PHILIPS

sense and simplicity

Lighting Strategy

Frans van Houten
a.i. CEO Philips Lighting

PHILIPS

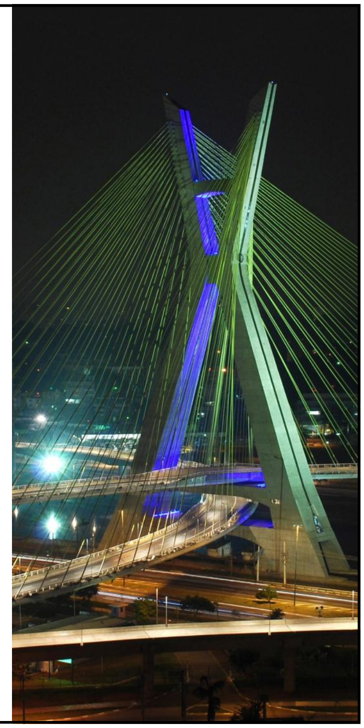
Key takeaways

- We continue to grow at mid single digit and are taking decisive actions to address margin issues
- The lighting industry is undergoing an unprecedented transformation
- Philips is the global leader in lighting
- Philips sustains its global leadership in LED products and solutions
- On our path to value we will outgrow the market and expect 8-10% EBITA

PHILIPS

Key takeaways

- We continue to grow at mid single digit and are taking decisive actions to address margin issues
- The lighting industry is undergoing an unprecedented transformation
- Philips is the global leader in lighting
- Philips sustains its global leadership in LED products and solutions
- On our path to value we will outgrow the market and expect 8-10% EBITA



PHILIPS

We have undertaken actions to address issues with our performance

Results impacted by

- Slower market growth
- Operational issues in Consumer Luminaires and Brazil
- Lower sales in Lumileds driven by Display business
- Margin pressure driven by higher material prices and unfavorable mix
- Investments for growth, in R&D and go-to-market

Decisive actions…

- Increase prices
- Improve mix
- Reduce costs
- Fix operational issues

…while maintaining investments

PHILIPS

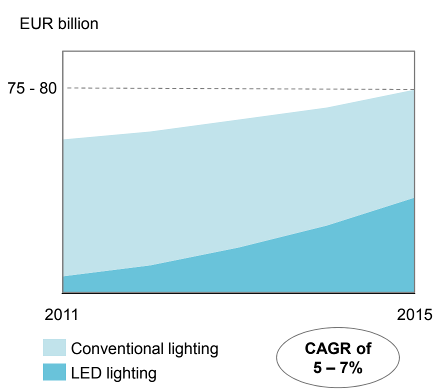
Key takeaways

- We continue to grow at mid single digit and are taking decisive actions to address margin issues
- The lighting industry is undergoing an unprecedented transformation
- Philips is the global leader in lighting
- Philips sustains its global leadership in LED products and solutions
- On our path to value we will outgrow the market and expect 8-10% EBITA

PHILIPS

The lighting industry is transforming and offers significant growth opportunities

Global General Illumination[1] market forecasted to grow to around EUR 80 Bln by 2015…



…driven by LED, legislation and increasing light points in growth geographies

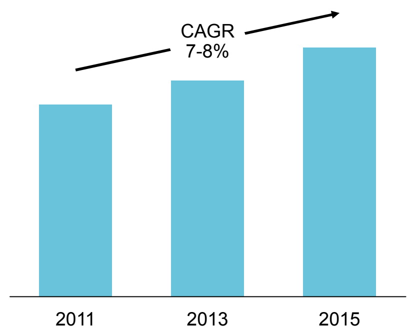
- Lighting market will grow faster than GDP, driven by:
  - **LED**: LED penetration forecasted to grow to ~45% by 2015
  - **Energy efficiency**: Many governments are phasing out inefficient lighting technologies
  - **Growth in light points**: Increased electrification leading to strong growth in light points in growth geographies
- Conventional lighting continues to be a large part of the market

[1] Excluding Automotive Lighting and LED components market
Source: Philips Lighting global market study 2010, updated for 2011

PHILIPS

Lighting industry value is gradually migrating from light sources to applications and solutions

Strong growth forecasted in the applications[1] market…



…driven by transition to LED and increasing demand for integrated solutions

- Currently, applications constitute ~70% of the global lighting market
- Penetration of LED based lighting fixtures is forecasted to be over 50% by 2015
- Penetration of LEDs in road lighting in China increased from <10% in 2008 to >30% in 2010
- Digital lighting[2] driving the penetration of intelligent solutions (e.g. telemonitoring, daylight harvesting etc.)

