

PHILIPS

sense **and** simplicity

Value Creation @Work

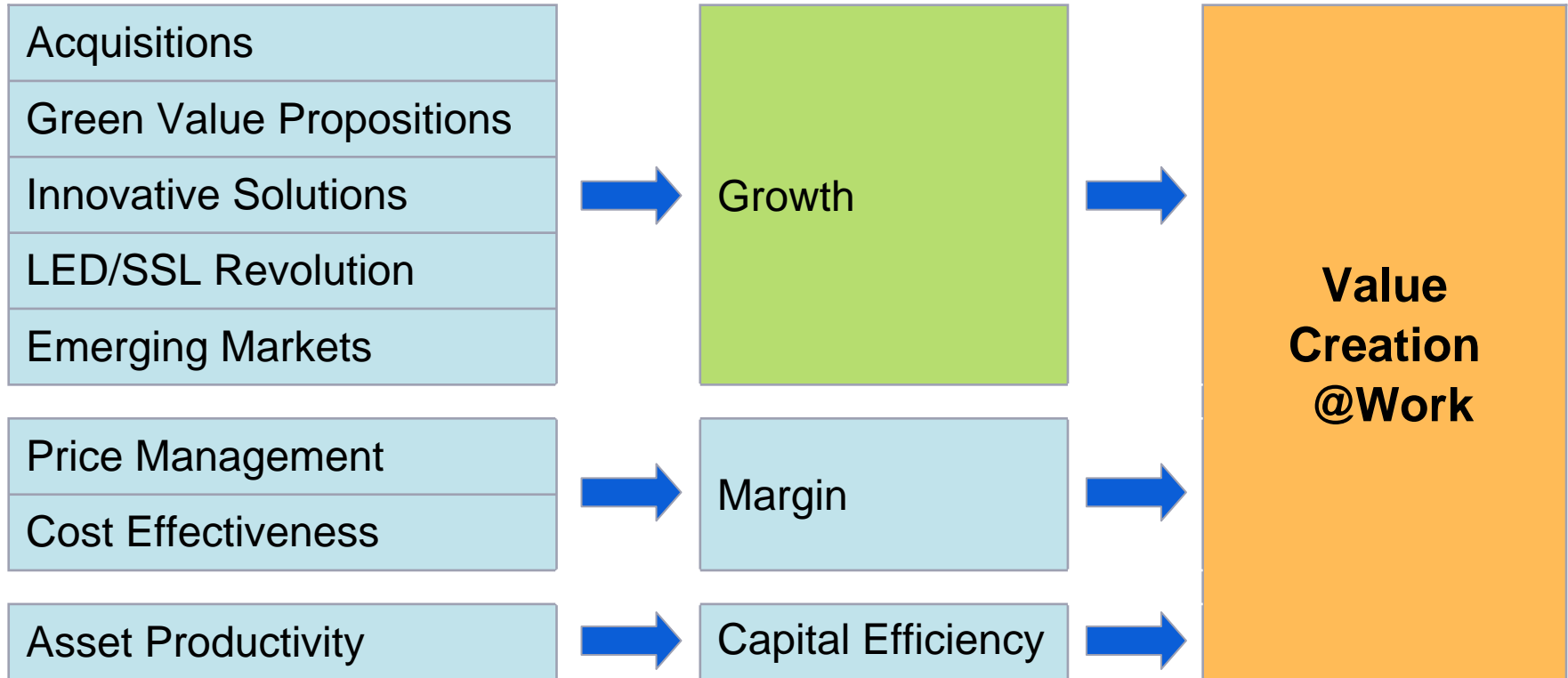
Renier Vree

CFO of Philips Lighting

September 23, 2008

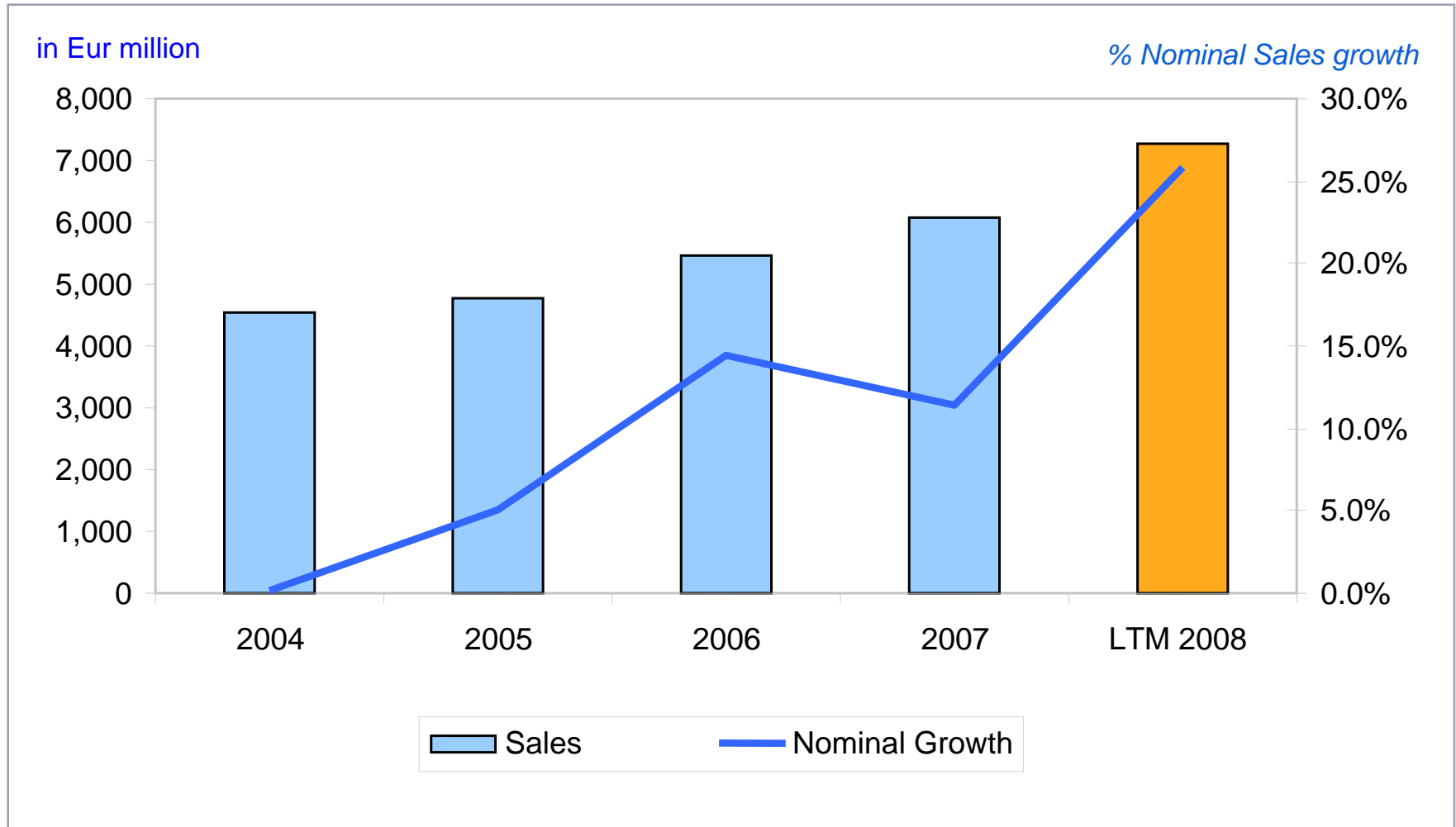


Value Creation at Philips Lighting





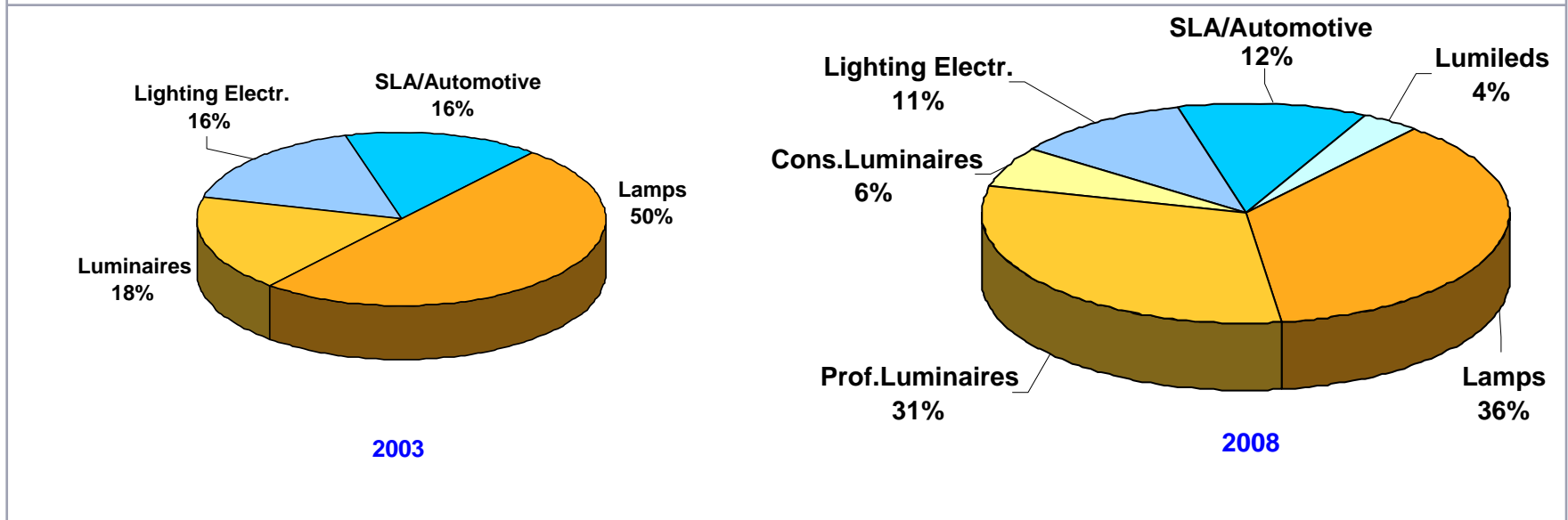
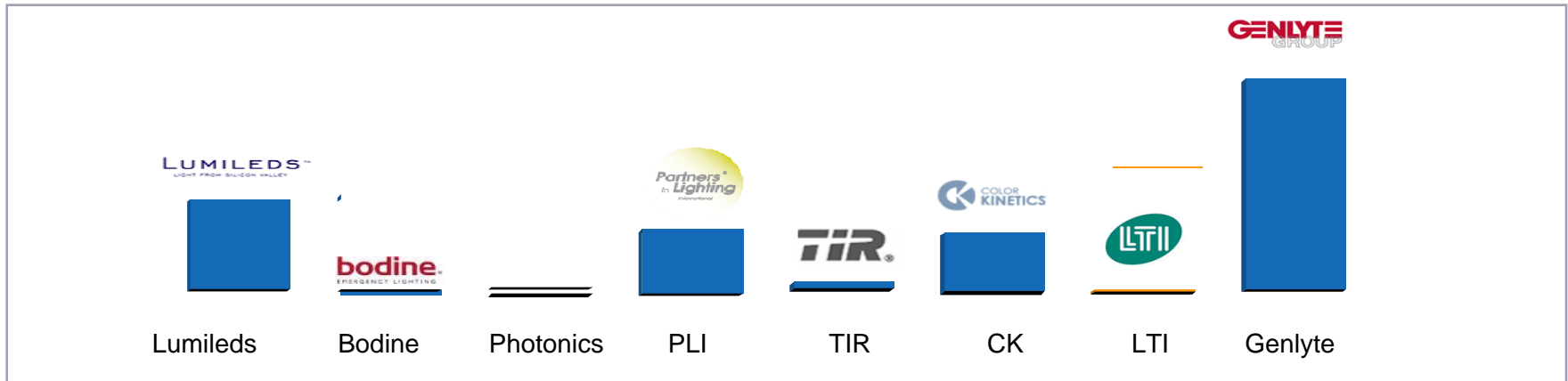
We continue to grow sales organically and via acquisitions



