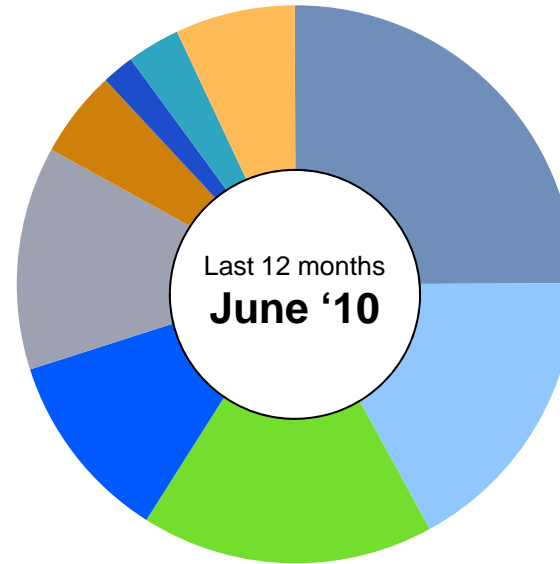
**...with full coverage across segments**

3 business sectors



- Philips Healthcare
- Philips Lighting
- Philips Consumer Lifestyle

9 market segments



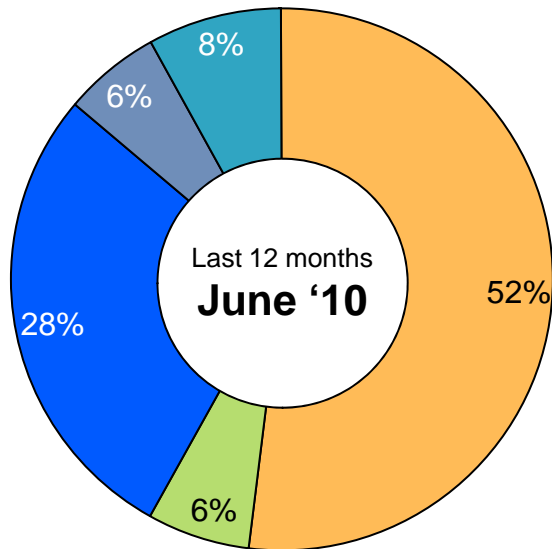
- Homes
- Industry
- Entertainment
- Offices
- Retail
- Healthcare
- Outdoor
- Hospitality
- Automotive

# We have established a very strong, balanced portfolio with global reach

**Expanding our portfolio and growing core categories...**

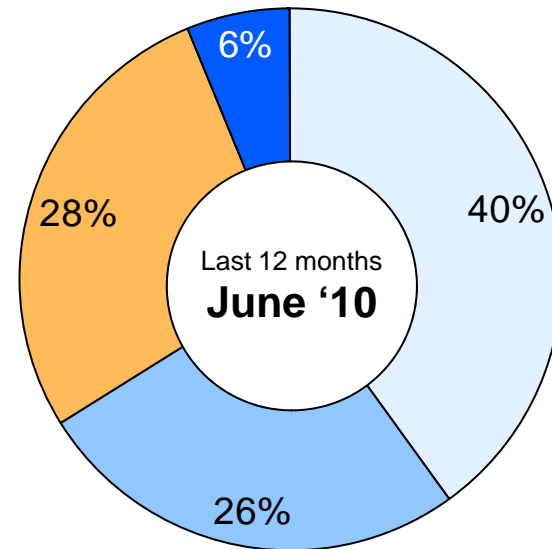
**... with global coverage and strong presence in emerging markets**

Total sales  
€ 7.2 Bln



- Lamps & lighting electronics
- Professional luminaires
- Consumer luminaires
- Packaged LEDs
- Automotive

Total sales  
€ 7.2 Bln



- Europe / Africa
- Asia Pacific
- North America
- Latin America

# We are the leading global lighting company

## Market leadership across most categories

Market share per Business Group by Region, as at Jun '10

	Europe	North America	Latin America	Asia/Pacific <sup>1</sup>	Total
Lamps	Green	Yellow	Green	Green	Green
Consumer Luminaires	Green	Red	Red	Red	Green
Professional Luminaires	Green	Yellow	Yellow	Green	Green
Lighting Electronics	Green	Green	Green	Green	Green
Automotive	Green	Yellow	Green	Green	Green
Packaged LEDs	Yellow	Yellow	Yellow	Yellow	Yellow
<b>Overall Lighting</b>	Green	Green	Green	Green	Green

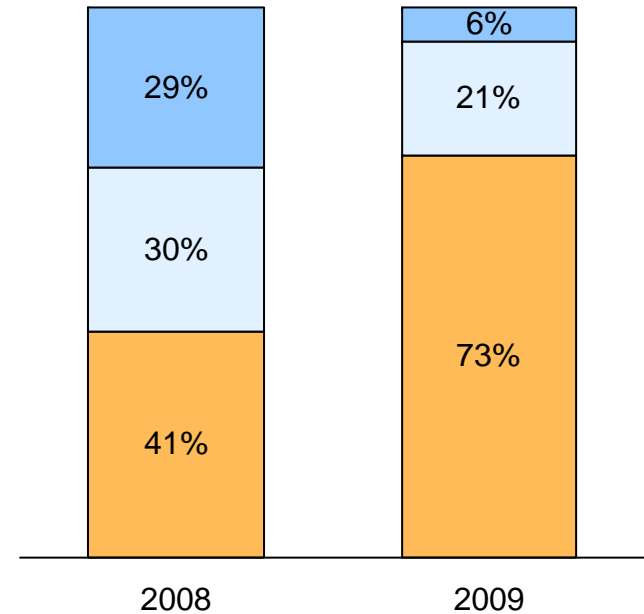
■ Number 1   
 ■ Number 2 or 3   
 ■ Not in top 3

