

The Philips Flex Pension Plan

*Everything you need to know about your
pension plan*

Eindhoven, August 2007

In spite of the fact that this brochure was prepared with the utmost care, no rights may be derived from its contents. Any rights may be derived exclusively from the applicable Plan Rules. In this brochure the Philips flex pension plan as applicable from 1 January 2006 is described. The amounts stated in this brochure are in accordance with the Plan Rules and apply as from 1 July 2007. These standard amounts are adjusted periodically. Wherever indexation is referred to in this brochure, the following applies: the indexation of your pension is conditional. Indexation cannot be considered a right, but will depend on the Pension Fund's financial resources. Hence, it is uncertain in the longer term if and to what extent any indexation will occur.

Introduction

This brochure describes the Philips flex pension plan as from 1 January 2006. This plan is applicable to you if you were an employee of Philips on 31 December 2005 and born on or after 1 January 1950. This pension plan also applies to you if you entered the employment of Philips on or after 1 January 2006.

Brochure structure

There are lots of events in life that may affect your pension situation. The subsequent chapters outline the consequences for your pension upon, for example, entering the employment, retiring, or becoming unfit for work. So this brochure can be seen as a reference to be consulted in the case of such events.

Pension and everything it entails is not always an easily understandable subject. This is why we have tried to explain the matter in a readable way without elaborating too much on all the details of the Philips flex pension. For that reason, no rights may be derived from the texts in this brochure. Any rights may be derived exclusively from the official texts in the Trust Deed (*comparable to Articles of Association*) and the Philips flex pension Plan Rules. Chapter 13 contains a glossary with an explanation of some pension terms.

More information

It may be that your particular situation is not addressed directly in this brochure. You might have additional questions about the text. If so, do not hesitate to contact the administrator of the Philips Pensioenfond: Hewitt Associates. The Client Service of Hewitt Associates can be contacted via phone number 0800 - 023 15 01 (available on workdays from 9 a.m. to 5 p.m.). Should you call from abroad, the Client Service's phone number is +31 40 - 265 38 70. You can also e-mail your questions to: pensioen.ppf@hewitt.com. Our website www.philipspensioenfond.nl is also available for information on your pension plan. There you find frequently asked questions and answers, specific examples and backgrounds.

Your reaction

We greatly appreciate all reactions to this brochure. After all, this brochure is for your benefit and your comments may form a useful contribution to a subsequent edition of this publication.

Eindhoven, August 2007, Philips Pensioenfond

Contents

1	Philips Pensioenfond	7
1.1	Membership	7
1.1.1	<i>Members</i>	7
1.1.2	<i>Participants in the Philips flex pension</i>	7
1.2	Structure and employee participation	8
1.2.1	<i>Plan Rules and Trust Deed</i>	8
1.2.2	<i>Board of Trustees</i>	8
1.2.3	<i>Committees</i>	9
1.2.4	<i>The Managing Director and the Board of Directors</i>	9
1.2.5	<i>The administrative organisations</i>	9
1.2.6	<i>Employee participation</i>	10
1.2.7	<i>Revenues</i>	10
2	Pension terms	11
2.1	What is the gross pensionable salary?	11
2.2	What is the offset?	11
2.3	What is the net pensionable salary?	11
3	Starting the employment at Philips	12
3.1	Transfer of pension benefits	12
3.2	Survivor's pension	13
3.3	ANW shortfall insurance	14
3.4	Exchange of personal details with Philips	14
4	Retirement options	15
4.1	Your income when you retire	15
4.1.1	<i>The basic state provision: the AOW</i>	16
4.1.2	<i>Your pension income under the Philips flex pension plan</i>	17
4.1.3	<i>Individual provisions</i>	17
4.2	Accrual of your retirement pension	17
4.2.1	<i>How do I accrue pension benefits?</i>	17
4.2.2	<i>Indexation of the accrued pension</i>	17
4.2.3	<i>Accrual of your pension in steps</i>	18
4.2.4	<i>When will your pension be paid?</i>	20
4.3	Retirement options	20
4.3.1	<i>Selecting the retirement age</i>	20
4.3.2	<i>Part-time retirement</i>	20
4.3.3	<i>High-low structure</i>	21
4.4	If you participated even before 1 January 2006	22
4.4.1	<i>Retirement pension</i>	22
4.4.2	<i>Pre-retirement capital</i>	22
4.4.3	<i>Bridging payment</i>	23
4.4.4	<i>Compensatory allowance</i>	23