LTM 2008 adjusted for Acquisitions

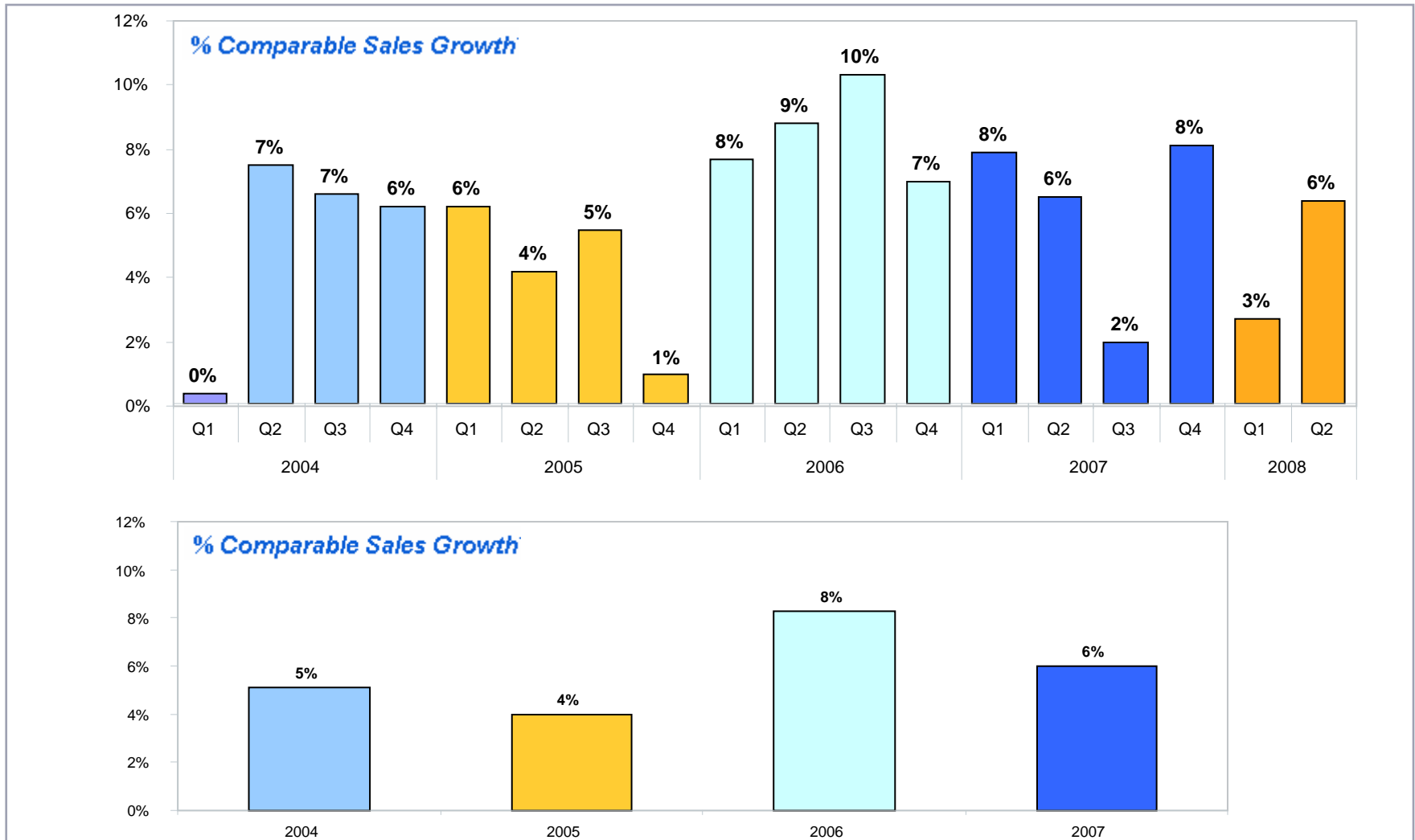


Acquisitions prepare us for a future of LED-based applications



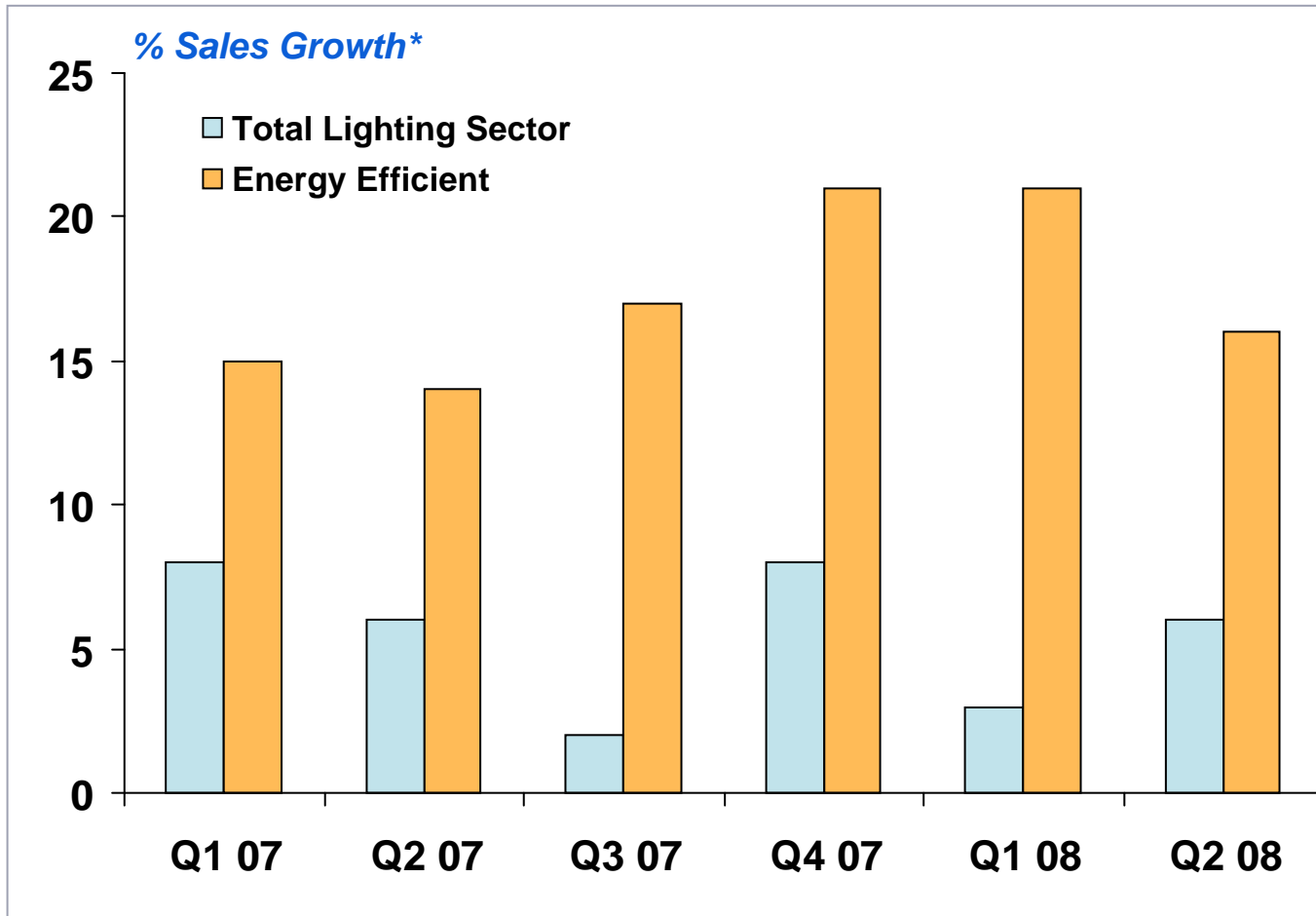


Sales have grown organically quarter over quarter, year over year





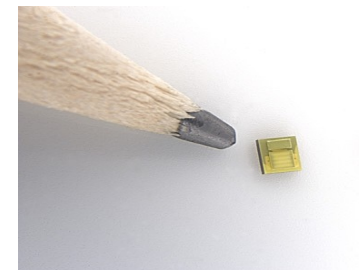
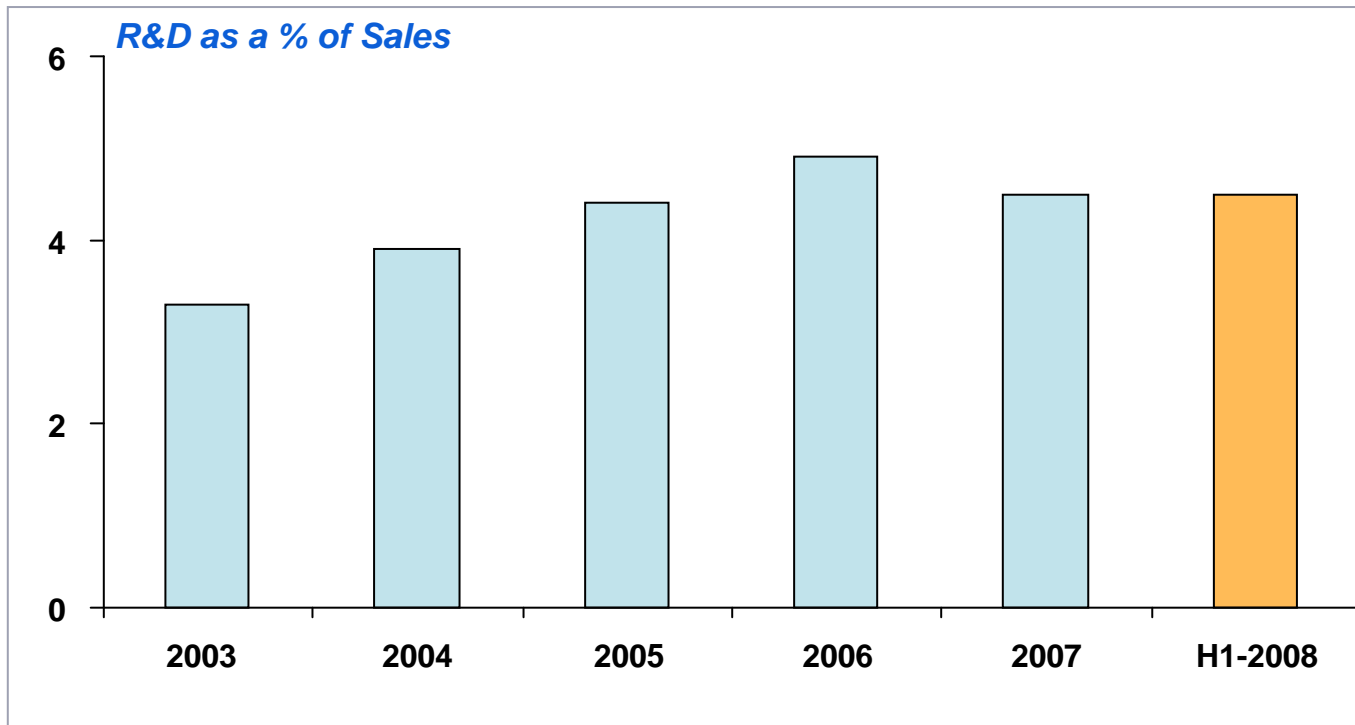
Green, Energy Efficient products are a key driver of organic growth