1.Excluding Japan

Source: Customer panels and Industry associations

## Increased customer loyalty

Net Promoter Score (NPS) in 2008, 2009



■ Not leader   
 ■ Co-leader   
 ■ Leader

## We delivered on what we committed at last year's capital markets day

Last year's commitments	What have we achieved?	Delivered?
<b>1 Improve our profitability</b>	<ul style="list-style-type: none"><li>LTM Adjusted EBITA from €360 Mln to €808 Mln</li><li>Double digit Adjusted EBITA %</li></ul>	✓
<b>2 Lead the transition to LED</b>	<ul style="list-style-type: none"><li>Increased our LED sales by over 70% LTM, doubling LED sales in the last 3 quarters</li><li>Expanded our LED portfolio on all fronts</li></ul>	✓
<b>3 Manage the life cycle of conventional lighting</b>	<ul style="list-style-type: none"><li>Reducing our manufacturing footprint</li><li>Leveraging our leading position in conventional lighting to capture value</li></ul>	✓
<b>4 Organize around segments</b>	<ul style="list-style-type: none"><li>Benefit from our unique go-to-market approach</li><li>Reinforcing our capabilities in the segments</li></ul>	✓
<b>5 Grow in solutions</b>	<ul style="list-style-type: none"><li>Investing in controls and systems</li><li>Expanding our capabilities to deliver solutions</li></ul>	✓
<b>6 Further improve our Net Promoter Score (NPS)</b>	<ul style="list-style-type: none"><li>Increased our NPS result from 71% to 94%<sup>1</sup></li><li>Strengthened the contribution to brand value</li></ul>	✓

1. Leadership and Co-leadership

# PHILIPS

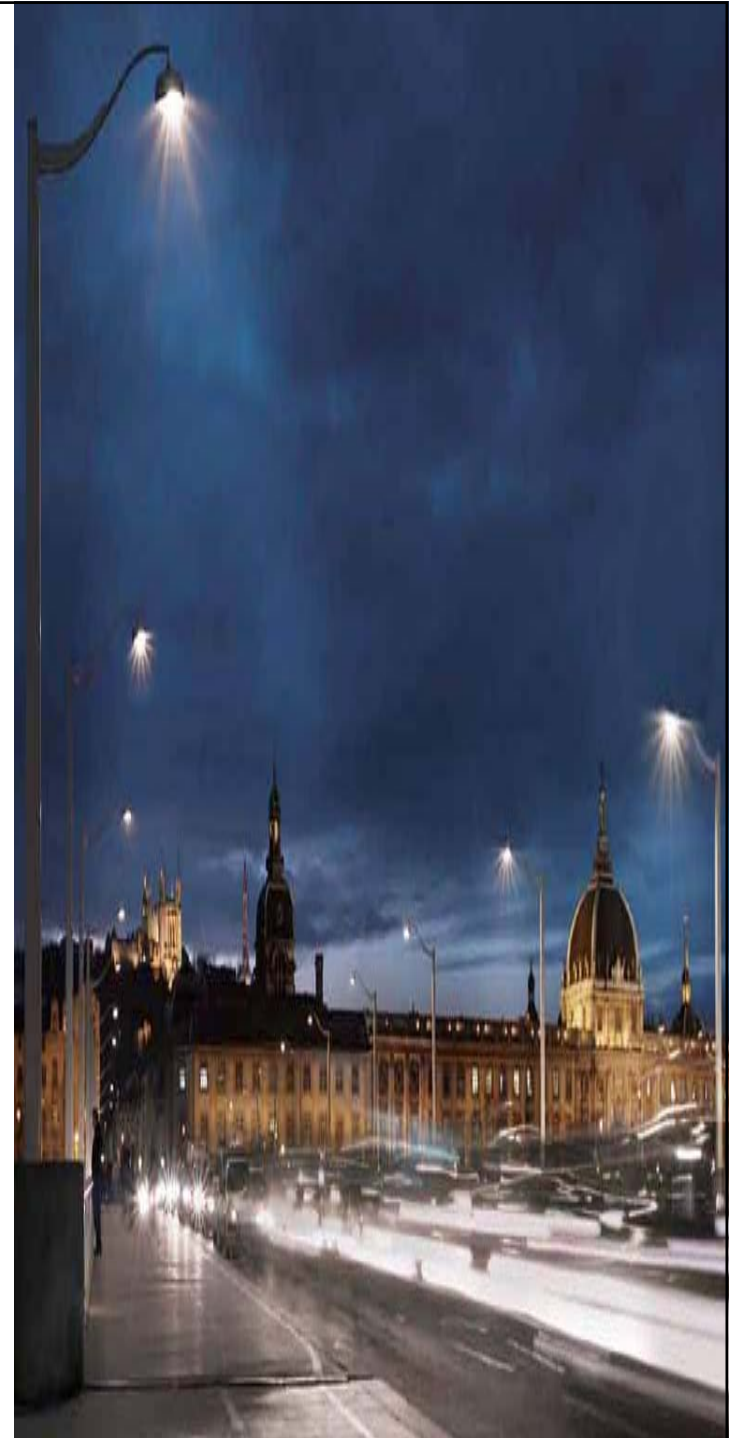
## Key takeaways

- We came out of the crisis and have a structurally better business
- Lighting offers exciting growth opportunities
- We have the strength and strategy to win in both light sources and solutions