5	In the event of your death	24
5.1	Survivor's pension	24
	5.1.1 <i>The survivor's pension before the age of 65</i>	24
	5.1.2 <i>The survivor's pension from the age of 65</i>	26
	5.1.3 <i>A survivor's pension under the pre-retirement scheme</i>	27
5.2	ANW shortfall insurance	27
	5.2.1 <i>What is the Algemene Nabestaandenwet - ANW (Surviving Dependants Act)?</i>	27
	5.2.2 <i>What does the ANW shortfall insurance of Philips Pensioenfonds imply?</i>	29
5.3	The orphan's pension	31
	5.3.1 <i>Who is entitled to orphan's pension?</i>	31
	5.3.2 <i>How much orphan's pension is paid?</i>	32
	5.3.3 <i>To whom is the orphan's pension paid?</i>	32
5.4	What else you need to know	32
	5.4.1 <i>What happens to your retirement pension in the event of your decease?</i>	32
	5.4.2 <i>How is the Pension Fund notified of your decease?</i>	32
6	Termination of your employment at Philips	33
6.1	What happens automatically upon termination of the employment?	33
	6.1.1 <i>Termination of participation in flex pension plan</i>	33
	6.1.2 <i>Termination of insurance for survivor's pension and/or ANW shortfall insurance</i>	33
	6.1.3 <i>Paid-up policy accrued pension benefits</i>	33
	6.1.4 <i>Indexation of accrued pension benefits</i>	34
6.2	What actions are you expected to take upon termination of your employment?	34
	6.2.1 <i>Transfer of pension benefits to your new employer</i>	34
	6.2.2 <i>Exchange of retirement pension for survivor's pension</i>	35
	6.2.3 <i>Information from the Pension Fund after termination of your employment</i>	35
7	If you become unfit for work	36
7.1	General	36
7.2	Non-contributory continuation of pension accrual	36
7.3	The disability pension	36
	7.3.1 <i>The amount of your disability pension</i>	37
	7.3.2 <i>Indexation of the disability pension in payment</i>	37
	7.3.3 <i>Duration of your disability pension</i>	37
8	Special situations	38
8.1	Working in shifts	38
8.2	Working part-time	40
8.3	Parental leave and other unpaid leave	42
	8.3.1 <i>Retirement pension during leave</i>	42
	8.3.2 <i>Decease or disability during leave</i>	42
8.4	Working as an expatriate	42

8.5	Divorce	43
	8.5.1 <i>Effect on survivor's pension</i>	43
	8.5.2 <i>Effect on retirement pension</i>	43
8.6	Moving house within or outside the Netherlands	46
9	The Pension Planner	47
9.1	Lay-out of the Pension Planner	48
9.2	Questions about the Pension Planner	48
10	From gross to net: taxes and social security contributions	49
10.1	Deduction of income tax	49
10.2	Health insurance premiums	51
11	Indexation policy of Philips Pensioenfond	52
11.1	What does indexation mean?	52
11.2	Explicitly conditional indexation	52
11.3	Extent to which indexation occurs	52
11.4	Transitional measure	52
12	Uniform Pension Overview and other information	53
12.1	Annual pension statement	53
12.2	Contact	53
12.3	How to file a complaint	54
13	Glossary	55

1 Philips Pensioenfond

Philips Pensioenfond, in short the Fund, administers the Philips pension plans in the Netherlands. The Fund handles the accounting of your pension benefits and also makes sure that you receive your monthly pension payment when you retire. Accordingly, the pension premiums that are paid into the Fund are invested in a responsible manner.

