

Date

22 March 2018

Our reference**Pension scheme**

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Subject

Decision on indexation

Handled by

Board of Trustees

Direct line

030 - 277 56 40

Please quote date and our reference in all correspondence

Philips Pensioenfonds saw its financial health – i.e. its funding ratio – improve in 2017. This means we have good news: your accrued pension rights will be raised by 0.22% on 1 April 2018. Our ambition was to increase your pension with 1.5%. While we realize that 0.22% is still only a small increase, considering how somber the outlook was a year ago we feel that it represents a strong step in the right direction. Additionally, we have realized full pension accrual for 2018. This letter provides further details. It also explains what we expect for the coming years.

Full pension accrual in 2018. Pension for 2019 to be discussed in CLA negotiations.

You accrue pension rights from the contributions that Philips pays, based on a fixed percentage of the salaries. With interest rates currently low, it is expensive to purchase pension rights and those contributions do not provide all the funds necessary. Nevertheless, you will accrue the full pension rights (1.85%) in 2018. To compensate the difference, the Board of Trustees has drawn on the premium reserve, which is kept separate from Philips Pensioenfonds' general funds. This reserve was formed in 2014, from capital provided by Philips, and can be used to finance pension accruals if the standard pension contributions fall short.

The arrangements for your pension plan that are currently in place under the collective labour agreement (CLA) will only remain in place until the end of 2018. New arrangements are being discussed by your employer and the unions. How your pension scheme will look like from January 1 2019 onwards, will be dependent of the outcome of these discussions.

➔ Visit www.philipspensioenfonds.nl/premiebeleid (in Dutch) to find out more about how your pension rights are funded and about the premium reserve.

Policy funding ratio at year-end 2017: 117.2%

During 2017, the policy funding ratio of Philips Pensioenfonds rose from 108.0% to 117.2%. This increase was fueled primarily by the 5.8% investment yield, as well as by a slight rise in interest rates in 2017.

Your pension to increase by 0.22%

Under the fund's indexation policy, a funding ratio of 117.2% means that we can grant a partial increase on your accrued pension rights. As such, on 1 April 2018 your pension will be raised by 0.22%.

Our ambition is for your pension to increase at the same rate as the *wage* inflation¹. Up to the level of price inflation² (in 2017: 1.3%), this increase is paid from the pension fund's capital. This extends to all participants of Philips Pensioenfond: both those actively accruing pension and those already drawing their pension. This increase from the pension fund's capital is 0.22% for both groups.

For participants accruing a pension, Philips Pensioenfond additionally seeks to raise the accrued pension rights to reflect the positive difference between the wage and price inflation. This year, that difference was 0.2%. This additional increase of the accrued pension rights is financed from the premium reserve, which serves primarily to supplement your annual pension right accruals where necessary. The premium reserve has been used for this purpose in 2018. The remaining funds were insufficient to grant a further increase on the pensions to reflect the difference between the wage and price inflation (0.2%).

Strong possibility of indexation for price inflation during the years ahead

We expect that we will be able to grant at least a partial increase for price inflation on your pension during the years ahead. For full indexation (i.e. to match price inflation), our policy funding ratio will need to improve further, to 123%. If the funding ratio climbs beyond 123%, we might even be able to make good the indexation you have missed in previous years. Encouragingly, the policy funding ratio has continued to improve during the initial months of 2018.

Given that our ambition is to increase your pension at the same rate as prices, our investment policy is aimed at further improving our funding ratio. However, any increase in the funding ratio depends in part on unpredictable factors such as movements in interest rates and share prices.

As noted above, in 2018 the premium reserve has already been used to grant full accrual on your pension rights. As a result, the reserve is now almost depleted. It is unlikely, therefore, that we will be able to raise your pension rights during the coming years to reflect the difference between wage and price inflation.

➔ Visit www.philipspensioenfond.nl/indexatiebeleid (in Dutch) to find out more about our indexation policy and about the total indexation that you have missed in recent years.

Furthermore it is good to know that, considering the present funding ratio, we do not foresee any need to lower your pension during the coming years.

¹ The pension fund defines 'wage inflation' as the Royal Philips salary scale adjustments under the collective labour agreement, including for employees of Philips Lighting.

² The pension fund defines price inflation as the movements in the derived consumer price index as established by Statistics Netherlands for the period from January 2017 to January 2018.

Interactive dialogue session on May 24th

This year, we will hold an interactive dialogue session on May 24th, which you can view on the Internet. During that session, members of the Board of Trustees will explain the latest developments at Philips Pensioenfond and answer your questions. If you miss the live session, you can watch a recording on our website.

→ Visit www.philipspensioenfond.nl/dialog to sign up for the interactive session.

Further information

We will continue to provide updates about the latest developments this year, for example in our magazine *Generaties* and in our digital newsletter *Gener@ties*. The various funding ratios are posted on our website (www.philipspensioenfond.nl/english) every month.

I trust that this letter provides you with all the information you need for the present.

With kind regards,
Stichting Philips Pensioenfond
On behalf of the Board of Trustees



Roel Wijmenga
Chairman of the Board of Trustees