**PHILIPS**

We came out of  
the crisis and  
have a structurally  
better business

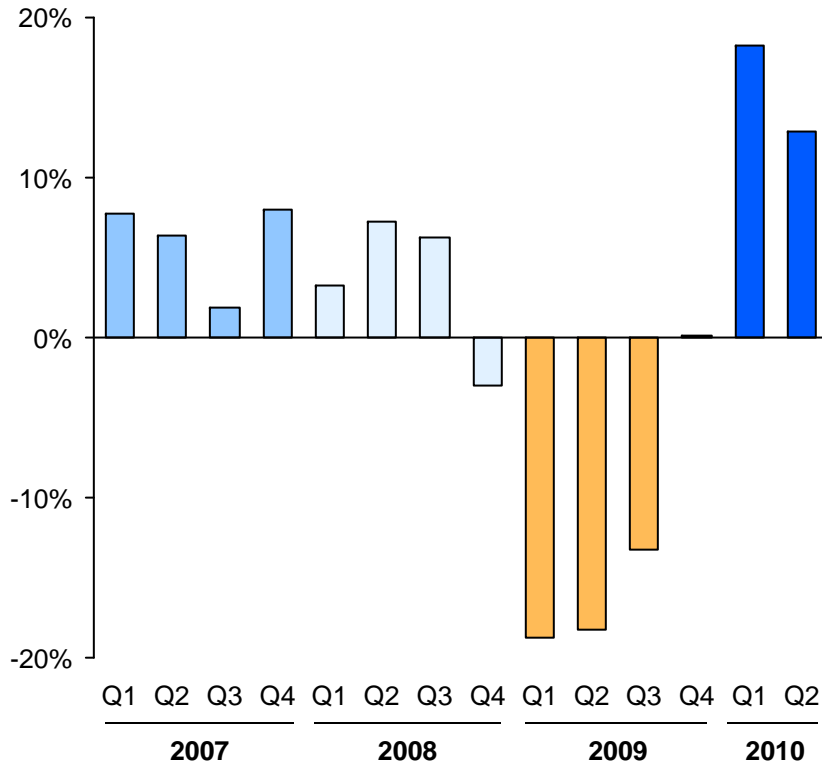


# The measures we have taken are paying off

Strong growth in sales and adjusted EBITA

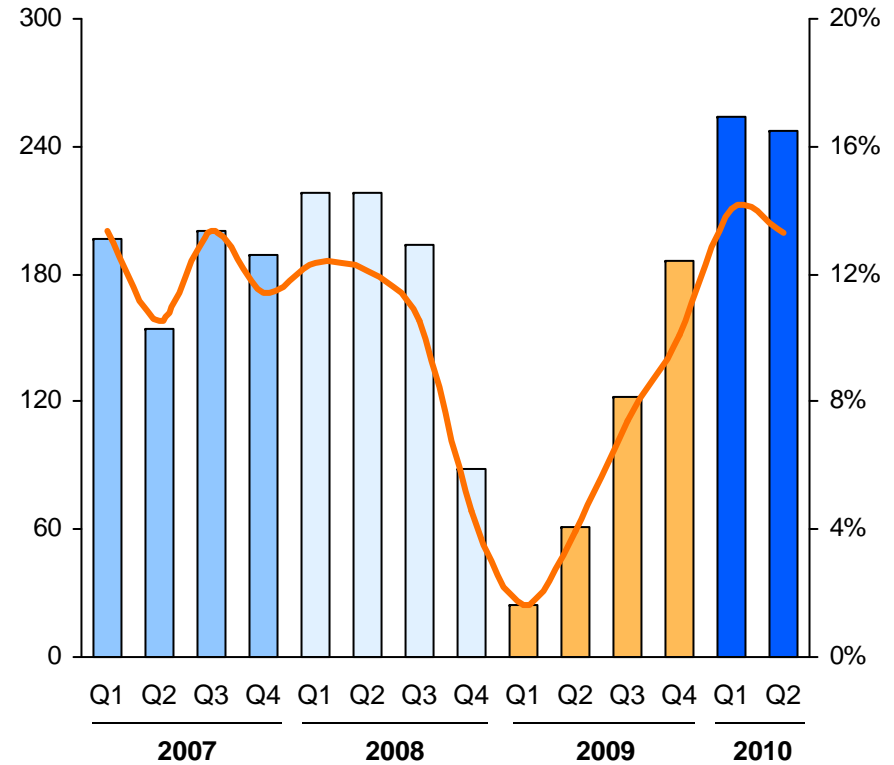
## Rapid sales growth in Q1 and Q2

% Comparable Sales growth



## Double digit Adjusted EBITA %

€ Mln      — % of sales



1. Last twelve months adjusted EBITA  
 2. Adjusted EBITA is EBITA corrected for incidental charges



# Market share development in the first half of this year is encouraging

## First half year market share development

Based on market share growth per Business Group by Region, YTD Jun '10

	Europe	North America	Latin America	Asia/Pacific*	Total
Lamps	Share gain	Share gain	Share gain	Share gain	Share gain
Consumer Luminaires	Neutral	Neutral	Neutral	Share gain	Neutral
Professional Luminaires	Neutral	Share gain	Share gain	Share gain	Neutral
Lighting Electronics	Share gain	Share gain	Share gain	Share gain	Share gain
Automotive	Share gain	Neutral	Share gain	Share gain	Share gain
Packaged LEDs	Neutral	Neutral	Neutral	Neutral	Neutral
<b>Overall Lighting</b>	Share gain	Share gain	Share gain	Share gain	Share gain

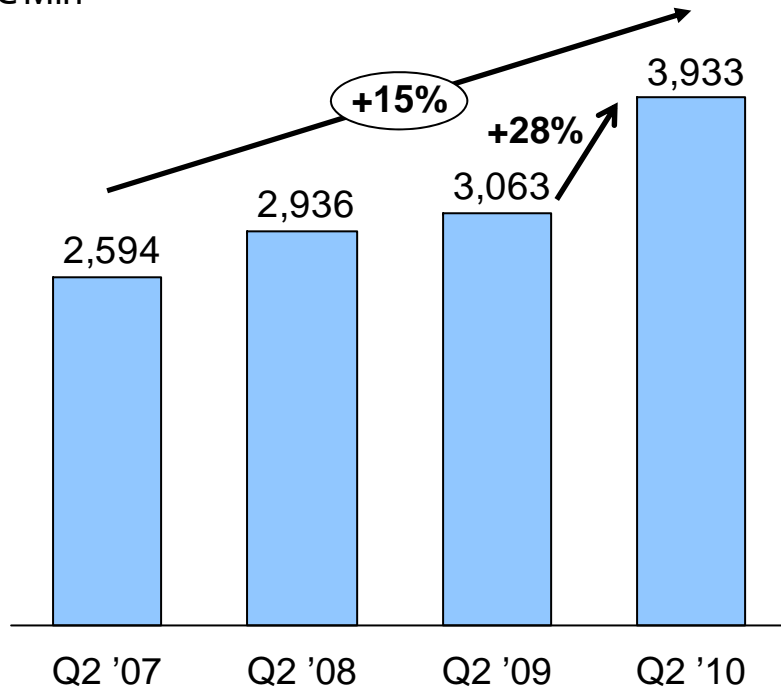
■ Share gain   
 ■ Neutral   
 ■ Share loss

Source: Customer panels and Industry associations  
 \* Excludes Japan

# We continue to drive growth on the back of key global trends

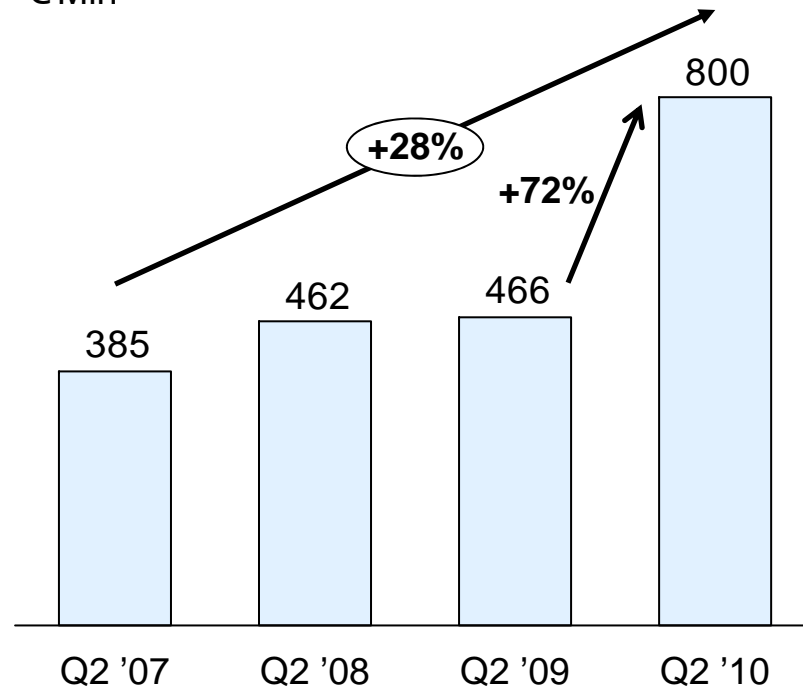
## Consistent growth in energy efficient lighting