*Energy Efficient Sales excluding Cons.Luminaires and Genlyte



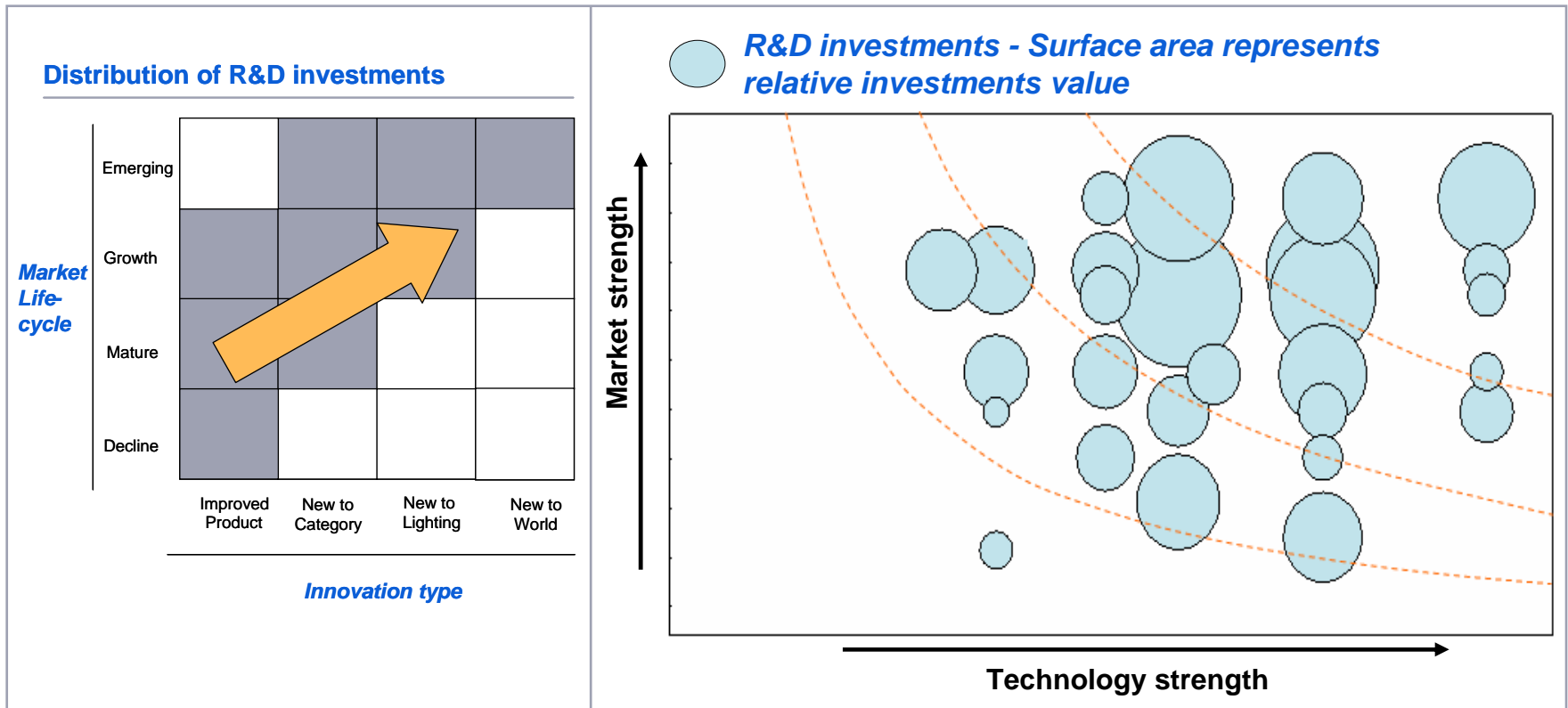
Market leadership requires us to lead in innovation



- R&D spend almost doubled from 2003
- 7% of R&D takes place in Asia (from 1% in 2003)
- 1/3 of R&D for Solid State Lighting, 1/3 for Energy Saving and 1/3 for cost reductions, ventures, and long-term R&D

