

July 2011

To: All Philips Lighting Purchasers—Fluorescent Products

From: Ed Crawford—CEO Philips Lighting North America

Subject: Global Supply of Rare Earth Oxides and the impact on phosphor based fluorescent lighting

Rare Earth Oxides (REOs) are a critical component of fluorescent based lighting systems. The recent global shortage of these materials is currently having a direct impact on phosphor availability and pricing. Experts predict that these shortages will continue through 2014 until new sources of supply will be able to ease the current situation¹.

Linear Fluorescent (TL), Compact Fluorescent Non-Integrated (CFLni), and Compact Fluorescent Integrated (CFLi) phosphors are experiencing unprecedented shortages in global supply, resulting in Philips price increases of over 300% in the last 6 months. Due to changing market conditions, Philips is implementing pricing actions on all Fluorescent based lighting products which will be reviewed on an ongoing basis.

As a world leader in lighting, Philips continues to lead the way in making improvements in areas that remain within our control. With this commitment in mind, Philips makes every effort to aggressively pursue optimization of designs which require REO, reduce waste in the manufacturing process, recycle various materials, and explore additional opportunities intended to defray cost increases experienced from REO materials.

Your Philips Lighting Account Manager will be updated weekly on changes in the market and ensure you are kept apprised of all communications.

Thank you for your continued support and patience as we navigate these turbulent times in the market place together.



Ed Crawford

CEO Philips Lighting North America

1) U.S. Department of Energy 2010 Critical Materials Strategy Summary. http://www.energy.gov/news/documents/Critical_Materials_Summary.pdf;
"GTSO: Goldman Sachs Analyst Predicts 'Severe' Rare Earths Deficit." BusinessWire.com. 6 May 2011.

The future outlook

Many analysts believe current shortages may be either eased or alleviated by 2013–2015 as new mines and processing facilities come online, but there is no certainty to this prediction.¹

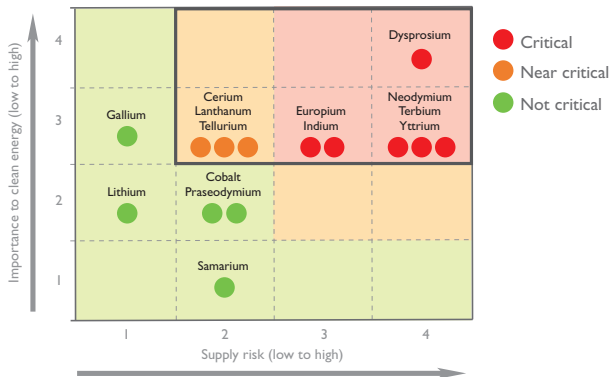
As a world leader in lighting, Philips continues to lead the way in making improvements in areas that remain within our control. With this commitment in mind, Philips makes every effort to aggressively pursue optimization of designs which require REO, reduce waste in the manufacturing process, recycle various materials, and explore additional opportunities intended to defray cost increases experienced from REO materials. These vigorous initiatives continue to deliver improvements, but are not enough to offset the ongoing and substantial cost impact resulting from the current global REO supply and escalating demand pressures.

How does this affect you?

- Expert opinions vary, however, market conditions will remain unstable for the near future
- Fluorescent based lighting products will have continued price fluctuations
- Philips Lighting is working diligently to relieve the current supply issues on phosphors
- Philips Lighting is committed to:
 - Sound supply chain practices on a global scale in order to secure materials
 - Keeping you updated and informed on all market conditions and changes
- Philips Lighting highly values you, our customer, and appreciates your patience as we together work through these market conditions
- Please stay in contact with your local Philips Lighting Account Manager for any questions and updates, or for more information please visit www.philips.com/phosphor

All REO phosphors are near critical or in critical supply

Short Term Criticality (0–5 years)

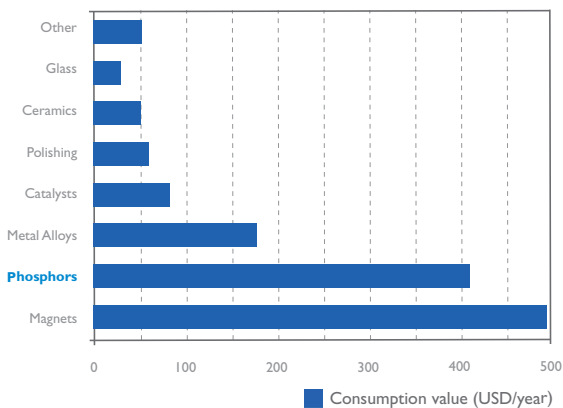


“China May Further Reduce Rare Earth Quotas, Goldman Sachs Says”

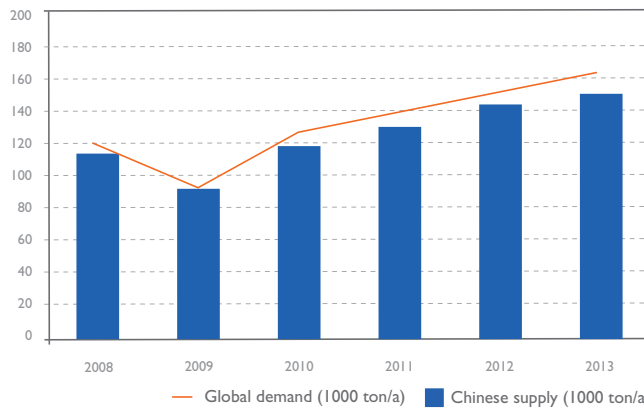
Bloomberg, May 4, 2011

“We suspect that export quotas will shrink further... The market will remain in ‘severe’ deficit this year and next... We are of the view that rare earth prices have not yet peaked.”

Global value of REMs by application



Supply/demand forecast (1000 tons/annum)



¹) Chan, Vincent. “Baotou Rare Earth,” Equity Research, Credit Suisse. 13 April 2011. <http://doc.research-and-analytics.csfb.com>

Source for top left chart: U.S Department of Energy 2010 Critical Materials Strategy. http://www.energy.gov/news/documents/Critical_Materials_Summary.pdf

Source for bottom charts: Chan, Vincent. “Baotou Rare Earth,” Equity Research, Credit Suisse. 13 April 2011. <http://doc.research-and-analytics.csfb.com>



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