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909M89

HAVELLS INDIA: THE SYLVANIA ACQUISITION DECISION

Swetha Dasari wrote this case under the supervision of Professors Charles Dhanaraj and K. Ramachandran solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

 Version: 2011-12-21

"If you can get back to us with a bid by next Wednesday, we could potentially get this working for Havells." That was the message to Havells India Limited (Havells) from Rothschild, a New York-based investment banker, referring to a potential acquisition target, Sylvania Lighting International (SLI), headquartered in Frankfurt, Germany. It was the first week of November in 2006, which was turning out to be a record year for Havells, with sales expected to exceed Rs10 billion. The company, with its headquarters based in Delhi, the capital city of India, was emerging as a leading manufacturer in electricals, such as circuit breakers, switches and cables. Havells' board comprised its founder, Qimat Rai Gupta (QRG), who was serving as the company's chairman and managing director (CMD), his son Anil Gupta, joint managing director, and a small group of relatives and professional managers. Rothschild was in the process of working out an exclusivity agreement with another unnamed bidder, which if it went through, would block the information flow to Havells. The board had less than a week to decide on its action plan.

ELECTRICAL AND LIGHTING INDUSTRY

The electrical and lighting industry is a loose agglomeration of businesses involved in some way with the generation, transmission and distribution of electricity. Lighting and lighting fixtures have been traditionally associated with this industry even though they have distinctly different technological characteristics. For example, the National Electrical Manufacturers Association (NEMA) in the United States incorporates businesses in 10 segments: building systems, electronics, emerging technologies, industrial automation, insulating materials, lighting systems, medical imaging and technology, power equipment, security imaging and communications, and cable and wire. A fundamental understanding of the characteristics of electricity and a common concern for the safe use of electricity seem to be the binding forces across these diverse businesses. There are separate industry associations for power generation companies, power transmission companies, etc. Large companies, such as Siemens and ABB, tend to have business in all three segments. Companies, such as GE and Philips, have lighting as a core product, typically housed within a consumer products division.

The electrical components segment (normally referred to as "electricals") comprises components such as circuit breakers and switches, and the lighting segment comprises light sources (e.g. bulbs) and lighting fixtures. Although these two segments have distinct technological characteristics, the distribution and retailing of the products from these two segments are through common channels and often are bundled together in large project bids.

Electrical Components

Electrical components are mechanical devices used in electrical appliances; wires, cables and switches are common products. Other examples include diodes, capacitors, insulators, resistors, motors, switches, switchgear and relays. Electricals must be safe and made of good material; they must not leak electricity. In addition, they must be durable and capable of sustaining the designed loads. For the electricals used in automobiles, the criteria often includes compact and lightweight. Quality is an important consideration for these products as even a small error in shape or workability could damage the whole device. To control these requirements, there are a number of international and local standards for quality for these electrical products. In addition, branding and certification by national and international bodies have played a critical role in consumers' buying decisions related to these products.

In 2006, the global electricals market was highly fragmented and estimated at more than $1 trillion. Average profitability, as measured by return on sales, varied from four to eight per cent. Industry growth in a particular national market was a direct function of the market's GDP growth and the market distribution paralleled the overall distribution of wealth. The United States was the largest electrical market in the world with a 29 per cent share of the global market. Western Europe, comprising 16 countries, was claiming about 22 per cent of the global market. In most countries, the industry growth rate mirrored the GDP growth rate. Asian markets were growing at a faster pace than those in the Americas or Europe.

Firms in the electricals segment manufactured a wide range of products. For example, Schneider Electric was one of the world's largest manufacturers of equipment for electrical power distribution and for industrial control and automation. Founded in 1836 in France as an armament company, Schneider had grown to a 120,000-employee outfit in 102 countries, registering global sales of €16 billion in 2006. The company was also in a wide variety of infrastructure-related projects, such as automation systems for the automobile and water-treatment industries, airports, road and rail networks, and port facilities. More than half of Schneider Electric's sales came from outside Europe, with 32 per cent of the revenue coming from emerging markets such as India and China.

