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Investments of about €3 billion create new growth prospects for Osram

- Investments of around €2 billion planned in research and development by 2020
- Additional €1 billion intended for the construction of a new LED chip plant by 2020
- “Diamond” initiative promotes growth and sustained enterprise value
- Until 2020, average annual growth rates of 8% for revenue and 9% for EBITDA expected

The shift in the lighting market toward semiconductor-based technologies is creating new growth opportunities, which Osram will consistently seize. To this end, the lighting company will invest around €3 billion in new technologies and applications by 2020. Of this amount, approximately €2 billion will be spent on research and development in order to further strengthen Osram’s technological leadership and to expand into new markets. Additionally, Osram has planned another €1 billion for the construction of a new LED chip plant in Malaysia. This is to unlock additional growth potential, in both the dynamic, technology-driven general lighting markets and niche markets, where Osram is already in a good position today. “With a focus on profitability, flexibility, and entrepreneurship, following a phase of strategic realignment, we are now launching the ‘Diamond’ innovation and growth initiative. This means we are switching the focus to sustainable growth, benefitting even stronger from the potential offered by semiconductor-based technologies,” said Olaf Berlien, Chief Executive Officer of OSRAM Licht AG.

“Diamond” comprises several strategic measures. In a first step, Osram will invest around €370 million in its Opto Semiconductors (OS) segment for a new LED chip plant in Kulim, Malaysia. Since further expansion measures are already being planned, the company expects to invest a total of around €1 billion there by 2020. The new plant will represent the largest and latest 6-inch LED chip production site worldwide. The additional production capacity and its technological leadership will enable Osram to significantly increase its market share in the fast

growing general lighting markets. This market segment is the largest in the area of opto semiconductors, with a current volume of around €5.7 billion.

Given average annual growth rates of 7.5 percent, it offers the company the greatest potential until 2020. Through economies of scale and synergies, Osram can also reduce its cost position in other market activities such as automotive lighting as well as applications for mobile devices, in which Osram already has a strong presence.

As technology leader, Osram is also planning additional investments in the Specialty Lighting (SP) segment to facilitate the broad-based rollout of new technologies in the market and to realize further growth potential. For many years, the company has been the global leader in automotive lighting. It intends specifically to strengthen the activities with innovative lighting modules. For example, Osram is currently the only company in the world offering laser modules for headlamps ready for series production. Another cutting-edge technology in the field of automotive lighting is organic light-emitting diodes (OLEDs). This technology is also about to be rolled out for broad-based use in rear lights of vehicles. Osram expects the market for laser and OLED applications in the automotive sector to amount to around €1.1 billion in 2025.

In the recently created Lighting Solutions & Systems (LSS) segment, Osram will roll out many different measures in the coming years to realize intelligent, technologically demanding lighting solutions. Following the announced review of the luminaires and solutions business (LS), Osram aligns this segment towards profitable growth. In this area, especially the market entry and the range of integrated solutions offered are to be improved. Given the increasing importance of complex lighting solutions, Osram is also shifting the focus on expanding the electronics and software expertise. Over the next two years, new capacities for electronic ballasts and light management systems will be created for this purpose.

Significant increase in research quota to strengthen technology leadership

In line with the announced innovation and growth initiative, Osram will increase its research and development budget significantly. By doing so, the company intends to promote in particular the development of smart city applications, wireless lighting control as well as laser

and OLED technology. Despite consolidation and focusing measures, Osram has kept its research quota at a constantly high level of just over six percent of revenue over the past years. After the initiated carve-out of the general lighting lamps business, the increased research expenditure will account for approximately 9 percent of revenue by FY 2016.

“Investments in research and development have paid off for the company in the past by taking it to a clear number 1 position in the automotive sector and leading to groundbreaking applications with opto semiconductors. Through the intended increase in research intensity, Osram wants to further strengthen its technical expertise for semiconductor-based technology and extend its market position,” said Chief Executive Officer Olaf Berlien.

“Diamond” promotes growth and sustained enterprise value

The “Diamond” innovation and growth initiative will increasingly focus the company on balanced growth and add value for employees, customers, and shareholders. In addition to high-revenue areas that hold large growth potential for the company, lucrative niche areas, where Osram is already in a good position, will continue to make a valuable contribution to overall returns. Against this backdrop, the company has set the following targets, to be achieved in FY 2020:

- Osram aims to achieve revenue of between €5 billion and €5.5 billion. After the carve-out of the lamps business, this would correspond to an average annual growth rate of 8 percent.
- Earnings before interest, tax, depreciation, and amortization (EBITDA) of between €0.9 billion and €1 billion. This would correspond to an average annual growth rate of around 9 percent.
- In addition, the company aims to generate earnings per share of around €5, which would be equivalent to an average annual increase rate of around 25 percent compared with fiscal 2015. The announced share buyback program is included in this target.

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ABOUT OSRAM

OSRAM, based in Munich, is a globally leading lighting manufacturer with a history dating back more than 100 years. The portfolio ranges from high-tech applications based on semiconductor technology, such as infrared or laser lighting, to smart and connected lighting solutions in buildings and cities. OSRAM had around 33,000 employees worldwide at the end of fiscal 2015 (September 30) and generated revenue of almost €5.6 billion in that fiscal year. The company is listed on the stock exchanges in Frankfurt and Munich (ISIN: DE000LED4000; WKN: LED 400; trading symbol: OSR). Additional information can be found at www.osram.com.

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