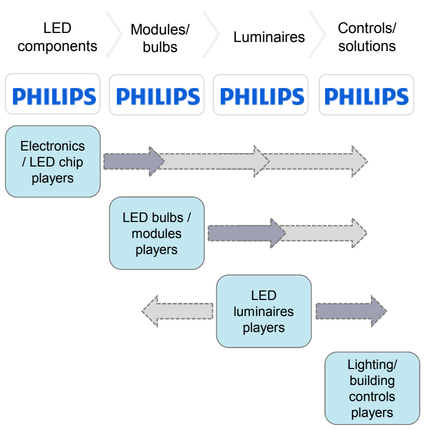
[1] Includes Luminaires and Lighting controls, but excludes home controls market
[2] Digital Lighting includes LED lighting and Lighting controls
Source: Philips Lighting global market study 2010, updated for 2011

29

PHILIPS

Philips has a unique position in a changing lighting competitive landscape

Digital Lighting value chain



The changing industry landscape

- Traditional value chain had:
  - 3 to 4 global and few local lamps players
  - 6 to 8 regional and thousands of local luminaires players
- Lower barriers to entry in LEDs will initially mean more players across the value chain – not all positioned to win
- Building systems and lighting controls players collaborating on turnkey projects for energy savings
- Philips has an unique advantage, leveraging strong position across the value chain

30

PHILIPS

Key takeaways

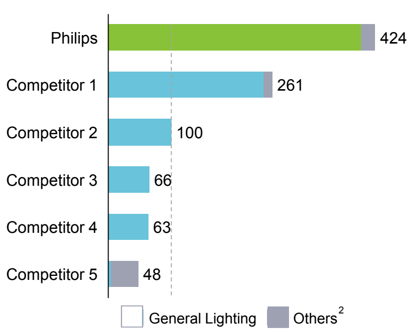
- We continue to grow at mid single digit and are taking decisive actions to address margin issues
- The lighting industry is undergoing an unprecedented transformation
- Philips is the global leader in lighting
- Philips sustains its global leadership in LED products and solutions
- On our path to value we will outgrow the market and expect 8-10% EBITA

PHILIPS

Philips is the global leader in lighting with a strong portfolio…

We are the largest lighting company…

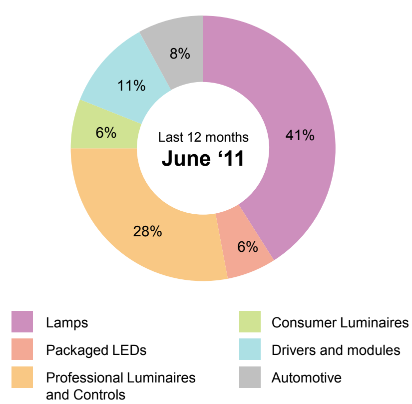
Indexed sales of Philips lighting and top 5 competitors[1]



[1] Sales for competitors based on the latest fiscal year information
[2] Includes backlighting, display / flash, projector lighting and other non-general illumination categories

…with a strong and balanced portfolio

Total sales EUR 7.6 Bln

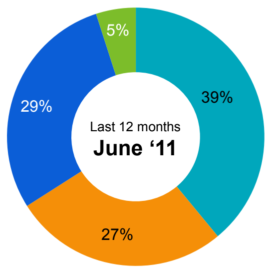


32

…with strong coverage across geographies…

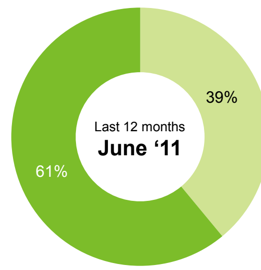
We have global coverage…

Total sales
EUR 7.6 Bln



…with strong presence in growth geographies

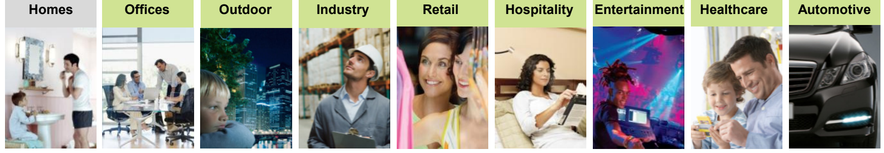
Total sales
EUR 7.6 Bln



…and segments

Philips Lighting

Customer Segments[1]