China was emerging as a major force in the global electrical industry with its low-cost production capability and global trading networks. For example, Chint Electrics Co. Ltd (CHINT), founded in July 1984 in Wenzhou, China, was a leading manufacturer of electrical products. With 16,000 employees and sales of $2 billion in 2006, CHINT had established a global sales network with branches and regional offices in the United States, the Middle East, Germany, Russia, Brazil, Ukraine, Hong Kong and Great Britain.

Lighting

The lighting segment was made up of two major sub-segments: light sources, and light fixtures and components. Typically, a lighting setup comprised various elements such as a source of light (lamp), an aperture, a reflector that directs light, the electrical ballast, and an outer shell for protecting the lamp. The

traditional incandescent lamps (using filaments), including halogen lamps, were being replaced by fluorescent lamps, including compact fluorescent lamps (CFLs). The fixtures and components, on the other hand, ranged from simple sconces to elaborate chandeliers. Lamps and lighting fixtures were seen as not only providing illumination, but also as a complement of beauty. Lighting and fixtures also were covered by strict safety standards.

Estimates of the global lighting market in 2004 varied from $40 billion to $100 billion, about a third of which was lamps. The geographic distribution of the market paralleled the electricals market. Although there was little commonality in the underlying technologies between electricals and lighting, the fast-changing consumer dynamics and the distribution channels played a major role in keeping the two segments close. Growth in emerging markets and the consequent improvement in living standards was expected to give a significant boost to this sector. In early 2006, many industry analysts were expecting a steep rise in infrastructure investments globally and viewed the industry as poised for a major growth spurt. International tariffs ranged from five to 10 per cent. Also, in the late 1990s, manufacturing had shifted to Asia, due to the availability of automation technology and low-cost skilled labor.

Research and development played an important role in increasing productivity and adding value to the products. While the electricals design involved mechanical, thermal and electrical sciences, the lighting industry used material science, physics of light and electricity, and chemical technologies to develop the product. While in the 1990s innovation was driven by a goal to lower manufacturing costs, starting in 2000, energy efficiency began driving research and development (R&D). Europe and North America were promoting energy-efficient technologies such as CFL lighting. But residential customers did not rush to this technology, as it was very expensive. A new technological innovation, solid-state lighting, more commonly known as light emitting diodes (LED), with greater energy efficiency and new capabilities, was seen as having the potential to revolutionize the industry.

Safety and Distribution

Given the importance of safety, both to the private citizen and the public, several standards-setting bodies were active in different geographic markets to establish internationally acceptable quality standards for the electrical industry. The more widely used standards were the International Electrotechnical Commission (IEC), CE Marking (CE) and German Standards (GS) in Europe, and Underwriters Laboratory (UL) in North America. In addition, almost all countries had local standards, which were derived from international standards and were augmented with more tests to cater to the local environmental conditions. While they provided security and safety, in many emerging markets they posed significant non-tariff barriers for foreign firms, as getting approval per local standards was a time-consuming and expensive exercise.

The distribution system in electrical and lighting products worked through three major channels. Institutional buyers, such as governments and construction companies, bought directly from manufacturers through a contract bidding process. Wholesalers were used for large purchases, mainly for commercial customers, and retail stores were used for residential customers. In the United States, Europe and other developed nations, large retail chains such as Walmart, Home Depot, Hagemeyer or IKEA distributed lighting products, while in India and other similar emerging markets, small retail shops specializing in electrical items were the retailers. Manufacturers' showrooms were used by a few to showcase the lighting designs. The online channel was primarily used for information purposes; rarely was it used for sales transactions. The wholesalers' margins were around 15 per cent and retailers' margins were about 20 to 25 per cent.

HAVELLS INDIA

By the early 2000s, Havells had established itself as a dominant player in the switchgear market. With a strong brand presence and an overall market share of 35 per cent in India, it was the largest manufacturer of miniature circuit breakers (MCBs) in India and among the top 10 global manufacturers of switchgears. Shares of Havells were listed in the National Stock Exchange (NSE), the Stock Exchange, Mumbai (BSE) and Delhi Stock Exchange (DSE). Exhibit 1 presents Havells' financials for 2004-2006, and Exhibit 2 presents a breakdown of revenue across product segments.