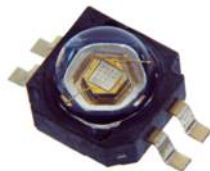
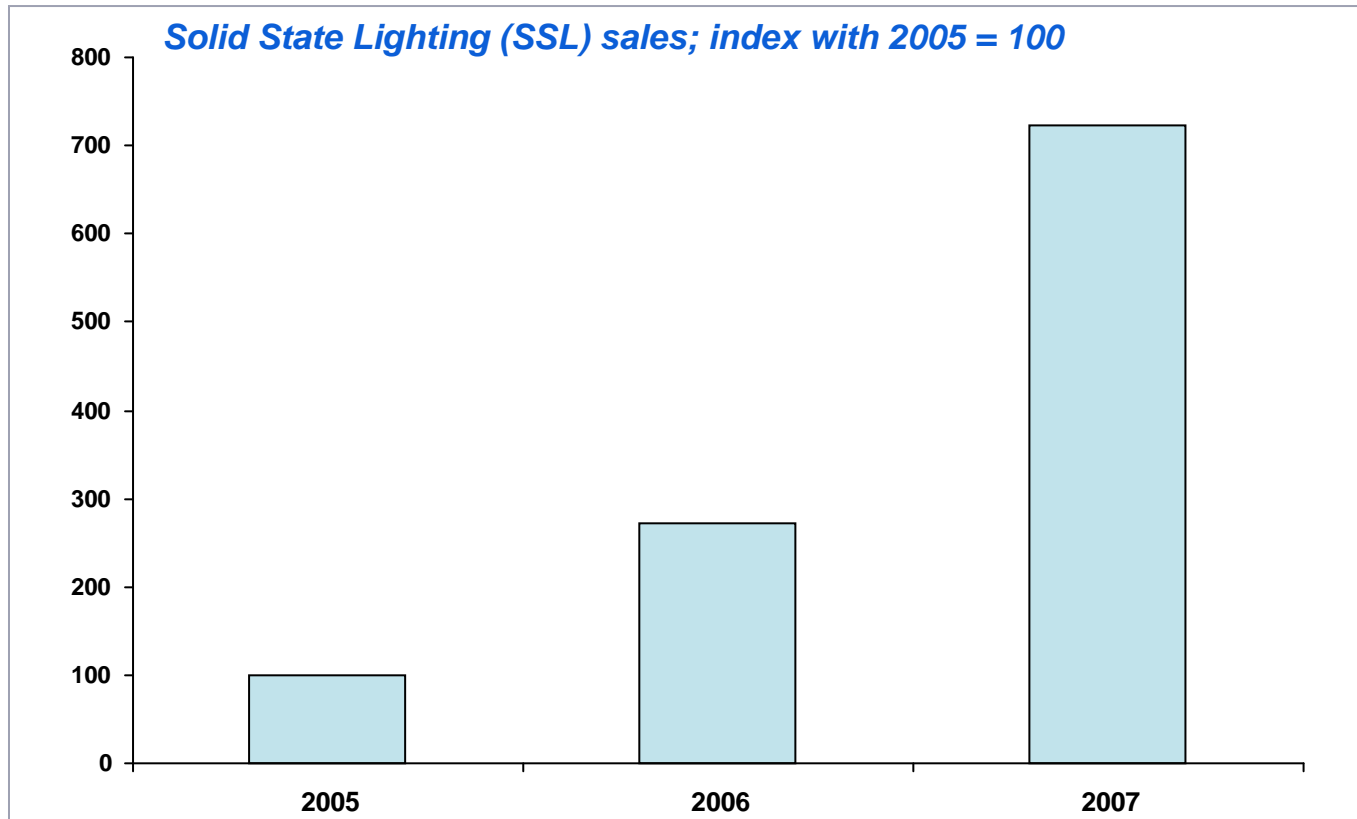


Focused innovation through a targeted, value-creating project portfolio

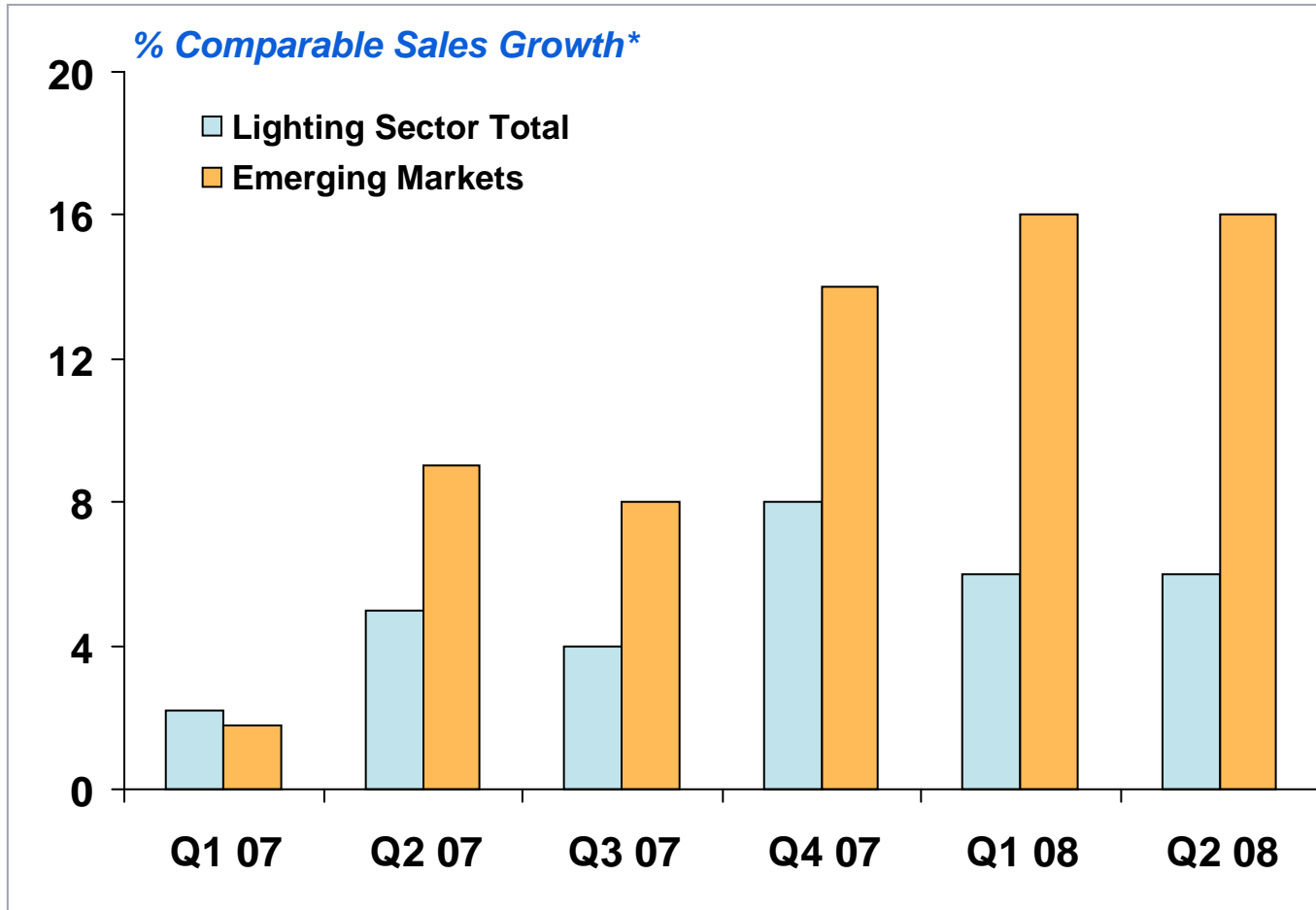


- Develop solutions tailored to priority Segments and Geographies
- Build leading position in future sweet spots
- Maintain lowest cost position for Mature technologies

Supported by acquisitions Solid State Lighting application sales have grown seven fold since 2005

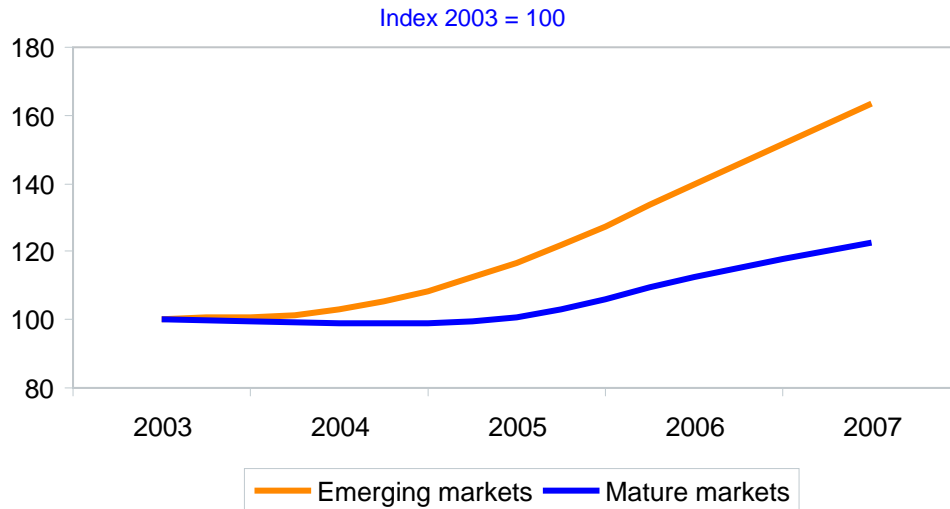


Emerging Markets are also a major force in driving organic growth

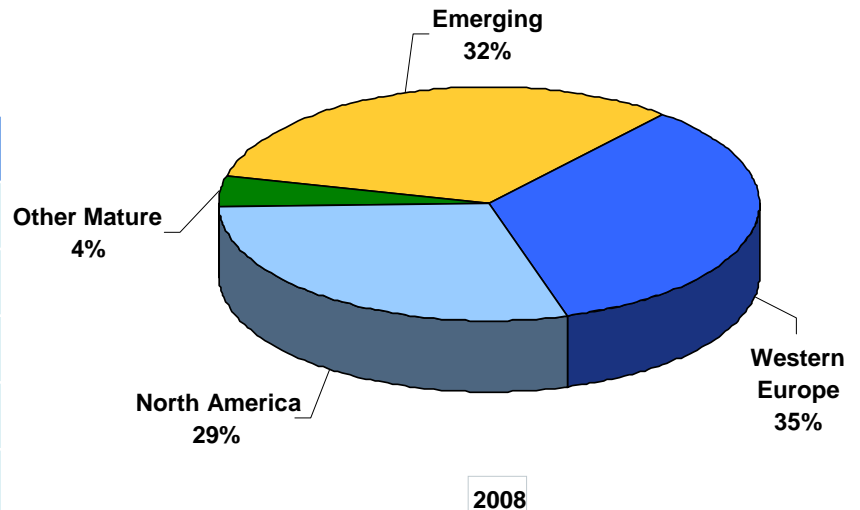




...leveraging our excellent market position, strong brand and underlying market growth