1.1 Membership

1.1.1 Members

Apart from you there are many other people who participate in Philips' pension plans. We call this group of people the 'members' of Philips Pensioenfond. Overall, the Pension Fund includes the below three types of members:

- The current employees of Philips who build up (*accrue*) a pension with the Philips Pensioenfond (including those employees who are no longer in the service of Philips due to disability or a severance scheme, but are still building up pension benefits with the Philips Pensioenfond). We call these people 'active members', or 'those who accrue a pension'.
- Retired employees of Philips who receive a retirement pension from the Philips Pensioenfond. They are called 'the retired members', or 'those who receive a pension'.
- Ex-Philips employees who did not yet retire and left their accrued pension benefits with the Philips Pensioenfond (as a paid-up policy). These are the 'deferred members' or 'paid-up policy holders'.

1.1.2 Participants in the Philips flex pension

All Philips employees who start working at Philips automatically become participants in the Philips flex pension plan. Age is not an issue. It makes no difference whether you are 20 or 40 years old when you start working at Philips, you will participate in the pension plan immediately. However, the date of employment and the date on which you become a participant in the pension plan may differ. If you enter the employment of Philips on the first day of the month, you are a member of the Pension Fund as from that date. If your employment starts after the first of the month, you will be a member of the Pension Fund as from the first day of the month following the date on which you entered the employment.

Different flex plans

During the past years, various pension adjustments have been implemented at Philips. As a result there are different flex plans for different groups of members. If you were born before 1 January 1950 and were an employee of Philips on 31 December 2005, the Philips flex pension 2005 is applicable to you. This scheme is described in the brochure 'The Philips flex pension' of 1 January 2005. If you have left the service before 1 January 2006 due to disability or a severance scheme, the flex plan will differ for you in some respects from the plan set forth in this brochure. In that case, the rules applicable to you can be found in the Pension Plan Rules applicable at the time you left the service.

Besides the Philips flex pension there is the Philips final pay plan. Those employees who were born before 1 January 1947 and were employed by Philips on 1 January 2005, participate in the final pay plan. The final pay plan cannot be joined any longer.

1.2 Structure and employee participation

1.2.1 Plan Rules and Trust Deed

Philips Pensioenfonds is a foundation, which means that the capital of the Pension Fund remains strictly separated from the company. Two of the Pension Fund's official documents are important to you as a participant in the flex pension plan.

Firstly, the Philips flex pension Plan Rules, which include your rights as a member. Secondly, the Trust Deed, which set out the objectives of the Fund and the composition and powers of the administrative bodies. Both documents can be obtained cost-free or downloaded via the website of Philips Pensioenfonds.

1.2.2 Board of Trustees

The governing body of Philips Pensioenfonds is the Board of Trustees. The Board is responsible for the policies of the Pension Fund and the administration thereof.

Structure

The Board of Trustees has twelve members: four representing the side of the employer, who are appointed by Koninklijke Philips Electronics N.V., six members representing the employees, and two members representing the pensioners. Out of the six employee members, three represent the CLA (CAO)-A population and three the CLA-B population.

Resolutions

The Board of Trustees meets at least four times a year. In these meetings employer's members have two votes each, so that they can cast as many votes as the non-employer's members in total. Resolutions require a majority of at least fourteen out of the sixteen votes to be cast. For some resolutions, including those about the indexation of the pensions, a unanimous vote is required.

Accountability

In the annual Members' Meeting the Board reports on the developments in the past financial year and submits the annual accounts for adoption.

1.2.3 Committees

The Board of Trustees appointed an Investment Committee and a Pension Committee to prepare the policy activities. Any complaints are dealt with by the Complaints Committee and the communication policy is prepared in the Communication Committee. The Audit Committee performs tasks involving the operation of risk and monitoring systems.

1.2.4 The Managing Director and the Board of Directors

The Board of Trustees is assisted in its duties by a Managing Director, who is appointed by the Board of Trustees. The Managing Director is assisted by the Board of Directors which he/she presides over. Besides leading the Board of Directors, the Managing Director is charged with the day-to-day management and the external representation of the Pension Fund.