Havells competed with companies like Larsen &Toubro and Siemens in industrial switchgear and with Legrand and Indo Asian in domestic switchgear. In the cable and wire (C&W) business, the company offered an entire range of low- and high-voltage cables and co-axial TV and telephone cables. However, competition was intense with larger players like Polycab, Finolex, CCI and Universal Cables. In the electrical consumer durables (ECD) business (fans, light fittings, CFLs, etc.), it faced stiff competition from established players, such as Crompton Greaves and Bajaj Electrical. Large numbers of localized players added to the pricing pressure.

Entrepreneurial Startup

Havells started as Guptaji and Company, a small trading business in Central Delhi's Bhagirath Place, which is a wholesale market for electrical goods. A former teacher in Punjab, Qimat Rai Gupta (QRG) moved to Delhi to work with his uncle, Surjit Kumar Gupta; the trading operations commenced in the year 1958. Despite the difficult economic environment in India, the business continued to grow. In 1961, QRG bought the rights to a well-reputed brand name, "Havells," which was owned by Haveli Ram Gandhi, another local electricals company. QRG recalled:

> Havells was a well-recognized brand among the consumers and was owned by one of the traders who while going through a rough time in the business decided to put that brand up for sale. Most of my trading community did not think much about owning a brand name. But, I thought that this brand could help me grow my business. Perhaps I could make it big in times to come. So I decided to buy the Havells brand, and was able to finance the deal with my savings. It was a turning point for me and for the company.

The company was incorporated as Havells India Private Limited on August 8, 1983, under the Companies Act (1956); subsequently the name was changed to Havells India Limited in 1992.

In the mid-1970s the government of India introduced several new regulations favorable to the manufacturing industry. QRG decided to set up manufacturing in 1976 and started with a small plant for rewireable switches and changeover switches at Kirti Nagar, Delhi. The company started manufacturing HRC fuses in 1979 at Badli, Delhi, and high-quality energy meters in 1980 at Tilak Nagar, Delhi. Over the next two decades, Havells produced a range of electrical products such as MCBs, control gear products, and power cables and wires. The company grew steadily by establishing additional manufacturing plants and acquiring existing plants and companies. QRG recalled:

> The growth did not come easy. In those days, it was very difficult to get a bank loan. Apart from these external challenges, I had to contend with internal family issues. My family members were my partners and they were not very happy with my aggressive risk-taking

> approach. Managing family relationships and conflicts took quite a bit of my time and energy. But I am glad I did not lose focus and kept moving forward.

Growth in Domestic Markets

Havells started growing rapidly through the 1980s. It acquired Towers and Transformers Ltd, a medium-sized company for manufacturing energy meters, and expanded its Badli, Delhi, plant to manufacture MCBs under a joint venture agreement with Geyer, Germany. In 1992, Anil Gupta (hereafter referred to as "Anil"), QRG's son, joined the business as joint managing director. Anil had an economics degree from Sri Ram College, Delhi, and had recently completed a master's degree of business administration degree (MBA) from Wake Forest University, United States. Anil recalled:

> My father and I spent a lot of time together at the office. At home, too, the discussion about business would continue. I knew that I had joined a small Indian family business, which had its own culture and reality. I quickly realized that I needed much more than my MBA learning to work in the family business. I had to understand from my father the nuances and culture of the business. He had a way to handle people, which was characterized by taking them along and getting them to do the work. I also adopted the same approach.

Given the tradition within Indian family businesses where the son generally took over the reins of management from the father, Anil was received enthusiastically by the company's managers. He transitioned into the senior executive role by visiting the plants and interacting with managers one on one. Within a year, Havells was listed on the Bombay Stock Exchange (BSE). Anil recalled:

> We felt that this was one way of growing big. We were imitating many companies, which were going public at that time. We saw the growth potential and knew we needed the resources and reputation of a listed company to realize this potential.