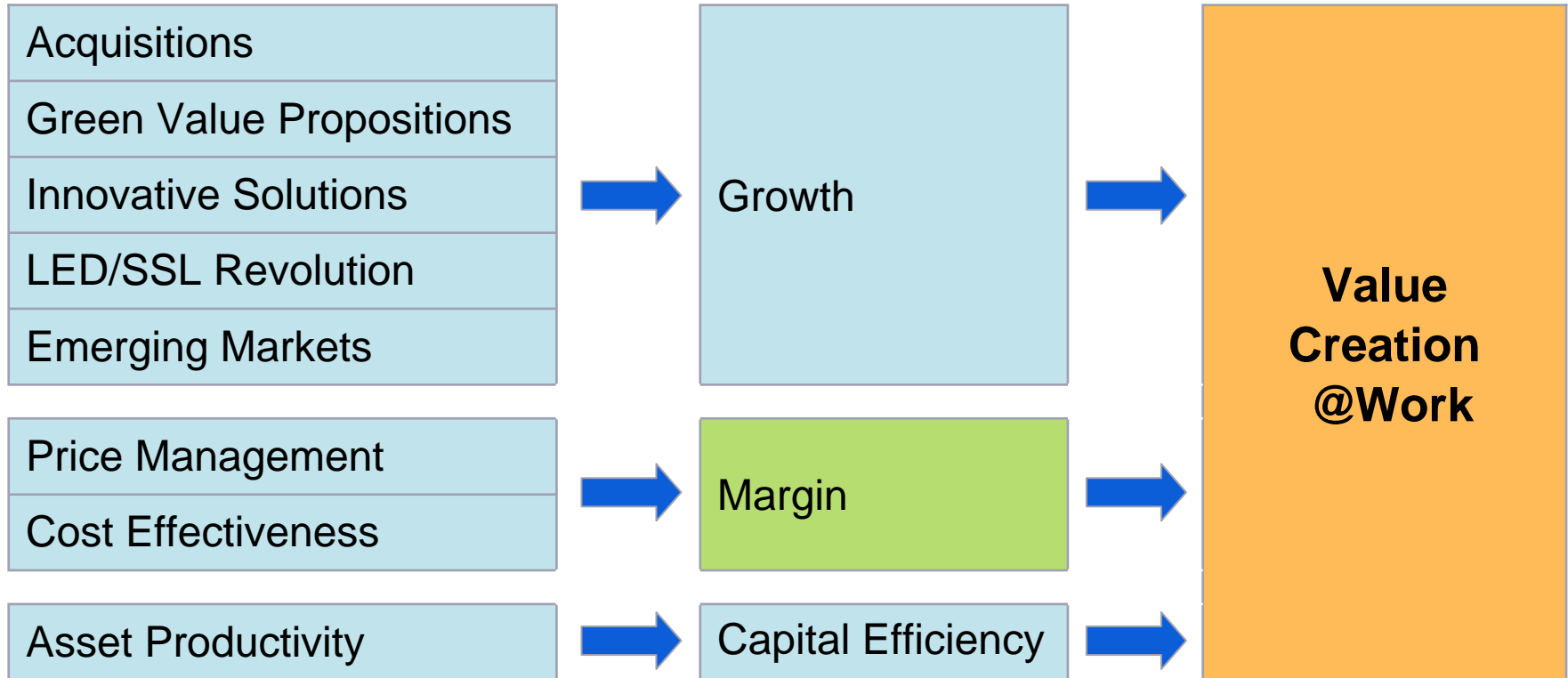


Index sales 2003/2007 – Emerging markets	
China	170
India	159
Asean	187
Eastern Europe	248
Latam	172