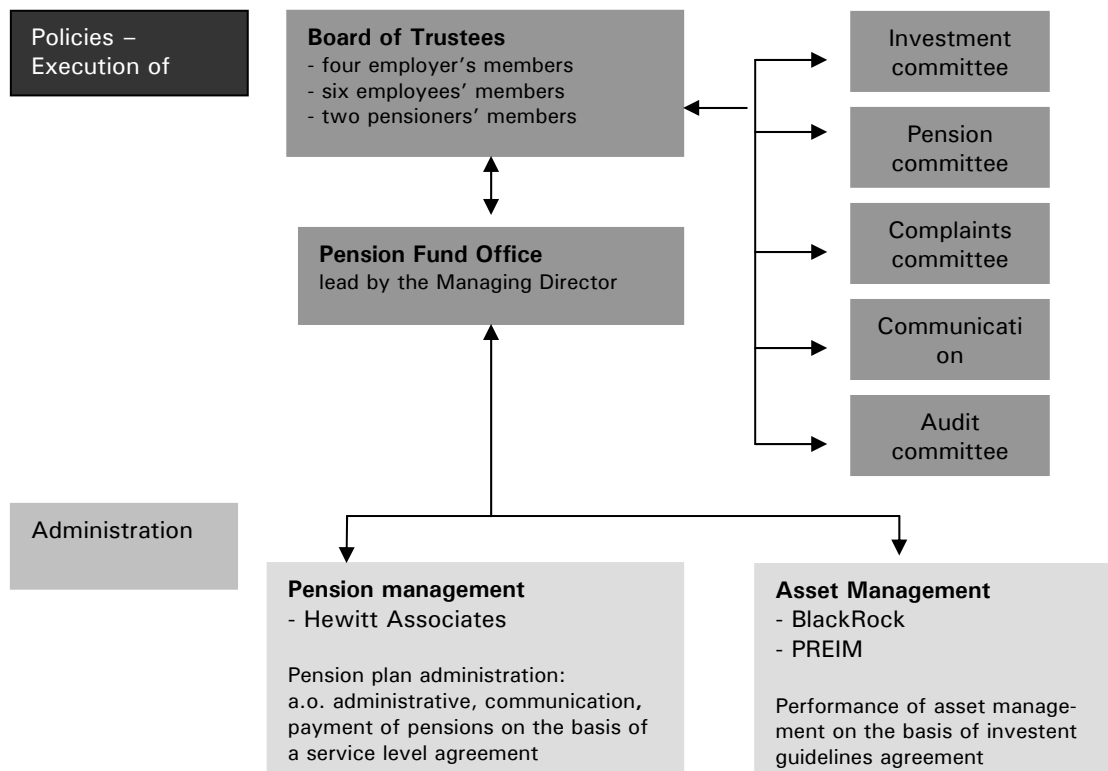
The Board of Directors performs the below main duties:

- policy-making for the Board of Trustees and its committees;
- the operational implementation of the policies;
- outsourcing of working activities to third parties and the supervision thereof;
- risk management of the Pension Fund.

1.2.5 The administrative organisations

The administration of the pension and asset management has been outsourced. This means that in practice you will often be in contact with the administrative organisations. Hewitt Associates Outsourcing B.V. ('Hewitt Associates') carries out the pension management. BlackRock (Netherlands) B.V. takes care of the asset management. The management of the property portfolio (investments in immovables) of Philips Pensioenfond is carried out by Philips Real Estate Investment Management B.V. All administrative organisations must follow the guidelines set by the Board of Trustees when performing their activities.

In the below figure the organisational structure of Philips Pensioenfond is shown.