Homes	Offices	Outdoor	Industry	Retail	Hospitality	Entertainment	Healthcare	Automotive
23%	17%	15%	10%	15%	5%	3%	4%	8%

More than 75% of our revenue is from professional customer segments

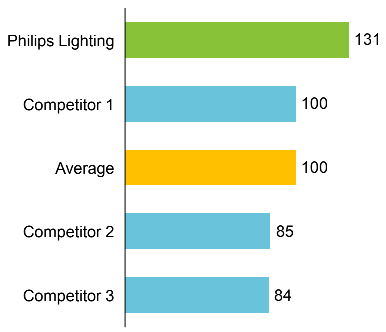
[1] Indicative split

PHILIPS

We are the leading global lighting brand with high customer loyalty

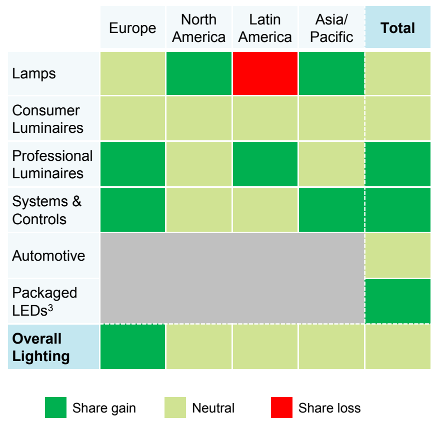
Strong brand preference vs. competition…

Philips Lighting brand equity index[1], 2010



…helping us to maintain market leadership

YoY change in market share[2], 1H 2011



[1] Philips brand equity study 2010
[2] Customer panels and Industry associations
[3] General Illumination only

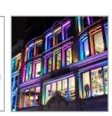
PHILIPS

And we are the leading LED lighting company

Strong positions in LED lighting

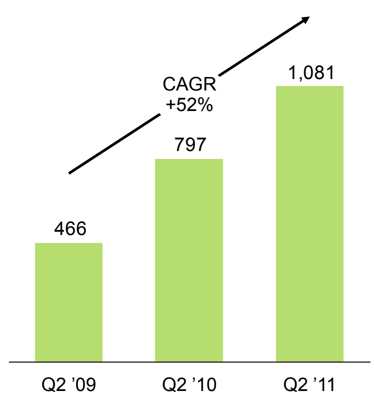
- LED licensing program with over 140 licensees is clear testimony of our LED innovation leadership
- One of the leading lighting packaged LEDs players worldwide
- LED lamps market share exceeds our share in conventional lamps
- Largest LED luminaires company



Robust growth across our LED portfolio

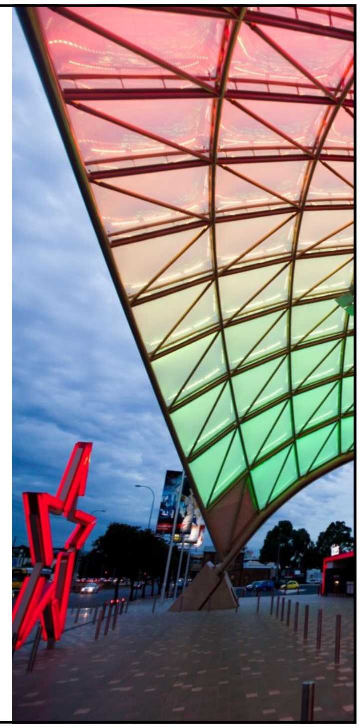
Last 12 months sales, EUR million



PHILIPS

Key takeaways

- We continue to grow at mid single digit and are taking decisive actions to address margin issues
- The lighting industry is undergoing an unprecedented transformation
- Philips is the global leader in lighting
- **Philips sustains its global leadership in LED products and solutions**
- On our path to value we will outgrow the market and expect 8-10% EBITA

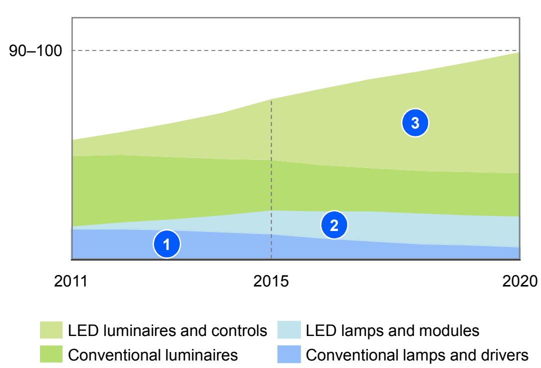


PHILIPS

We have a strategy to maintain leadership in conventional lighting and win in LEDs / applications