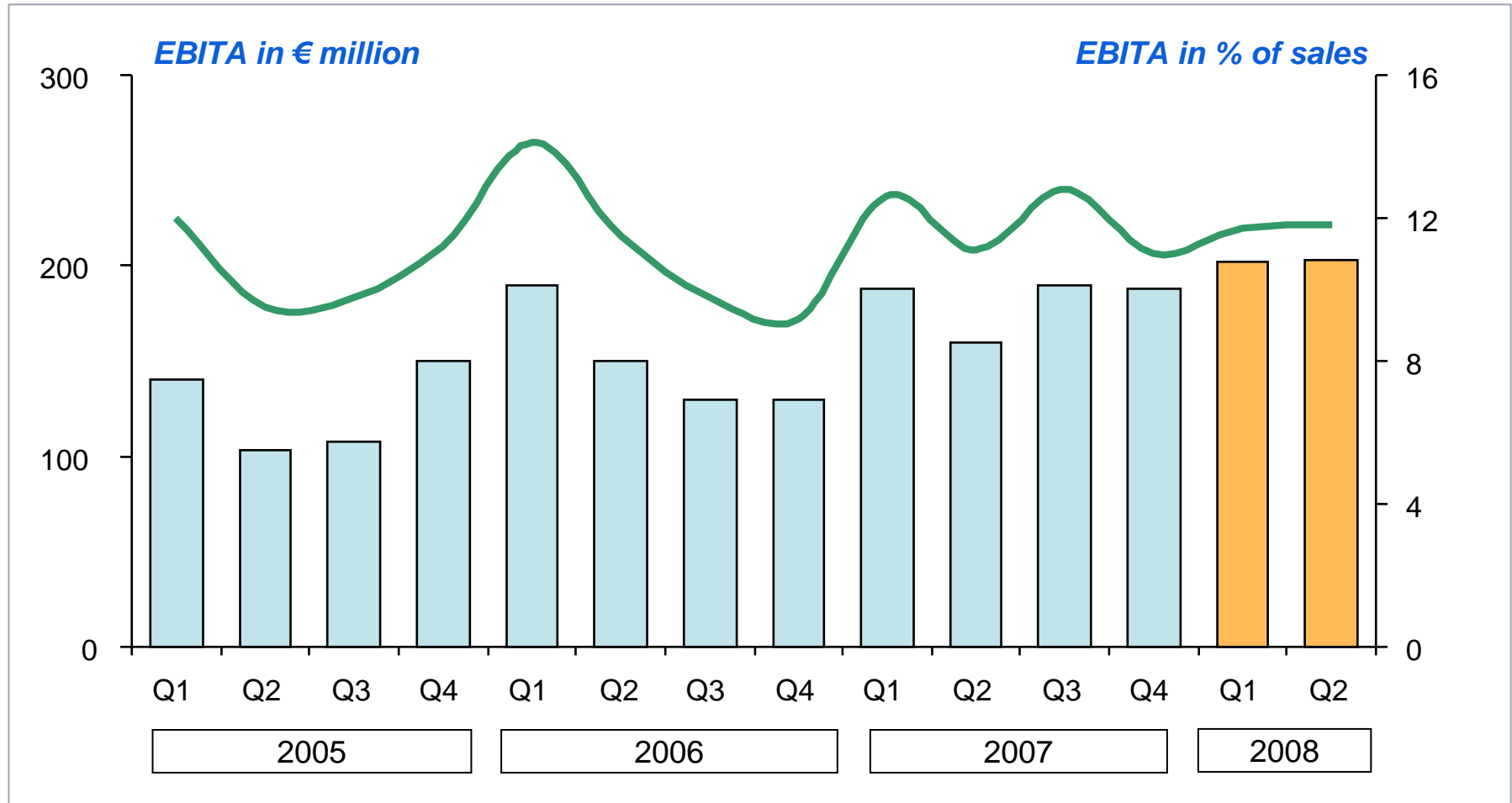


Value Creation at Philips Lighting



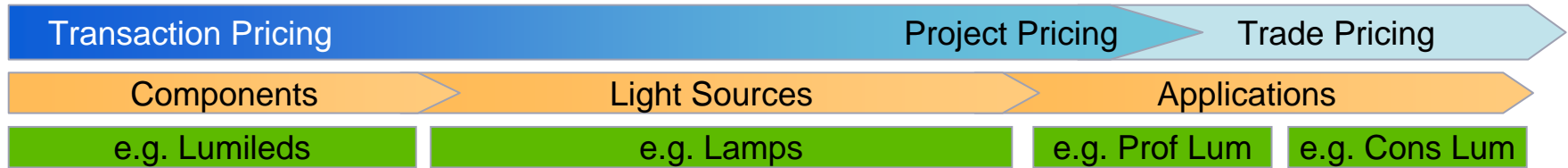


EBITA is increasing year-on-year,
with reducing volatility

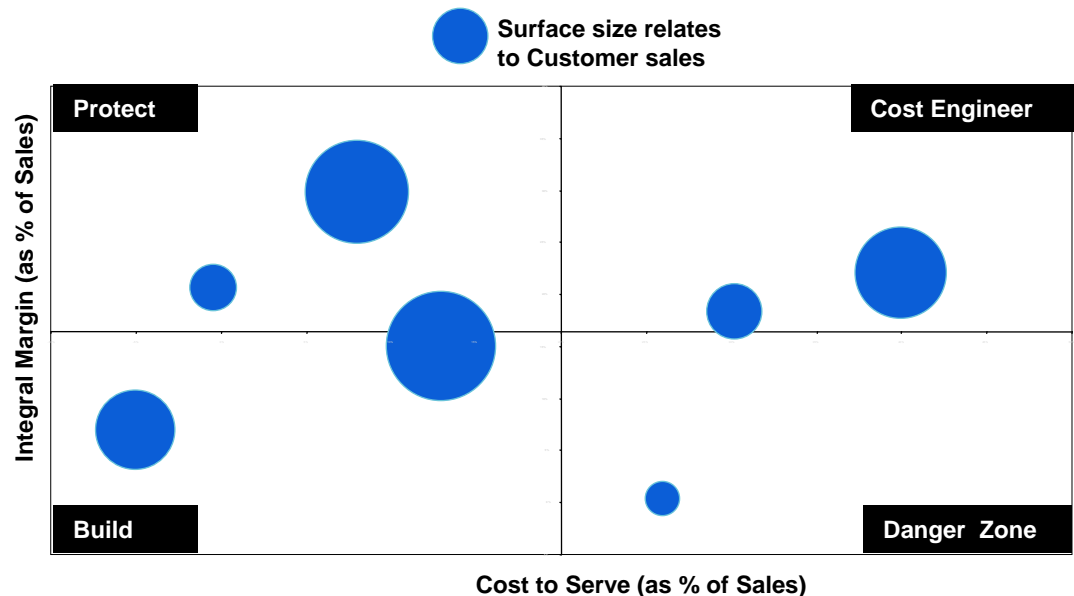




Price Management is an important lever to protect profitability margins

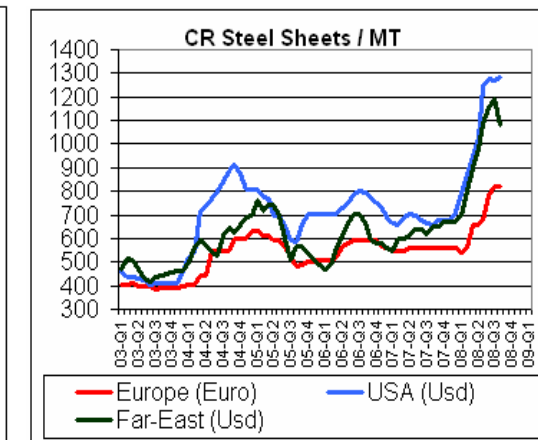
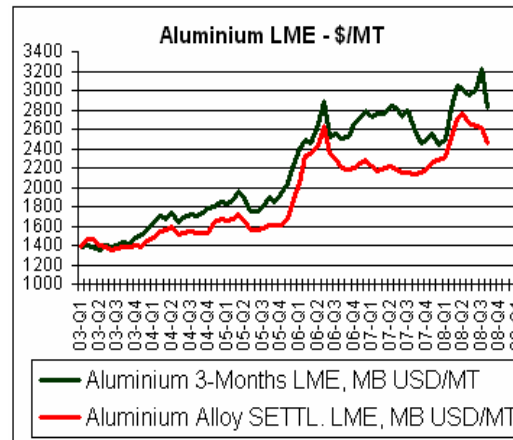
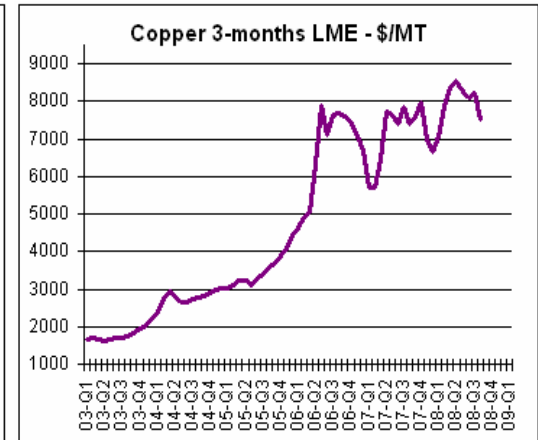
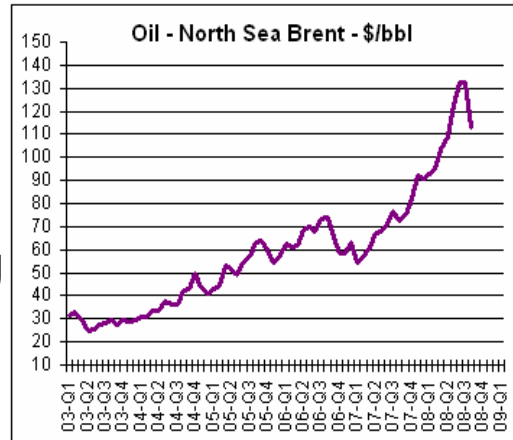


- Lighting industry has a history of relative price stability, while inflation can often be passed-on in the chain
- Price Strategies are set for transactions, projects or trade based on value of product offer, and competitive situation
- We have rolled-out Customer Profitability to optimize allocation of resources and to manage margins



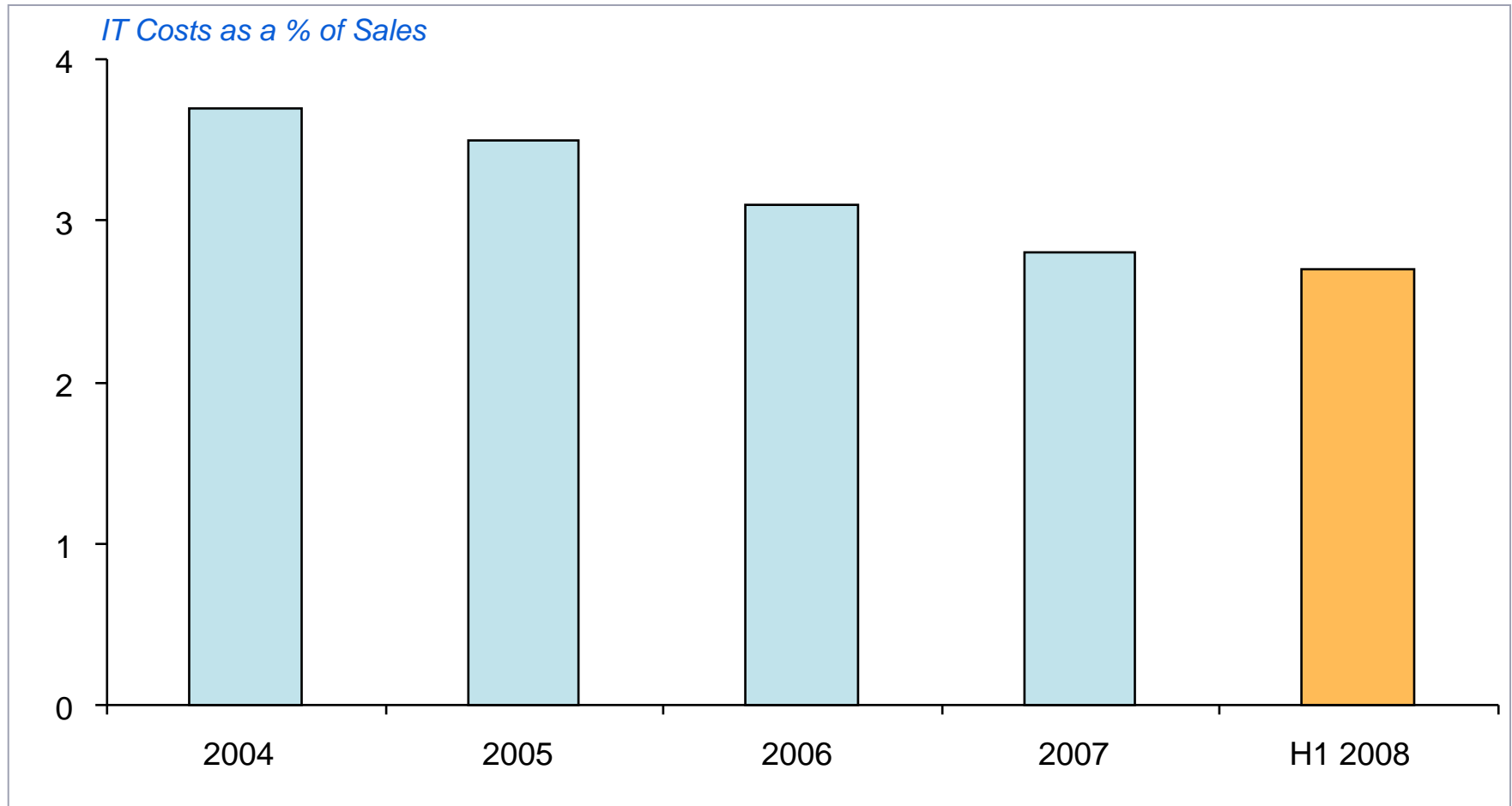
Effective purchasing complements price increases to help offset higher energy and commodity prices

- Execute commodity approach leveraging total Philips spend
- Consolidate supply base via strategic suppliers; push long term contracts
- Value-engineer products to simplify manufacturing and substitute materials
- Reduce energy consumption of suppliers' manufacturing locations; hedging
- Increase outsourcing and reallocate towards suppliers in emerging markets