LTM sales  
€ Mln



## Accelerating growth in LED categories

LTM sales  
€ Mln



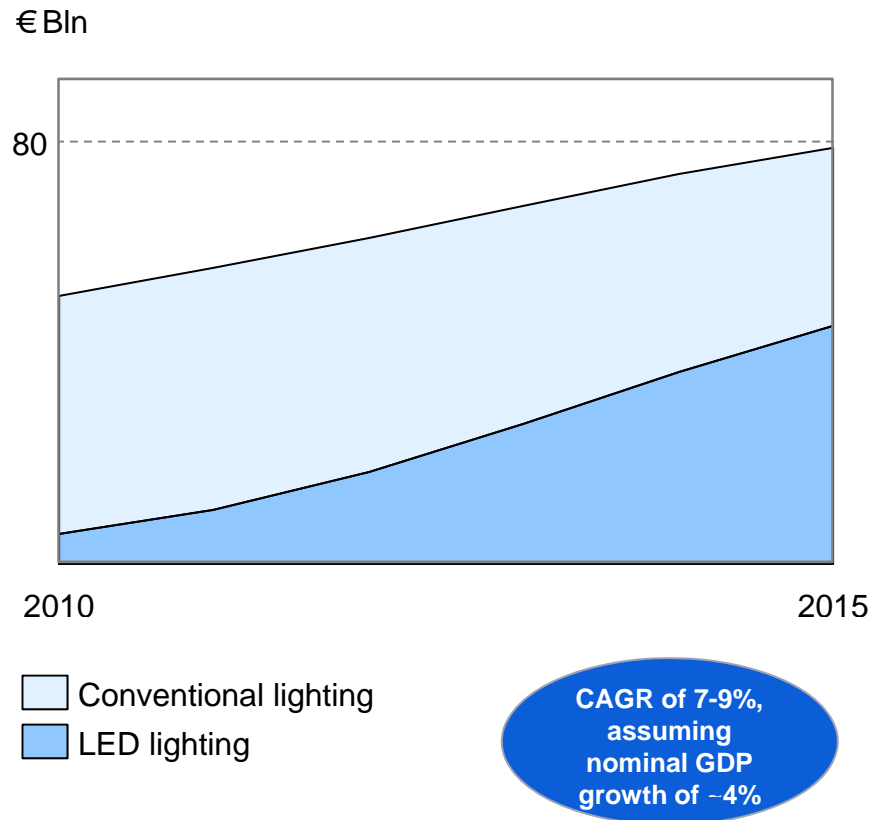
**PHILIPS**

Lighting offers  
exciting growth  
opportunities



# The general illumination market offers major growth opportunities

## Global illumination market



## Market overview

- The global lighting market is expected to grow at a CAGR of around 7-9% during 2010-15, to around €80 billion
- Growth in global illumination market is driven by the LED revolution with rapid adoption of LED-based lighting solutions
- Conventional lighting continues to be a large part of the market

Source: Philips Lighting global market study 2009, updated for 2010

## We are approaching the lighting market from multiple dimensions



### 1 Category

- LED adoption is the key driving force for growth in the Lighting Industry
- Digital lighting is driving significant opportunities in light sources, application / solutions markets



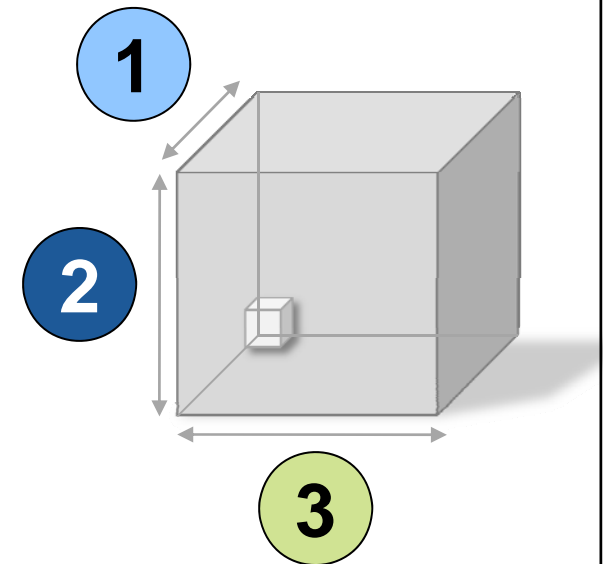
### 2 Geography

- Large opportunities in emerging markets
- Steady growth in mature markets



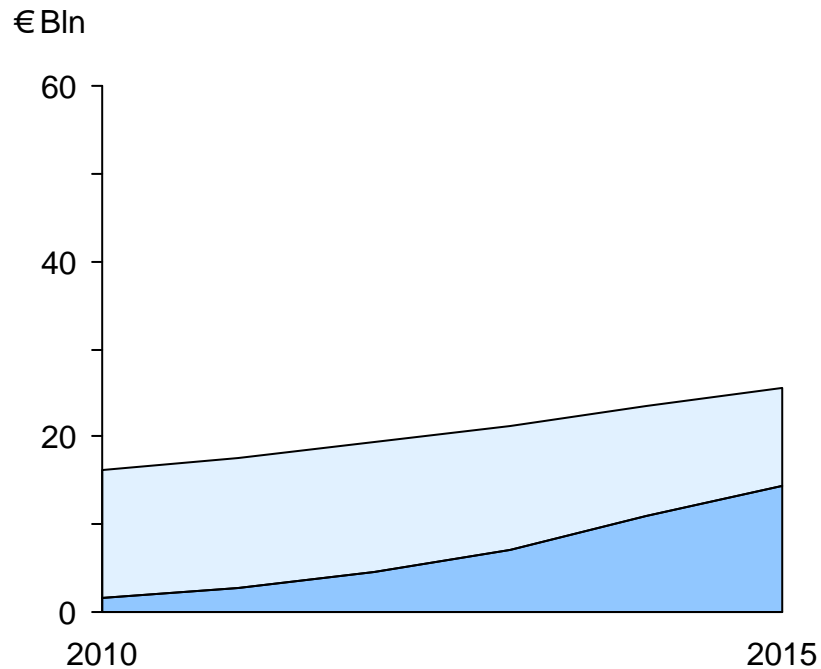
### 3 Segment

- Home, Office, and Outdoor are the biggest segments
- Favorable long term global trends across all segments