Global General Illumination[1] market

EUR billion



1. Win “golden tail” in conventional lamp and drivers. Create flexibility to anticipate slower or faster phase out
2. Leverage growth opportunity in LED lamps and modules
3. Invest in LED luminaires and controls to secure future leadership

[1] Excluding Automotive Lighting and LED components market
Source: Philips Lighting global market study 2010, updated for 2011

PHILIPS

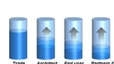
Sustaining our leadership position in LED lighting and solutions…

Building blocks	Our strategy
Sustaining value creation in Lamps 	• Capitalize on portfolio, distribution and brand in conventional to sustain leadership in LED • Extract maximum value from conventional lamps while effectively managing our industrial footprint
Driving value creation in applications and solutions 	• Capitalize on portfolio, distribution and brand in conventional to sustain leadership in LED • Leverage controls portfolio to develop integrated, segment specific lighting solutions
Winning in mature and growth geographies 	• Customer engagement through key account management for end-users, specifiers and OEM customers • Drive leadership in growth geographies through penetration into tier 3 /4 cities

39

PHILIPS

..whilst building on necessary strengths for sustainable value creation

Strengths	
PHILIPS Philips brand	• World's 42nd most valuable brand in 2010 compared to 65th in 2004 • Consistently among top-ranked players, top 10% in India, China and Brazil, top 20% globally in the Corporate brand equity index[1]
 Cost-efficiency and responsiveness	• Integrated value chain and end-to-end processes for fastest time-to-market • Low-cost and highly efficient manufacturing and supply base
 Go-to-market strength	• Strong Key Account Management and specifier relations • Strong coverage in 4 metropolitan cities and 32 main cities in China • Over 1 million selling points through wholesale in India
 Innovation leader	• Leader in LED lighting innovation (e.g. L-prize), with an established technology roadmap, ahead of competition • Leading IP position acknowledged across the industry
 Global footprint	• Serving customers in over 180 countries • Growth geographies contributing around 40% of our total revenue • Global presence driving scale

[1] Consumer brand equity study 2010

40

PHILLIPS

Initiatives under Accelerate! are creating a platform for profitable growth

Accelerate! for Lighting

Customer centricity	• We strengthen and empower market teams to drive entrepreneurship and local relevance so that customers can be served better
End-to-end excellence	• End-to-end process optimization to improve time-to-market and supply chain performance
Operating model / Cost reduction	• Simplify Lighting organization to drive speed and accountability • Overhead cost reduction yielding significant cost savings (~EUR 200M) • Accelerated footprint rationalization
Growth and performance culture	• Drive accountability and entrepreneurship • Improved performance management at business-market combination level
Resource to Win	• Granular plans with step-up in investments for growth in R&D (LED, solutions and controls) and go-to-market (key account management, solution selling) • IP creation and leverage

41

PHILIPS

Initiatives under Accelerate! are creating a platform for profitable growth

Accelerate! for Lighting

Customer centricity	• We strengthen and empower market teams to drive entrepreneurship and local relevance so that customers can be served better
End-to-end excellence	• End-to-end process optimization to improve time-to-market and supply chain performance
Operating model / Cost reduction	• Simplify Lighting organization to drive speed and accountability • Overhead cost reduction yielding significant cost savings (~EUR 200M) • Accelerated footprint rationalization
Growth and performance culture	• Drive accountability and entrepreneurship • Improved performance management at business-market combination level
Resource to Win	• Granular plans with step-up in investments for growth in R&D (LED, solutions and controls) and go-to-market (key account management, solution selling) • IP creation and leverage

42

PHILIPS

We invest to drive performance across the value chain, leveraging our vertical model in LED…

Investments		Packaged LED	Bulbs / modules	Luminaires / Controls / Solutions
	Product / Technology	• Performance/cost leadership in LED for illumination	• Portfolio expansion • Performance/cost leadership • Standardization	• LEDification of luminaires portfolio • Strengthen portfolio in controls • Lighting system development
	Operations	• Capacity/scale • Operational excellence	• Low cost operations • Reduced time-to-market	• Low cost operations • Reduced time-to-market
	Go-to-Market	• Increase distribution reach	• Customer/ specifier relations	• Customer/ specifier relations • Solution selling • Expand reach in growth geographies