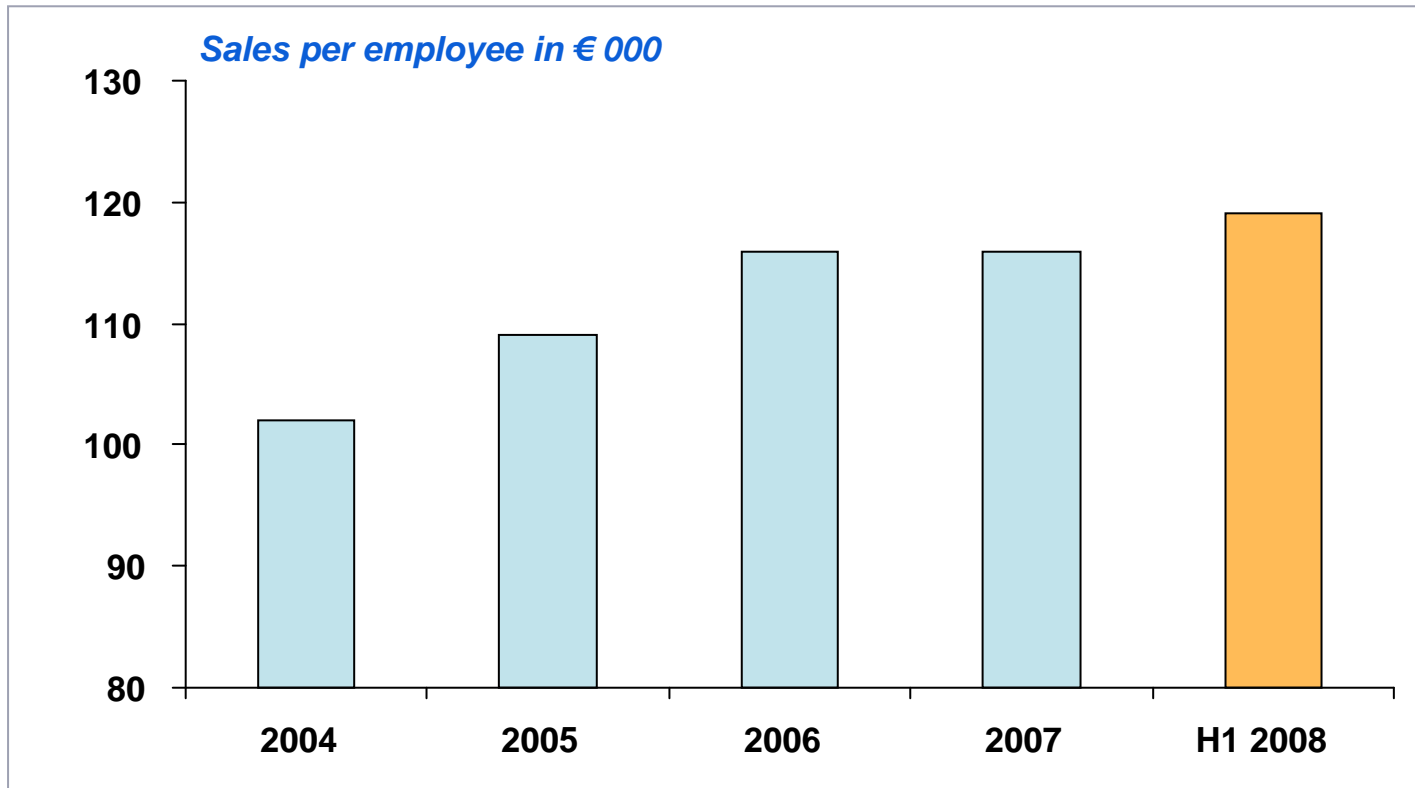


Steadily lower IT costs through standardization of infrastructure and reduced # of ERP platforms





Productivity steadily increasing, with further improvements planned



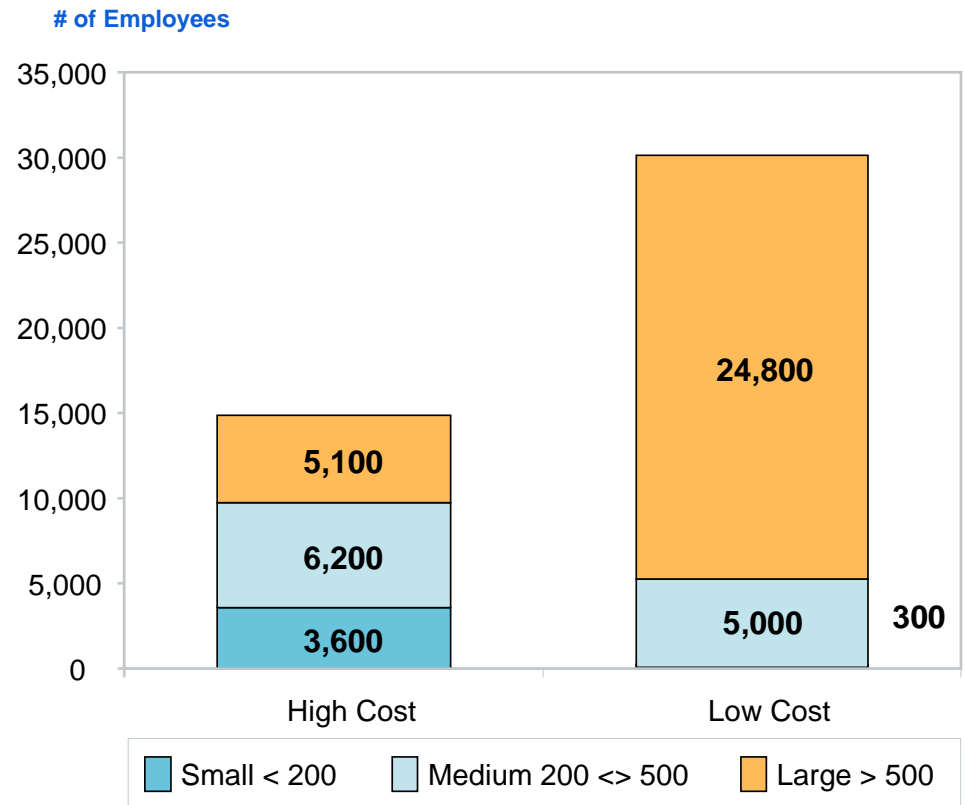
- We are busy transferring our experience in migrating production to low cost countries also to acquired companies
- We plan to steadily increase outsourced production in the coming 3 years from the current level of 22%



Our current industrial footprint balances customer service with lowest integral cost

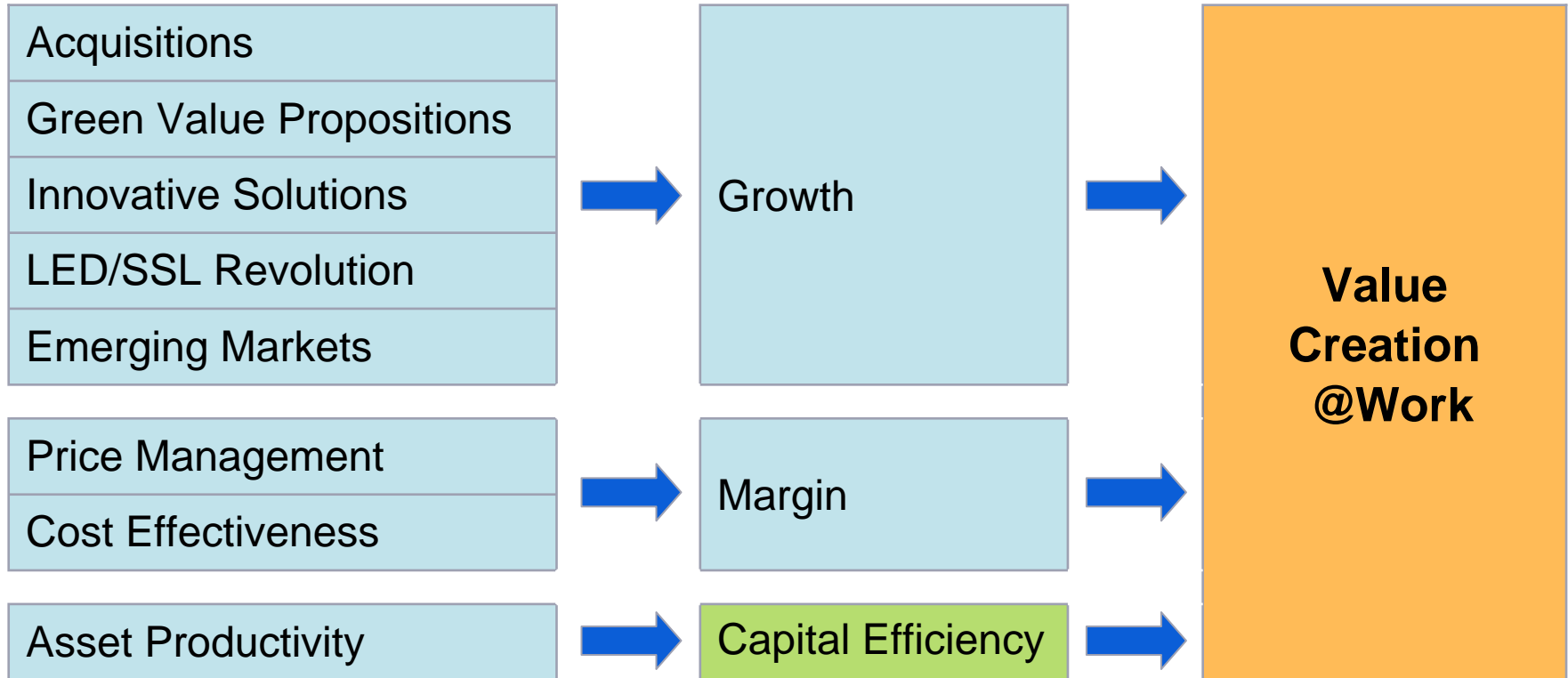
- 2/3 of the 45.000 manufacturing people work in production centers in low cost countries
- Production sites in low-cost countries include large lamps, LED and luminaires assembly factories
- Manufacturing in high-cost countries takes place in assembly sites, which are able to respond fast to customers. Other sites are high-tech factories