The company went for an initial public offering (IPO) listing its stock in the Bombay Stock Exchange (BSE). The capital from the IPO was invested in setting up new manufacturing plants at Sahibabad, Uttar Pradesh, and Faridabad, Haryana, and also for acquiring a manufacturing plant at Alwar, Rajasthan. In 1997, Havells crossed an annual sales volume of Rs50 crores (500 million rupees) and was a significant player in the electrical products industry in India.

Building Capability for International Markets

The mid-1990s was one of the most difficult periods for the electricals industry. The liberalization policy of the Indian government triggered a wave of entrants from both well-reputed multinational corporations (MNCs), as well as generic imports from China. Havells, like many other companies, was being challenged on the low end by Chinese imports and on the high end by European imports.

Havells responded by entering into a series of international collaborations, starting in 1996 with a 50:50 joint venture between the Indian promoters and Electrium of the United Kingdom and Crabtree India Ltd. In 1998, it entered into a technical collaboration with Geyer to manufacture MCBs. The same year, it also initiated a 50:50 joint venture with DZG of Germany, under the name TTL Ltd.,to get into the energy meters business. Havells took a controlling stake in Standard Electricals, a medium-sized company manufacturing MCBs, fuse switches, and rewirable switches, with a market focus on South India. It also

took a 60 per cent equity stake in Duke Arnics Electronics Ltd (DAEL), a pioneer in the field of electronic metering with a heavy focus in R&D.

With these acquisitions, Havells emerged as the only group in the country to offer an entire range of electronic and electro-magnetic meters to domestic, commercial and industrial consumers. Standard Electricals, TTL, Duke Arnics Electronics, and Crabtree India all operated as standalone companies under the Havells group, bringing in almost half the revenue of the group; Havells India brought in the other half. By 2000, Havells group had reached sales of Rs500 crores (five billion rupees). Havells was the largest manufacturer of MCBs and current meters in India and had systematically developed a strong domestic distribution network for its expanded range of products with more than 1,000 dealers across India.

Realizing that it could suffer a loss of market share in India in the face of stiff competition from MNCs and Chinese imports, Havells started venturing into markets like Africa and the Middle East. Over the next few years, the company's thrust on exports continued along with its main focus on export volume and international business. The company set up an International Business Division (IBD) catering to more than 45 countries in Europe, the Middle East, the Far East and Africa. It also opened branch offices in London, Dubai and Bangladesh. In addition, given the importance of local, country-specific approvals required for the electrical equipment, Havells invested in acquiring international certifications in several markets in Europe and Asia for its electrical products.

While exports were not as profitable as domestic sales, they still gave a significant boost to the company's volume. The big breakthrough in exports for Havells came through two European outsourcing deals in mid-2003 for MCBs and electric meters, which boosted the export revenues to Rs60 crores in 2003-2004, a four-fold increase from the previous year. Reflecting on Havells' success, Anil noted:

> When we started to sell our products in Europe, we realized that our products had a huge consumer acceptance and were recognized for its quality. Established companies like Electrium were selling our products. But we did not have a brand equity outside India. That's when we thought of the need to build our own brand in international markets.

International Acquisitions

Havells' foray into international investments started in 2005 with a small acquisition in Greece for €10 million. It took three months of intense deliberations with a number of European companies. The move gave Havells a head start in Southern and Eastern Europe, as well as provided the mandatory global quality certifications needed to operate in the new European markets.

Electrium was one of the United Kingdom's leading electrical groups. It evolved under the ownership of Hanson plc, and was bought out by the company's management in April 1997. Havells had a collaboration agreement with Electrium for one of its reputed brands, Crabtree. In late 2005, management at Electrium decided to put the company up for sale and Havells pursued the deal vigorously, as did Rothschild and Deutsche Bank. However, in January 2006, Siemens Holdings plc. acquired the company for about £100 million, beating Havells' bid by less than £10 million. The missed deal taught Havells how to mobilize funding and how to deal with complex issues of mergers and acquisitions. Anil recalled:

> We were very confident of getting the deal as we had an active collaboration with Electrium. We were selling their Crabtree brand in India, and were producing for some of their sales in UK. We felt it was also the right size for an acquisition, given our sales were

> about twice that of Electrium. So, it was a shock to us when we learned that Siemens got the deal. Everyone in the company was dismayed. But, it gave us an opportunity to go through a massive exercise of participating in an international bid from A to Z. We learned how to negotiate an international deal and build relationships with bankers.