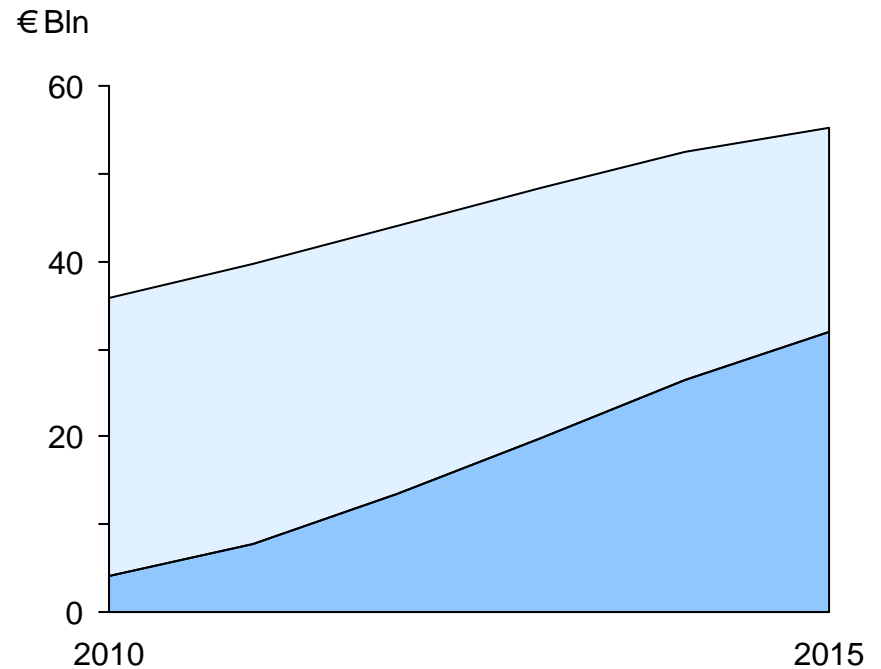


# LED adoption is the key driving force for growth in the Lighting Industry

### LED adoption in components / light source



### LED adoption in applications / solutions



- Conventional lighting
- LED lighting

Source: Philips Lighting global market study 2009, updated for 2010

# Digital lighting is driving significant opportunities both in light sources and solutions markets

## LED components / light source

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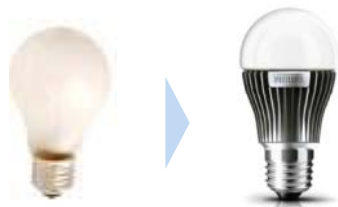
Customers becoming increasingly aware of the benefits of LED light sources:

- Cost and energy savings
- Sustainability and longevity
- Potential for more productivity and safety



Thus, there are new opportunities in LED components / light sources:

- LED Lamps replacing traditional bulbs at home
- TLED “refit” in offices and shops
- LED systems innovation
- Etc.



## LED applications / solutions

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LED-based applications offer increased possibilities for customers:

- Intelligent solutions including controls and system integration
- Dynamic and interactive lighting applications
- Breakthrough in Total Cost of Ownership



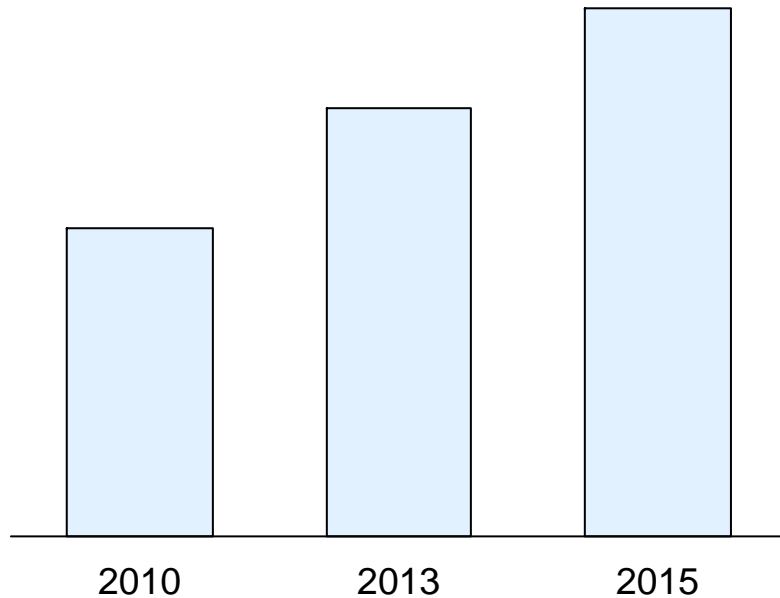
Thus, new opportunities in LED applications / solutions include:

- Multisite tele-management solutions in shops
- Energy-saving audit and services driving accelerated renovation of the installed base
- Ambiance creation applications in homes
- Etc.