Manufacturing Employees



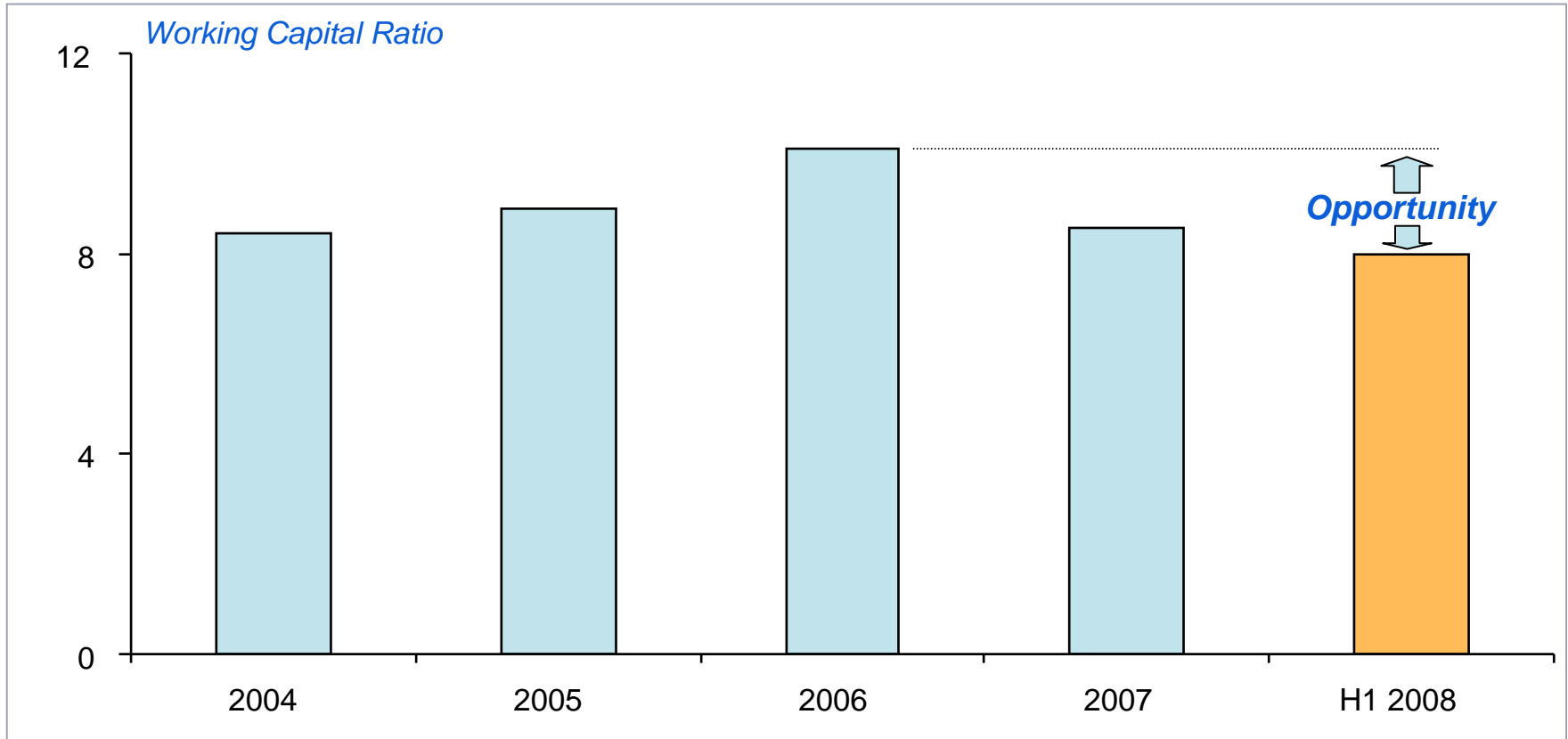


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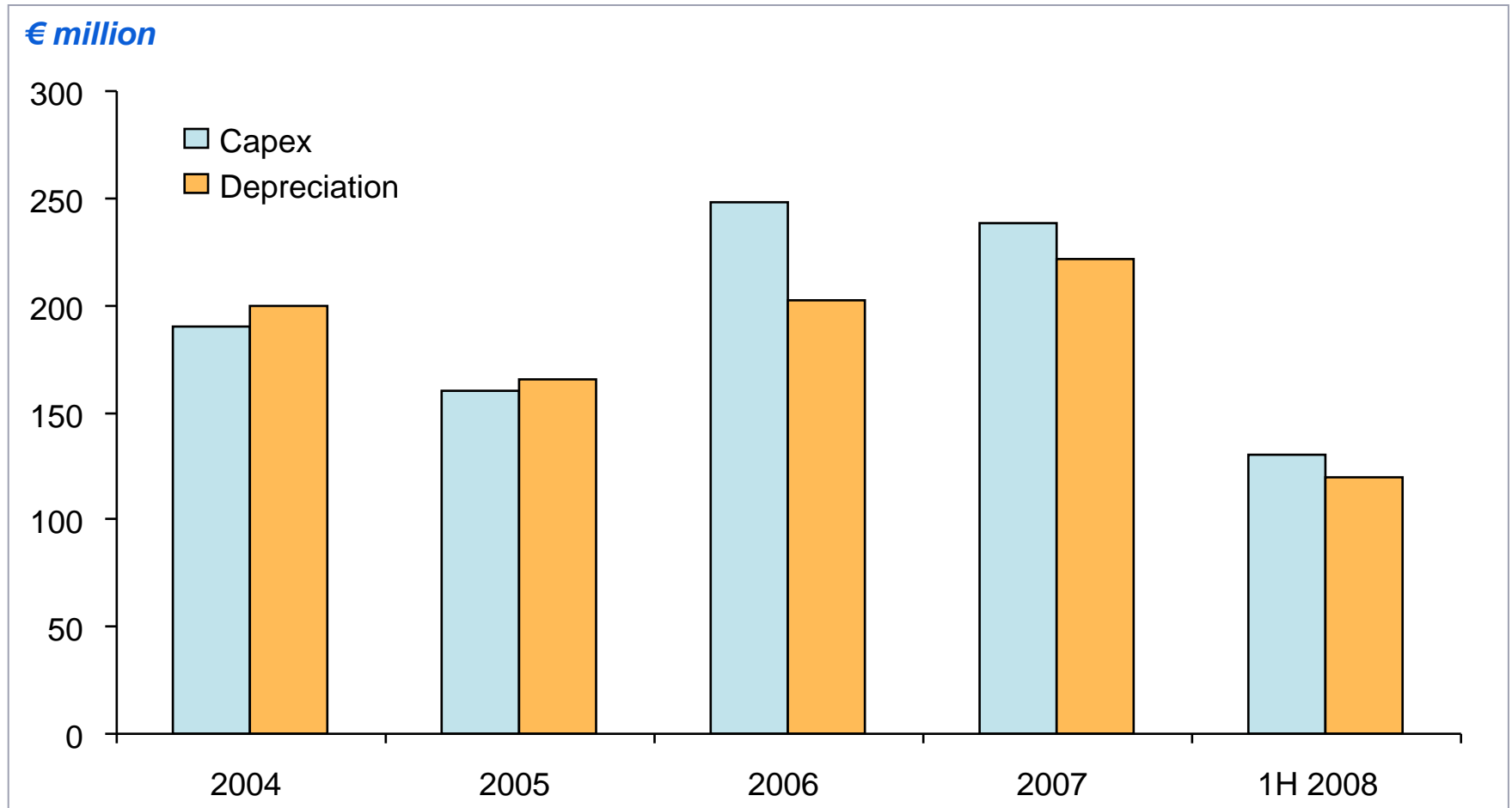
Significant opportunity to apply Philips working capital management levels to acquired companies



- We have started a number of dedicated projects to improve asset productivity in the coming quarters



Capex focused on process innovation, selective capacity expansion & productivity improvement



Note: 2006 Capital Expenditure data excludes Lumileds' Land & Building purchase



Responses to Business Risks are in place

Possible Risk

- Building & construction slow down
- Consumer spending slow down
- Increasing costs of commodities
- Inflation

- Faster end-of-life of mature technologies

- New entrants

Responses

- Price management
- Cost improvement initiatives
- Productivity projects
- Hedging

- Re-balance R&D spend to new technologies and applications

- Roll out licensing program
- Alliances

In summary: Philips Lighting is well-positioned to create value, achieve its goals for 2010

- Multiple growth drivers will continue to fuel sales growth of Lighting sector
- Sophisticated Price management and a variety of cost strategies to protect profit margins
- Capital Efficiency set to improve further