Havells continued to watch for potential acquisition targets around the globe. Given the competitive market both in India and abroad, Havells needed a global presence to gain cost advantage and also build its brand premium. It was during this phase that it received the call from Deutsche Bank with an opportunity to bid for SLI Sylvania, a lighting company with extensive operations in Europe and Latin America.

SLI SYLVANIA LIGHTING

SLI Sylvania started in 1901 as a small entrepreneurial firm, after Frank Poor and his partners in a small company in Middleton, Massachusetts, started a recycling unit for burned-out bulbs. They purchased old bulbs, cut off the glass tips, replaced the filaments and resealed the bulbs. The business grew rapidly and started manufacturing light bulbs and radio tubes. It was named Sylvania Products Company in 1924.

Over the next three decades, it went through several ownership changes and was eventually bought by GTE, a conglomerate technology-based company. In 1965, GTE's lighting division opened its headquarters in Denver, which enabled it to develop a global lighting business under the Sylvania brand. In the early 1990s, GTE, in response to considerable economic pressure, started divesting its non-core businesses. The lighting business was sold to Siemens, which was merged with Siemens' own lighting business to form Osram Sylvania. The Sylvania brand was used in North America and Osram brand was used elsewhere. The company had the third largest market share next to GE and Philips.

In order to meet the anti-trust requirements, Siemens had to sell off Sylvania's European and Latin American operations to a private equity firm owned by Citicorp. These assets, along with the rights to use the Sylvania brand in all regions outside North America, were subsequently incorporated in July 1992 as Sylvania Lighting International B.V. (SLI), a privately held company registered in the Netherlands. By the end of 1996, SLI had grown to generate annual sales of US$600 million across 30 countries outside of North America and was the third largest lighting company in Europe. It operated primarily in Western Europe, Australia and Latin America, and had manufacturing plants in nine countries outside the United States.

In 1997, Citicorp sold the company for $165 million to Frank Ward, an entrepreneur running Chicago Miniature Lamp, Inc. (CML), who eventually merged the operations in May 1998 under the name SLI, Inc. As of December 30, 2001, SLI Inc.'s global operations employed more than 8,400, with about 400 employees in the United States. The company operated 30 manufacturing plants, sales offices and distribution facilities in more than 28 countries around the world, including five manufacturing plants in the United States.

A string of acquisitions made by the new management in the same year, however, did not work out as expected. In addition, an aggravating economic slowdown and intensifying competition drove SLI to file for bankruptcy. In March 2003, Frank Ward sold SLI Inc. to a consortium of private equity capital firms comprising DDJ, Cerebrus and JP Morgan, which promised to invest strategically and grow the business. In 2004, a new management team under the leadership of Paul Griswold started restructuring the business by rationalizing its manufacturing capacity and aggressively expanding its geographic reach.

As of 2006, SLI Sylvania had a full range of lighting products, which compared very well with some of the leaders in the industry. For example, the 2006 revenue was €473 million (see Exhibits 3 and 4). One third of the sales came from fluorescent and compact fluorescent lamps, one third from architectural and industrial lighting, and the rest from three approximately equal segments comprising incandescent, halogen and high-density discharge lamps. In addition to the Sylvania brand, SLI was marketing several other brands such as Zenith, Linolite, Claude, Concord and Marlin. As of 2006, SLI had a global presence with eleven manufacturing facilities in five countries and 22 sales and distribution centres located mainly in Europe, South America and the Middle East. Given the competitive environment, SLI's management saw the need for fresh capital infusion in order to survive and grow the business, and, partly at the nudge of their bankers, agreed to place the company as an acquisition target.

CHALLENGES AHEAD

As the senior management at Havells were assembling for the board meeting, the initial reaction to Rothschild's invitation to bid for the acquisition of SLI seemed very positive. There were some concerns about Sylvania's Indian operations in the 1980s under the name of Sylvania-Laxman, but initial inquiries suggested that it should not present a problem to the acquisition.