Vertical Model benefits

Drive scale in packaged LEDs through Philips' LED growth

Fast product development through common platforms and end-to-end value chain coordination

Best performance and lowest cost at system level

Secure LED supply at lowest cost

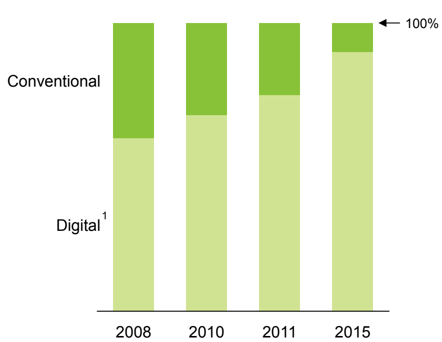
43

PHILIPS

..focusing our R&D on key growth areas and growth geographies

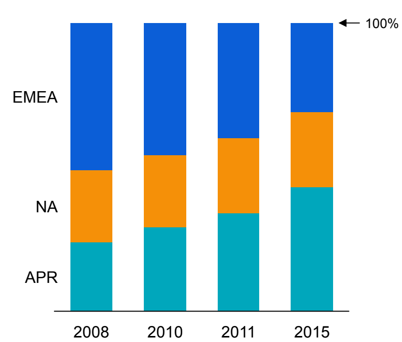
Focusing our R&D investments on key growth areas…

R&D investment by technology type



…and increasing our R&D footprint in growth geographies

R&D FTE distribution by region



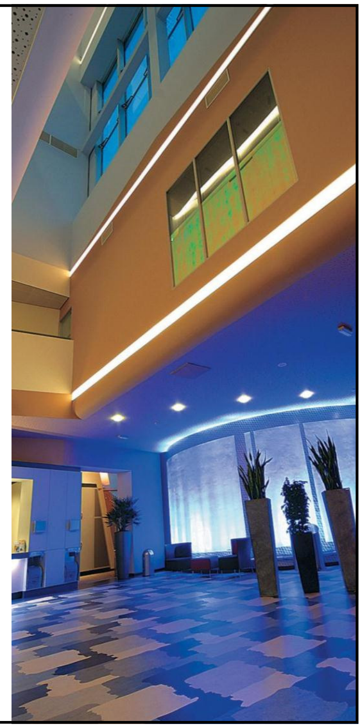
[1] Includes investments in LEDs and Controls

44

PHILIPS

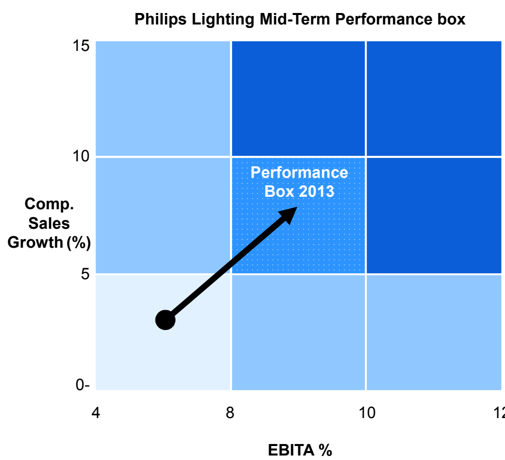
Key takeaways

- We continue to grow at mid single digit and are taking decisive actions to address margin issues
- The lighting industry is undergoing an unprecedented transformation
- Philips is the global leader in lighting
- Philips sustains its global leadership in LED products and solutions
- On our path to value we will outgrow the market and expect 8-10% EBITA



PHILIPS

Improve Lighting performance to achieve mid term target of 8-10% EBITA by 2013



Mid-Term financial objectives (2013)

Sales growth CAGR[1]	6 – 8%
Lighting reported[2] EBITA	8 – 10%

[1] Assuming market growth of 5 -7%
[2] Including restructuring and acquisition related charges

46

PHILIPS

Key takeaways

- We continue to grow at mid single digit and are taking decisive actions to address margin issues
- The lighting industry is undergoing an unprecedented transformation
- Philips is the global leader in lighting
- Philips sustains its global leadership in LED products and solutions
- On our path to value we will outgrow the market and expect 8-10% EBITA