Lighting

David Hamill
President and CEO of Philips Lighting
Agenda

- Philips Lighting: Position and Strategy
- Marketing Excellence
- End-user driven innovation
- Delivery reliability
- Room for Improvement
- Continued Growth
still 60,000 to do

1891

2001: 4,500,000,000 to do
Philips Lighting
Sales as % of Philips Electronics

2001

Philips Lighting
16%

Philips Electronics excl. Lighting
84%

Philips : EUR 32,300 mln
Lighting : EUR  5,083 mln
<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Turnover</strong></td>
<td>EUR 5.1 billion</td>
</tr>
<tr>
<td><strong>EBIT</strong></td>
<td>EUR 623 million, or 12.2% of sales</td>
</tr>
<tr>
<td><strong>Net operating capital (NOC)</strong></td>
<td>EUR 2.0 billion</td>
</tr>
<tr>
<td><strong>Return on NOC</strong></td>
<td>30%</td>
</tr>
<tr>
<td><strong>Employees</strong></td>
<td>47,922</td>
</tr>
<tr>
<td><strong>Capital expenditure</strong></td>
<td>EUR 224 million</td>
</tr>
</tbody>
</table>
Benchmark – EBIT %

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philips Lighting</td>
<td>12.2%</td>
<td>11.4%</td>
</tr>
<tr>
<td>GE Lighting</td>
<td>9.5%</td>
<td>4.5%</td>
</tr>
<tr>
<td>OSRAM</td>
<td>8.2%</td>
<td>8.7%</td>
</tr>
</tbody>
</table>

Q3

- Philips Lighting: 12.4%
- GE Lighting: -3.8%
- OSRAM: 9.0%
Philips Lighting
Sales per Business Group

- Lamps: 51%
- Lighting Electronics: 19%
- Automotive & Spec. Lighting: 13%
- Luminaires: 16%
- Others: 1%

Total Sales to thirds: EUR 5.1 billion
### 2001 Market Position

<table>
<thead>
<tr>
<th>Philips position</th>
<th># 1</th>
<th># 2 or 3</th>
<th>&lt; # 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of market as % of world</td>
<td>38%</td>
<td>22%</td>
<td>7%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>Lamps</th>
<th>Luminaires</th>
<th>Light. Elec.</th>
<th>Automotive</th>
<th>SpL.</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>W. Europe</td>
<td>#1</td>
<td>Not served</td>
<td>#1</td>
<td>#1</td>
<td>#1</td>
<td>#1</td>
</tr>
<tr>
<td>E. Europe</td>
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<td></td>
<td></td>
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<tr>
<td>N. America</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>L. America</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td></td>
<td></td>
<td>#3 or 3</td>
<td>#1</td>
<td></td>
</tr>
<tr>
<td>Asia/Pacific</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>#1</td>
<td>Not applicable</td>
<td></td>
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</table>
## Lighting Strategy Overview

### Ambition

- **Profitable Growth:**
  - In developing markets
  - With leading global customers
  - In new segments (NBC)
  - In existing markets
- Recognized as ‘Setting the Pace’ by our stakeholders

### Strategy

- Via:
  - Innovation
  - Marketing Excellence
  - Delivery Reliability
- With:
  - Continuous improvement
  - Control of costs and assets
Agenda

- Philips Lighting: Position and Strategy
- Marketing Excellence
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- Continued Growth
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
Sun-tanning lamps – visible results
International Key Account Management

Global support with local tuning for internationally expanding key customers via

- Innovative product range
- Pull-creation via communication with end-users and influencers
- Reliable logistics
- International Key Account Management structure
- Transparent distribution policy
New In-store Segmentation
Home Depot

- World’s leading DIY company
- US$ 52 B sales through 1400 stores
- Ambition to grow to US$ 100B
- Philips track record of excellent category management

  e.g. HalogenA - Millennium ball on times square

- Philips as exclusive supplier of branded light bulbs
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Innovation: Create added value and lower costs

Continuing innovation with leading customer involvement based on end-user understanding

Innovative Lamps: Halogen

- PAR
- Twistline
- HalogenA
- Blown bulb halogen
UHP Miniaturization

Revolution in Size Reduction
Xenon Car Lighting
Projection systems

Ignited & driven by ...
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Delivery Reliability: complete & on time lamps world

<table>
<thead>
<tr>
<th>Year</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>2001</th>
<th>2002</th>
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<tbody>
<tr>
<td>2001</td>
<td>85</td>
<td>87</td>
<td>89</td>
<td>91</td>
<td>93</td>
<td>95</td>
</tr>
<tr>
<td>2002</td>
<td>91</td>
<td>93</td>
<td>95</td>
<td>95</td>
<td></td>
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Delivery Reliability
Inventory Reduction as % of Sales

Cycle Time Reduction secures Delivery Reliability
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BEST in Philips Lighting

All metrics show ample room for improvement

• Applying model from European Foundation for Quality Management: from 500 points today towards 700 in coming years

• Business Balanced Scorecards: focus on essentials

• Improve Business processes
  – Cycle time reduction
  – Black Belts: growing population of process champions
  – Process Survey Tools: from 4 towards 7 level

• Quality Improvement Competition: from 30 towards 40 % participation
Improvement in Lighting Electronics

Already implemented:
• Global Supply Base organization
• Standard manufacturing processes world-wide
• Product Platform management
• Technology Management approach

Further room for improvement:
• Uniform way of working across development centers
• One common IT infrastructure
  (copy Philips CE/Semiconductors)
• Linking of product development to manufacturing
• Increase commonality of components
Industrial Direction

Optimize the global industrial asset base:
• Inter-regional support supplies
• Non-consolidated participations
• Re-use of “existing” equipment
• Structural purchasing or outsourcing

Realization of ‘world class’ industrial performances:
• Standardization of machine platforms
• Process and maintenance management
• Updating & refreshment industrial competencies
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Expansion in China

- Large market potential
  - 180 cities with more than 1 mio people
- We create and extend distribution
  - With 100+ preferred partners
  - Internet enabled, for streamlining supplies, inventories, cash
- Growing (already leading) market share
- Industrial presence for all Business Groups
- Start for outsourcing
- Track record of profitability
Philips Extreme Ultra Violet for Next generation Wafersteppers (2007)
Solid State Lighting

LumiLeds (50/50 JV with Agilent):
• Continued growth and improving technology
• Current focus on Automotive and LCD Backlighting

Short term application of LEDs:
• Image builder for lighting industry (Decorative)
• Used as signal source (looking into the light vs illumination)
• Customized LED modules

Long-term (> 5 years) shift to Illumination
• Strong double digit growth
• Strong margin business

Philips Lighting in-road signs for traffic guidance
LCD Backlighting with LEDs

Continued growth
Continued Growth:
- Market share gain:
  - USA - Home depot
  - APR - China distribution expansion
  - Europe - Consumer marketing strategy
- Portfolio enrichment:
  - Solid state lighting

Continued improvement:
- Innovation
- Marketing excellence
- Delivery Reliability
- Cost and asset control