Sylvania was primarily in lighting and lighting fixtures, whereas Havells' primary business was in electrical control gears, with a small presence in the lighting market. However, since all electrical products were sold globally through common distributors and retailers, Sylvania's wide marketing network was perceived as a good channel for marketing Havells' products in Europe.

Financing the deal would be a significant challenge. The deal was expected to cost more than $200 million, and SLI was approximately twice the size of Havells in sales. Havells had built a strong relationship with Deutsche Bank during a recent Electrium negotiation, which could be of significant help in financing the SLI deal. Given that SLI was based in Frankfurt, Germany, Deutsche Bank was expected to show some interest in the deal and also support Havells' bid. Given the small size of a senior management group with no formal mergers and acquisitions (M&A) personnel, putting together the proposal to Rothschild within a few days would be another significant challenge.

Chairman QRG reacted positively to making an offer, but also noted that, given the predominantly European and Latin American presence of SLI, it presented a double-edged sword: while being an attractive opportunity to expand the geographical scope of the company, it also presented a challenge of integrating the SLI managers with the Indian team. Integrating the predominantly European executives with the Indian company would be a demanding task (see Exhibit 5). Based on his entrepreneurial instinct, he was inclined to move forward with the deal. It was felt that even if due diligence yielded a difference of $15 million to $20 million, the difference would not matter much given the size of the acquisition. Anil noted to the team:

> We are a company which goes a lot on instinct. We believe that once we enter something we have to make it work. We believe in empowering people, rather than controlling them. What we do best is people management. We just need to make those people (Sylvania) ours and work with them and push/motivate them to achieve better results. Can we handle people? That should be our paramount question. If the answer is yes, then we can be confident that we can make this acquisition work. Let's not therefore think too much about culture and other issues.

Exhibit 1

HAVELLS FINANCIAL STATEMENT
(in millions of rupees)

STATEMENT OF INCOME	Year Ended March 31			
	2006	**2005**	**2004**	**2003**
Income	(Projected)			
Sales	11,151	6,659	4,192	2,931
Other income	35	29	76	42
	11,187	6,688	4,268	2,973
Expenditure				
Materials	5,821	3,327	2,031	1,369
Excise duty	1,114	834	563	406
Manufacturing	1,052	648	459	369
Office & administration	603	388	263	184
Selling & distribution	1,578	887	506	366
Financial	226	165	141	132
Managerial remuneration	6	5	5	4
Income tax expense	153	127	91	52
Total costs and expenses	10,554	6,382	4,059	2,883
Profit After Tax	**633**	**305**	**210**	**90**
BALANCE SHEET				
Current Assets				
Cash and bank	83	82	66	56
Sundry debtors	1,282	1,636	1,128	877
Inventories	1,906	1,061	561	352
Loans and advances	445	260	188	112
Total current assets	3,716	3,039	1,944	1,397
Property and equipment, net	1,464	882	436	295
Capital work in progress	68	41	28	5
Investments	32	32	32	157
Deferred tax assets	28	22	11	3
Total Assets	5,308	4,016	2,449	1,858
Current Liabilities				
Current liabilities	2,123	1,182	681	390
Provisions	213	129	103	62
Total current liabilities	2,336	1,311	784	451
Deferred tax liability	123	96	54	51
Secured loans	1,085	1,421	935	851
Unsecured loans	13	321	83	95
Total Liabilities	3,558	3,150	1,856	1,448
Stockholders' Equity	1,750	866	594	410

Source: Capitaline database, www.capitaline.com, accessed May 9, 2008; and Havells India Ltd. Annual Reports.