# Large opportunities in emerging markets

## Double digit growth in Latin America and Asia\* powered by GDP and LED

Indexed growth rate



2010 = 100

\*Note: Excludes Japan

Source: Philips Lighting global market study 2009, updated for 2010

## Specific drivers of growth in emerging markets

- **Urbanization:** 50% of the world's population lives in cities. This is expected to rise to 75% by 2050
- **Population growth:** Emerging markets account for the largest share of world's population growth
- **New demand:** Growing middle class and increasing per capita income, more light points and higher value products

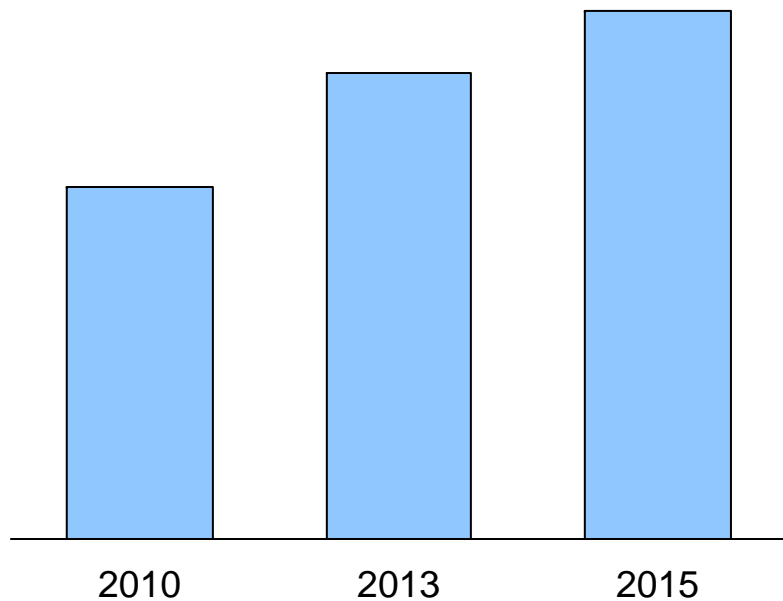




# Steady growth in mature markets

## Single digit growth in mature markets\*

Indexed growth rate



2010 = 100

\*Note: Includes EMEA and North America  
Source: Philips Lighting global market study 2009, updated for 2010

## Specific drivers of growth in mature markets

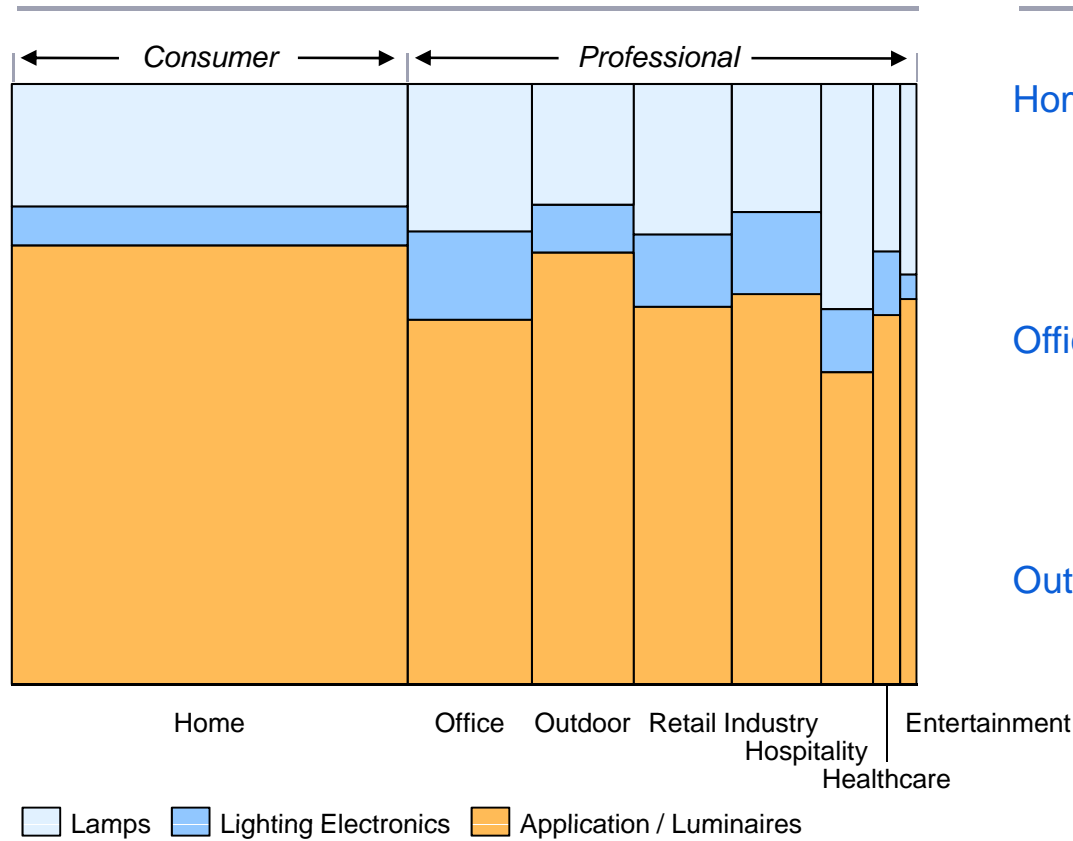
- **Construction market:** Construction market is expected to pickup
- **Legislation:** Phasing out of inefficient lighting products
- **Value:** Move towards higher value products and energy efficient solutions



# Home, Office, and Outdoor are the biggest segments

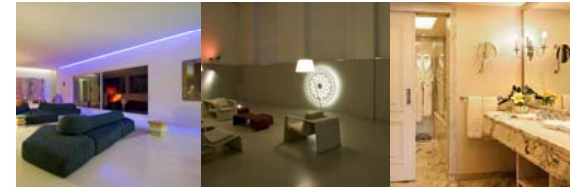
Professional is the largest channel

**Total market size in 2010\*: 50-55 B€**



## Biggest segments

Home



Office



Outdoor



\* General illumination  
 Source: Philips Lighting global market study 2009, updated for 2010

# Favorable long term global trends across all segments

**Key external trends**

**Consumer**

**Professional**

**LED revolution**

- Rapid adoption of LED's driven by better performance, efficiency and TCO



**Increasing urbanization**

- Increasing urbanization, especially in emerging markets; city infrastructure, more lighting points, different life styles



**Legislation**

- Government regulations prohibiting the use of inefficient lighting solutions



**Move towards solutions**

- Customers are increasingly interested in end to end solutions and value added services



**Staying in is the new going out**

- People are spending more time at home in front of their computers and TVs



**Increasing awareness**

- Increasing energy awareness with end users will drive the switch to more efficient lighting solutions



**Focus on wellbeing and personal experience**

- Customers are increasingly focusing on overall wellbeing and personal experience derived from lighting