1.2.6 Employee participation

You can also have a say on Philips' pension plans. Once every year Philips Pensioenfonds convenes a Members' Meeting. As a member you can attend this meeting in which Philips Pensioenfonds reports on the preceding year. Questions submitted in writing and in advance are usually answered by the Pension Fund in writing prior to the meeting. Those questions which are relevant to all members will be raised again during the meeting. In the magazine 'Generaties' (published by Philips Pensioenfonds), which is issued several times a year, this meeting will be announced.

1.2.7 Revenues

The Fund has to make sure its financial resources suffice for safeguarding the pension payments now and in the future. The capital required is obtained from three sources:

- your own pension contribution;
- the company's contribution;
- the return on invested capital.

Ever since the introduction of the Philips flex pension in 1997 your own pension contribution has been set to 0%. So, at present your entire pension accrual is financed by your employer. In your terms of employment Philips promises to pay you a specific pension and Philips has undertaken to finance this pension promise. However, Philips may agree with the trade unions in the CLA negotiations that you as an employee will also pay part of the total contribution. This, together with the return on the invested capital, will pay for your pension.

2 Pension terms

Before we discuss the contents of the Philips flex pension it is important that you are familiar with the meaning of a few pension terms. These terms can be seen as your basic knowledge of the flex pension plan.

2.1 What is the gross pensionable salary?

The gross pensionable salary is the basis for the calculation of your pension. It shows what income components will provide a pension. The formula is as follows.

The gross pensionable salary = 12 x your fixed gross monthly salary + holiday allowance + thirteenth month allowance + (potential) shift work allowance + variable income components (such as bonuses and overtime allowance).

The gross pensionable salary is always based on full-time employment, even if you work less or more than 100%. In Chapter 8 we describe how your pension is calculated if you work shifts or part-time.

2.2 What is the offset?

In calculating your pension entitlement we take into account that from the age of 65 you will receive a state pension (AOW) from the Dutch government. As you will receive this base state pension from the Dutch government you do not have to accrue a pension for that specific amount yourself. For that reason, part of your gross pensionable salary will not count for your pension accrual. After all, you will receive AOW benefits. This part of your income is called the offset. The offset is a fixed amount applicable to all participants in the flex pension plan. As from 1 July 2007 this offset amounts to € 14,280. This offset is increased by the collective salary scale adjustments at Philips.

2.3 What is the net pensionable salary?

The income on the basis of which you accrue a pension (also called the 'net pensionable salary') is calculated by subtracting the offset from the gross pensionable salary.

The net pensionable salary = the gross pensionable salary – offset.

In the flex plan you accrue part of your pension every month. The income on the basis of which you accrue your pension is therefore determined on a monthly basis.

3 Starting the employment at Philips

Upon starting the employment you are immediately confronted with issues affecting not only your retirement pension but also the survivor's pension for your partner. If you do not give thought to this now, you might regret it later. That is why you should read this chapter carefully, for it describes briefly what is relevant to you now. Further on in this brochure you will find more detailed information about these topics.

What questions are essential when starting the employment at Philips?

1. Should I transfer the pension benefits I accrued with my previous employer to Philips Pensioenfond?
2. Is my partner registered with Philips Pensioenfond in connection with the survivor's pension?
3. Is my partner entitled to an ANW shortfall insurance in the event of my decease?

3.1 Transfer of pension benefits

Should I transfer the pension benefits I accrued with my previous employer to Philips Pensioenfond?

If Philips is not your first employer, there is a fair chance that you accrued a pension elsewhere as well. The pension insurer of your previous employer will inform you about the amount of pension capital you accrued with your previous employer. The statement you receive about that is called a paid-up policy, as no more premiums are paid by you towards this pension. Usually pension insurers will seek to make sure that your paid-up pension retains its value to a certain extent. How this is done varies from one insurer to another. You receive the paid-up pension capital as soon as you attain the retirement age that applies in the plan of your previous employer. From Philips Pensioenfond you receive the amount accrued by you while working at Philips.

You could opt, however, for transferring the paid-up pension capital from your previous pension insurer to Philips Pensioenfond. This way, your full pension will be paid by Philips Pensioenfond after retirement. Whether this is advantageous or not depends mainly on the type of pension plan and how indexation is applied to your pension capital by your previous pension insurer in comparison to Philips Pensioenfond (see chapter 11). To find out about indexation by your previous pension insurer, please contact this insurer.