Exhibit 2

SEGMENT DATA OF HAVELLS INDIA
(in millions of rupees)

PARTICULARS	Year Ended March 31		
	2006	**2005**	**2004**
Segment revenue (incl. other income)			
a) Switchgear	3,299	2,179	1,597
b) Cable & wire	4,655	3,072	1,762
c) Electrical consumer durables	2,745	1,315	261
d) Others	489	121	667
Total	**11,187**	**6,688**	**4,286**
Less: Intersegment revenue	0	0	(18)
Sales/Income From Operations	11,187	6,688	4,268
Segment results			
(Profit(+)/Loss(-)before tax and interest from each segment)			
a) Switchgear	979	623	404
b) Cable & wire	647	377	211
c) Electrical consumer durables	381	207	28
d) Other	(21)	(27)	94
Total	**1,986**	**1,179**	**738**
Less: **(i)** Interest	180	135	(120)
(ii) Other unallocable expenditure net of unallocable income	1,021	612	(317)
Total Profit Before Tax	**785**	**432**	**301**
Capital employed (segment assets - segment liabilities)			
a) Switchgear	1,147	1,158	663
b) Cable & wire	762	611	480
c) Electrical consumer durables	798	662	186
d) Others	233	255	326
Total	**2,933**	**2,686**	**1,655**

Source: www.havells.com/quarter4result2006-07.htm, accessed May 9, 2008.

Exhibit 3

SLI SYLVANIA FINANCIAL STATEMENT
(in millions of euros)

STATEMENT OF INCOME	Year Ended Dec. 31		
	2006	**2005**	**2004**
Total Revenues	**473**	**457**	**446**
Costs and Expenses			
Direct costs	351	338	339
SG&A (excluding depreciation)	90	89	89
Depreciation & amortization	9	8	9
Corporate SG&A	5	6	7
Management fees, restructuring and other restructuring costs	(0)	18	23
Adjustments from audit to mgmt. reporting	0	3	2
FX adjustments	(0)	0	(1)
Total Costs and Expenses	**454**	**462**	**467**
Income from operations	19	(6)	(21)
Net interest income (expenses)	(9)	(5)	(4)
Other income (expense), net	(11)	(2)	3
Income before taxes	(1)	(12)	(22)
Income tax expense	(3)	(1)	(3)
Net Income	**(3)**	**(13)**	**(25)**

Note: Exchange Rate: US$1 = €0.757748.
Source: www.x-rates.com, accessed May 9, 2008.

Exhibit 4

SLI SYLVANIA BALANCE SHEET
(in millions of euros)