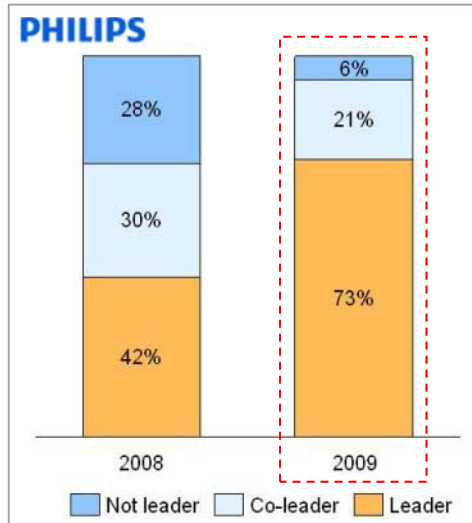
**PHILIPS**

We have the  
strength and  
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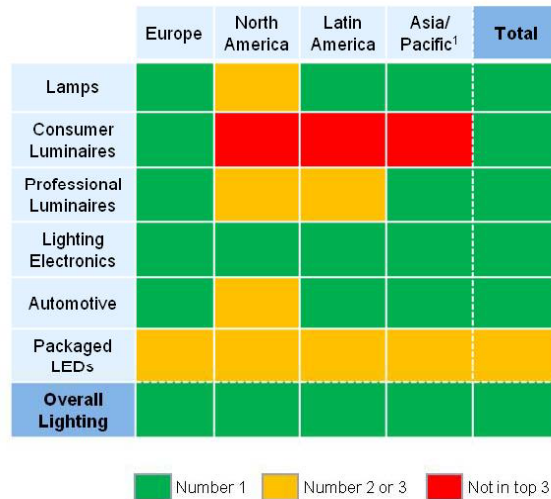


## We are in a good position to continue to create value

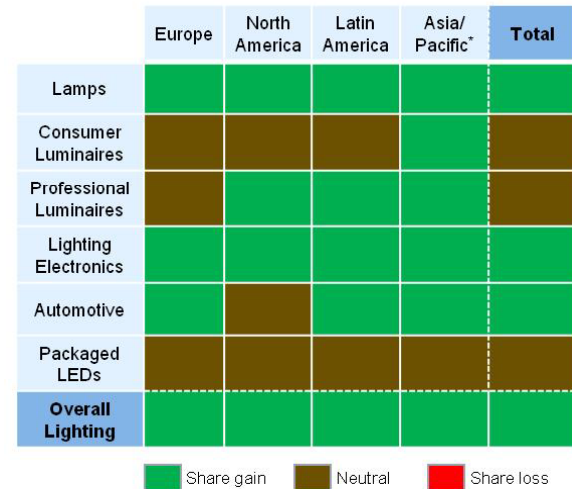
### 1 We are serving our customers well...



### 2 ...resulting in market leadership positions...



### 3 ...continuing to strengthen market shares



## Our approach to innovation is unique and highly valued by our customers

**Our approach to innovation is unique and in line with our brand promise**

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### **People focused:**

We begin by observing and listening to people to ensure that we address their needs and aspirations in life



### **Partners in innovation:**

With our collective passion, expertise, depth and reach, we open up new possibilities powered by advanced technology



### **Meaningful solutions:**

Together we create meaningful and valuable solutions that enhance the quality, use and experience of light

**Our customers value the partnerships we create**

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**somfy.**

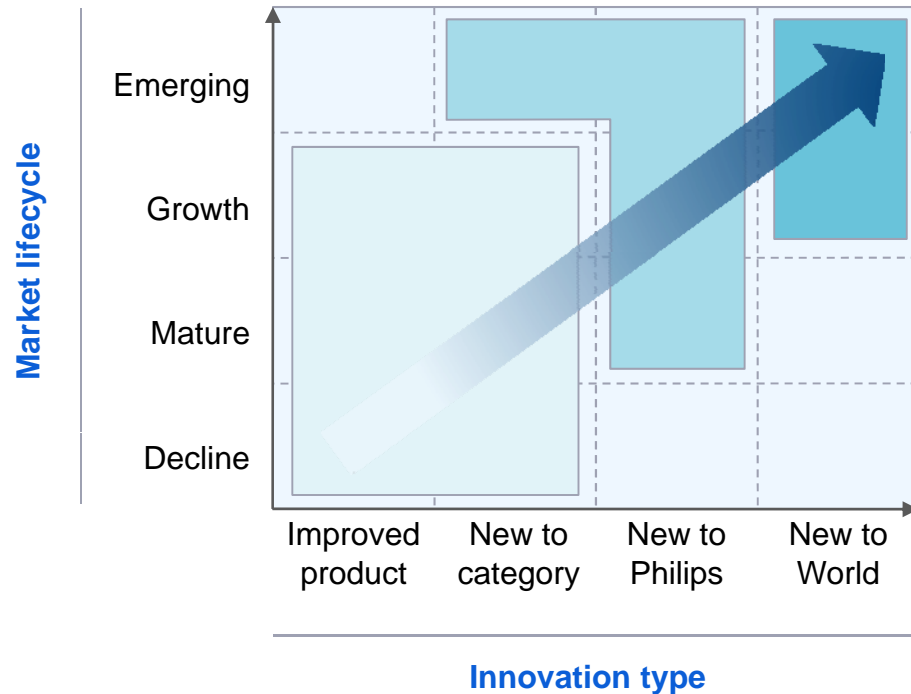
*Somfy is a leading specialist in automated sun protection systems for buildings. Together with Somfy, we are launching a new indoor lighting solution, bringing together daylight, artificial light sources, presence detection, controls and a unique user interface in one dynamic system.*

**ARUP**

*Arup is an independent firm of designers, planners, engineers, consultants and technical specialists. Together with Arup and other contractors we lit up Hong Kong's Stonecutters Bridge that combines the best of architectural design and the latest LED lighting technology*

## We are focusing our R&D on the key growth areas

### Focused R&D investments



### Example: innovation proofpoints

#### Emerging

*EDGE*: Unique collection of OLED lamps. The EDGE is a typically direct and succinct interpretation of this new exciting technology



#### Growth

*Luxeon Rebel ES*: LED that offers over 300 lumen and 100 lumen/watt efficacy and reduces the TCO and payback period of lighting applications



#### Mature

*CosmoPolis*: White street lighting system that increases visibility and reduces energy costs by 50%











# Acquisitions strengthen our position as the leader in lighting

**Creating a continuous stream of acquisitions to complete our offering**

**Example: building our portfolio of good, better and best propositions in controls**

## Acquisitions

Light sources & components	Applications & solutions	
		
<ul style="list-style-type: none"> <li>• Lumileds (2005)</li> <li>• Bodine (2006)</li> <li>• TIR (2007)</li> <li>• LTI (2007)</li> </ul>	<ul style="list-style-type: none"> <li>• PLI (2007)</li> <li>• ColorKinetics (2007)</li> <li>• Genlyte (2008)</li> <li>• Ilti Luce (2009)</li> <li>• Luceplan (2010)</li> <li>• Burton (2010)</li> </ul>	<ul style="list-style-type: none"> <li>• Dynalite (2009)</li> <li>• Teletrol (2009)</li> <li>• Selecon (2009)</li> <li>• Amplex (2010)</li> </ul>