How to proceed

In any case we advise that you request a quotation for transfer of pension benefits. This commits you to nothing, but it does give you an insight into your options. Within six months after having started the employment you request a quotation via the form 'Request for a quotation for the transfer of pension benefits'. This does not represent a final decision for transfer. First we will request information from your former pension insurer and make a proposal on

that basis. The complete procedure usually takes several months to a year. However, this does not affect your pension accrual in any way.

As soon as we have collected all the information, we will inform you about the value of the pension benefits accrued by you elsewhere (or from a previous employment at Philips) and explain about the consequences of the transfer of your pension benefits to Philips Pensioenfond. Often making a comparison between your previous and new pension entitlements is not that simple as pension plans may vary considerably. Take, for example, the moment your pension takes effect. Anyhow, at the time of transfer the total pension from your previous employer is worth exactly the same in money terms as what you receive in return under the Philips flex pension plan. After all, this has been laid down in Dutch law.

If you accept this quotation, all you have to do is sign and Philips Pensioenfond will arrange the transfer jointly with your previous pension insurer. From that moment on we manage all your pension benefits and your annual Uniform Pension Statement will show the total pension you will receive from your retirement date. If you do not agree to the transfer of your pension benefits, your old pension benefits remain under the management of your former pension insurer.

The form 'Request for a quotation for the transfer of pension benefits' will be sent to you automatically as an enclosure in your membership package which you will receive from Philips Pensioenfond about a month after having started your employment. Should you consider transferring your pension benefits at a later stage, this form may also be obtained from your HRM department, via downloading from our website (www.philipspensioenfond.nl) or from Client Service of Hewitt Associates.

3.2 Survivor's pension

Is my partner registered with Philips Pensioenfond in connection with the survivor's pension?

The survivor's pension is a lifelong benefit for your partner in the event of your death. Under the flex plan the pension is a term insurance policy before the age of 65 and a purchased insurance policy after the age of 65. Chapter 5 deals with the survivor's pension in more detail. If you have just started employment at Philips and you have a partner, you are automatically insured for the survivor's pension under the Philips flex plan on condition that your partner is registered with the Fund. At present, no premium is payable to this insurance.

How to proceed

If you are married or have entered into a registered partnership, the local authorities will automatically inform Philips Pensioenfond. No action is required from you to be automatically insured for the survivor's pension. If you cohabit without being married, you must inform Philips Pensioenfond about your partner, or he/she will not receive a survivor's pension in the event of your death. To cohabitation the same conditions apply as set by the authorities for the General Surviving Dependant's Act (ANW). In short, you have to live at the same address and conduct a joint household.

If you live abroad, you also must register your partner yourself. The form 'Registration/change form partner data flex pension' is sent to you automatically enclosed in your membership package. If you wish to register your partner at a later stage, the form may also be obtained from your HRM department, via downloading from our website, or from Customer Service of Hewitt Associates.

3.3 ANW shortfall insurance

Is my partner entitled to a state ANW shortfall benefit in the event of my decease?

The ANW shortfall insurance is intended to compensate for your partner's non-entitlement to a benefit under the General Surviving Dependant's Act (ANW), or for insufficient benefit under this act. So, the ANW shortfall insurance provides an income for your partner in the event of your death. You may take out the ANW shortfall insurance if you were born in or after 1950. Chapter 5 contains more information on the subject of ANW shortfall insurance and the corresponding premiums.

How to proceed

If you wish to take out ANW shortfall insurance, you must apply within two months following the date stated on your employment letter. After that period it is only possible in specific circumstances, such as upon cohabitation, or childbirth, or adoption.