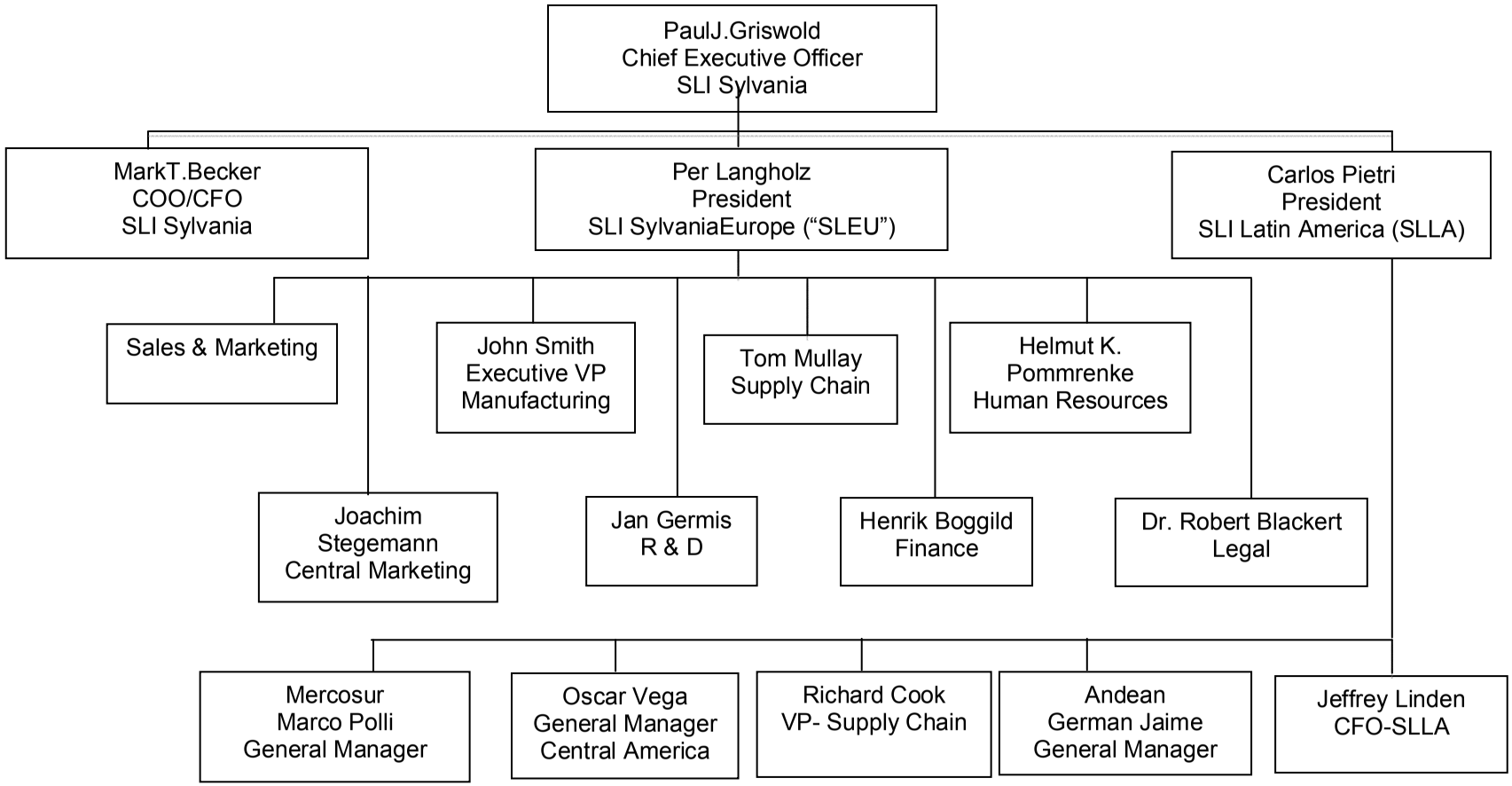
ASSETS	2006	2005	2004
Current Assets			
Cash and cash equivalents	10	22	23
Accounts receivable, net	115	110	100
Inventories, net	78	80	77
Prepaid expenses and other	8	19	7
Other receivables[a]	11	0	0
Deferred income taxes	3	2	(0)
Total current assets	226	232	206
PP&E, net	48	50	52
Intercompany loan receivables	1	0	1
Intangible assets, net	4	7	6
Other assets[b]	3	15	15
Total Assets	**283**	**304**	**280**
Current Liabilities			
Short-term borrowings and overdrafts	50	55	19
Current portion of capital leases	2	5	5
Accounts payable	67	59	54
Intercompany payables	3	2	2
Accrued expenses[c]	54	73	75
Accrued income taxes[d]	11	6	10
Total current liabilities	187	200	164
Capital leases, less current portion	17	18	23
Long-term debt, less current portion	0	1	0
Intercompany loans	17	47	55
Pension[e]	35	41	40
Deferred income taxes	0	4	2
Environment	2	0	0
Early retirement liability	4	0	0
Other long-term liabilities	1	12	10
Stockholders'equity			
Share capital & share premium	18	(19)	(15)
Total stockholders'equity	18	(19)	(15)
Total Liabilities & Stockholders' Equity	**282**	**304**	**280**

Notes:
a. Others receivables includes SLI Glass, Brazil receivables and the VAT recoverable.
b. Other assets includesexcess reorganization value and deferred financing costs.
c. Accrued expenses includesaccrued expenses, restructuring and related costs, and payroll and related costs.
d. Accrued income taxes includesaccrued income taxes, VAT payable, and Brazil sales tax.
e. Average Currency rates over 1993-2006 for Indian rupees against US Dollar and Euros are given below:

Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
INR/USD	31.43	31.39	34.71	35.59	37.19	42.33	43.39	46.77	47.99	48.24	45.53	45.06	45.67	44.73
INR/EUR	35.46	38.85	44.99	45.22	42.46	49.47	44.80	39.95	42.61	48.29	53.37	58.61	53.83	57.67

Exhibit 5

ORGANIZATION CHART — SYLVANIA LIGHTING INC. (2005)



Source: Company documents.