	Outdoor			
	NA	EUR	APR	
	Indoor			
	NA	EUR	APR	
Best				
Better	Occuswitch wireless	Occuswitch wireless	Occuswitch wireless	
Good				

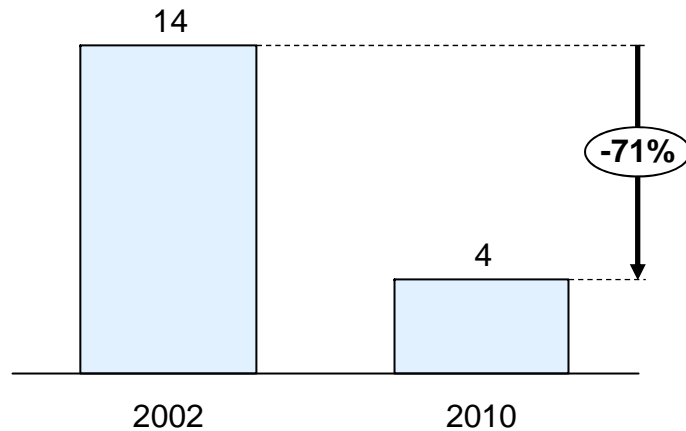


# We are successfully managing the lifecycle of our conventional light source business

**We are optimizing our industrial footprint for cost leadership...**

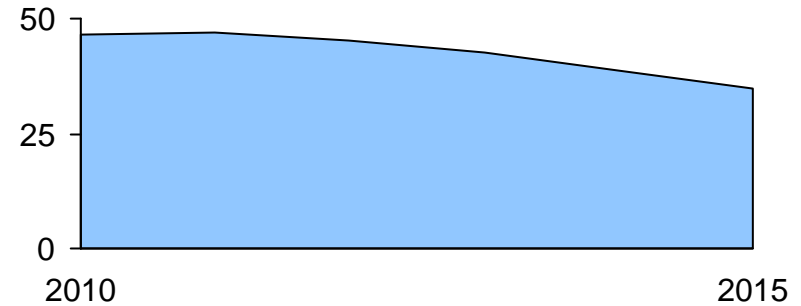
- We are moving towards low cost countries and areas closer to raw materials
- We are managing our liabilities while mastering the industrial control points

Example: Incandescent industrial footprint  
*No. of sites*



**...while staying best positioned to capture value and generate cash**

Conventional Lighting Market Value  
*€ Bln*



Our strategy in conventional is to efficiently capture value through:

- **Brand and distribution:** Leverage our leading position
- **Scale in Emerging markets:** Increased sales through higher penetration, especially in emerging markets
- **Mix improvement:** Upgrade to higher value added products

## We have the strengths and strategy to win in LED light sources

### Lumileds: Adding value in our LED value chain

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- Leader in LED technology
- Expanding in illumination segments
- Operational excellence
- Strong distribution partnership

PHILIPS  
LUMILEDS



### TLED: Leveraging our control points

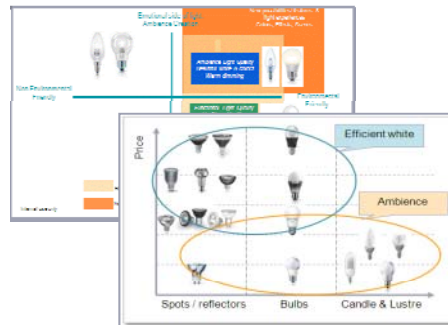
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- Strong foothold in TL applications (“beacon of trust”)
- Strong IP positions
- Structural cost advantages in TLED
- Aggressive cost down to achieve attractive total cost of ownership (TCO) propositions

### LED lamps: Building on our strong position in lighting

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- Using distribution power and brand leadership
- Broad LED portfolio to cater the varied needs of our customers
- Leading the innovation in LED lamps
- Strong value chain partnerships



### LED systems: Using our applications knowledge and scale

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- Brand and distribution strength in OEM channel
- Platform approach to drive scale and cost down
- Leveraging our deep application knowledge to serve our customers
- Leading the industry in standard setting initiatives



## We have structured our solutions portfolio and go to market model around strategic segments

Expanding from luminaires and controls into solutions requires segment focus and full coverage of 4 cylinders...

### **Expanding from luminaires and controls into solutions**

- Opportunity to differentiate and to create value for customers
- Opportunity to expand the addressable market
- Digital lighting and controls enablers for dynamic lighting and extended solutions and service offering

**To win in solutions a customer centric segment approach combined with complete coverage of 4 cylinders is required**



...to capture share in the bigger and higher value solutions market

Example: Lightolier energy services group

**Expanding offering** through services such as: Energy star benchmarking, carbon footprint analysis, bulb or complete lighting system replacement, financing, pay-back guarantees

**Working with partners** to deliver complete solutions

**Higher customers value add** allowed us to expand our **EBITA margin with 2.4%\***



\* Compared to other Lightolier business models

## We have all necessary ingredients to win in the lighting solutions space

### Strong customer and brand franchise

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- Leading brand
- Strong NPS position



### Global presence

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- Global coverage
- Ability to work with global accounts



### Unique go-to-market model

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- Segment focus
- Strong network of end-users and partners



### Customer centric open innovation

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- Customer centric innovation
- Collaborative approach to innovation

### Scale and customization

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- Global platforms with modular building blocks
- Customized portfolios as well as standard solutions

### Leading green portfolio

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- Global leader in energy efficient products
- Expansion through energy services and controls based solutions

# PHILIPS

## Key takeaways

- We came out of the crisis and have a structurally better business
- Lighting offers exciting growth opportunities
- We have the strength and strategy to win in both light sources and solutions



## Philips Lighting and Vision 2015

- Our ambition is to solidify our **global leadership position**, driven by **LED-based light sources and solutions** as well as our **strong franchise in conventional lighting**
- Our **emerging markets** sales have grown to **more than one third** of sector sales. We are strongly positioned to **continue growing** in emerging markets by capitalizing on the positive long term trends in these markets
- Assuming high single-digit market growth, lighting represents a **substantial part of overall Philips growth**
- In terms of profitability we are aiming for a level of reported **EBITA of 12%~14%**



**PHILIPS**