You may apply via the form: 'Application/change form for ANW shortfall insurance'. If you cohabit without being married you must also pass on your partner's personal details to us, as we are not automatically notified by the local authorities. The form 'Application/change form for ANW shortfall insurance' is sent to you automatically enclosed in your membership package. If you wish to take out an ANW shortfall insurance at a later stage, this form may also be obtained from your HRM department, by downloading from our website, or from Client Service of Hewitt Associates.

3.4 Exchange of personal details with Philips

The Gemeentelijke Basisadministratie (GBA, *municipal personal records database*) provides Hewitt Associates with information about any changes in the personal details of participants and pensioners, such as changes of address following a move, or details of your partner when you get married. The GBA only provides information about changes within the Netherlands. If you reside abroad, you need to notify us of any changes in your personal details in writing.

Hewitt Associates passes on the address details to Philips to enable it to keep its administration up-to-date as well, so that, for example, they can send 'My Shop' and Philips Magazine.

If you object to having your details passed on, please send a written notification to: Hewitt Associates (Hewitt Associates, Client Service, P.O. Box 80040, 5600 JP Eindhoven) or by e-mail (pensioen.ppf@hewitt.com). In that case you must see to sending your change of address to the above-mentioned Philips organisations yourself.

4 Retirement options

Retirement after your working life will bring along various changes. Not only will the daily pattern of your life be different, but your income structure will alter too. This is worth bearing in mind.

In this brochure we draw attention to your income after retirement. This will enable you to plan better for the future. By giving examples, we explain how you accrue pension benefits under the Philips flex pension plan.

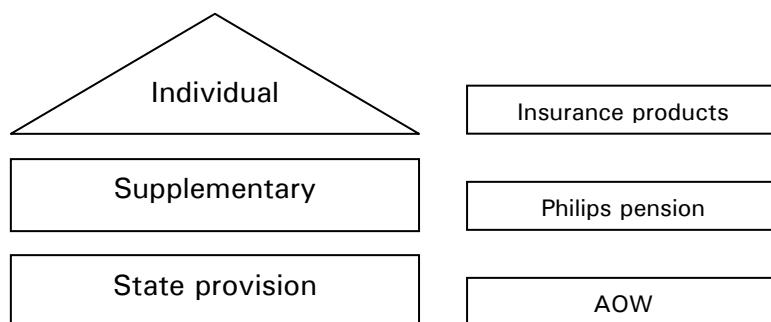
Every year you receive a Uniform Pension Statement, which contains all your personal pension amounts and keeps you informed of the developments in your future pension income. For calculating your own pension you can refer to the Pension Planner. The Pension Planner can be accessed via our website (www.philipspensioenfonds.nl). In chapter 9 more details about the Pension Planner are given.

4.1 Your income when you retire

Obviously, you are paid a salary for the work you perform at Philips. What is less obvious is that by working now you provide for your income upon retirement: your retirement pension. This retirement pension forms part of your overall remuneration package at Philips. It comes into play as soon as you commence employment, irrespective of your age at that time, because you then start to accumulate an income for when you retire.

From the age of 65 you will receive a state pension benefit (AOW) by virtue of the Algemene Ouderdomswet (*Old Age Pensions Act*). Besides, you are entitled to a pension from Philips (and any other employer(s)). You may make your own additional pension provisions, such as an annuity from an insurer.

As a result, your total pension income after retirement often originates from three sources: your AOW, your Philips pension and your pension from individual insurance products. The below figure shows all the components that may constitute your total pension income. These three income components after retirement are briefly outlined in this chapter.



'The pension building': the three sources

4.1.1 The basic state provision: the AOW

All those living and/or working in the Netherlands are entitled to an AOW state pension by virtue of the Algemene Ouderdomswet (*Old Age Pensions Act*) from the age of 65. The amount of the AOW is linked to the statutory social minimum. Your family situation also affects the amount.

As from 1 July 2007 the AOW amounts are as follows:

AOW (with partner)	€ 8,549 gross per year
AOW (single person)	€ 12,393 gross per year
AOW supplement (full)	€ 8,384 gross per year

The amounts specified above are based on a situation where you lived and/or worked in the Netherlands between the age of 15 and 65. In that case you are entitled to the full AOW state pension. If, however, you and/or your partner did not reside or work in the Netherlands for a number of years, your AOW benefit will generally be reduced by 2% for each full year that you have missed.

AOW with a partner

If you are married or cohabit and your partner is 65 or older, like you, each of you receives an AOW pension benefit of € 8,549. In that case, the total AOW family income is € 17,098. This amount includes the allowance for AOW of € 166 per person. If you have a younger partner, you may be entitled to an AOW supplement. The AOW supplement amounts to € 8,384 gross per year as a maximum. However, any income earned by your partner will be deducted from the AOW supplement.

In this case we distinguish earned income (wages etc.) from income linked to employment (social benefits and such). In the case of earned income an amount of € 198 plus 1/3rd of the additional amount will be disregarded. If the monthly income amounts to € 1,189 or more, the AOW supplement will not be paid. Any income linked to employment (such as WW or WIA benefits) will be deducted from the AOW supplement in full. The AOW supplement will be paid until your partner attains the age of 65. From that moment on he/she is independently entitled to an AOW state benefit of € 8,549. Any own income is not deducted from this benefit.

AOW shortfall

From 2015 the AOW supplement will no longer be paid. So, if you reach the age of 65 in or after 2015, you will no longer be eligible for an AOW supplement for your younger partner. Your partner will get his/her AOW benefit as soon as he/she reaches the age of 65. Depending on the age difference between you and your partner, you may therefore suffer a temporary shortfall in AOW benefit. This is called the AOW shortfall.

You might have an AOW shortfall before 2015, for example because you or your partner did not accrue full AOW. This may happen if you or your partner resided and/or worked abroad in the past, or because one of you has a reduction in the AOW supplement due to income of your own. You cannot take out separate insurance with Philips Pensioenfonds for the AOW shortfall.

Questions about AOW

The organisation responsible for administering the AOW is the Sociale Verzekeringsbank - SVB (*Social Insurance Bank*). They can be consulted about any questions you may have about the AOW state pension. For information, call the SVB (head office: 020 - 20 - 656 56 56) or visit their website (www.svb.nl).

4.1.2 Your pension income under the Philips flex pension plan

As soon as you commence the employment you start accruing your retirement pension benefits. There is no minimum age for starting the accrual of pension benefits. During each year of service at Philips you accrue pension benefits as an addition to the AOW state pension. The amount of your annual accrual is related to your salary. So, the higher your salary and the longer you work for Philips, the higher your pension will be.

Your pension plan has a standard retirement age of 65. This implies that, in principle, your pension takes effect from the age of 65. However, you are free to opt for a different retirement age, provided it is between the age of 60 and 65. Obviously, this choice will affect the amount of your retirement pension.

4.1.3 Individual provisions

Apart from the options available within the Philips flex pension plan, you may make additional (pension) provisions via an insurer on a fully individual and voluntary basis. This way you can ensure that your future financial situation matches your own wishes and needs even more closely, for example via annuity or single premium policies.

4.2 Accrual of your retirement pension

4.2.1 How do I accrue pension benefits?

The Philips flex pension plan is a defined benefit agreement. This means that you accrue a pension that is linked to your salary and period of service. Each year you accrued part of your pension. This pension is based on your income in the year concerned. At the end of your career at Philips you have accrued a retirement pension based on the average earnings during your career. For that reason, the flex pension plan is also known as an average-pay plan. For the standard accrual of your retirement pension you do not have to pay any pension contribution at present.

4.2.2 Indexation of the accrued pension

Due to inflation, the pension accrued by you today might lose much of its value before it is paid to you. That is why Philips Pensioenfonds operates an indexation policy for regulating the annual increase of your pension benefits. This indexation policy is conditional. Chapter 11 provides extensive information about the indexation policy.

4.2.3 Accrual of your pension in steps

The accrual of your pension takes place in four steps, which are explained below.

Step 1

Determining your gross pensionable salary

The first step is determining the income that counts towards your pension. Under the Philips flex pension plan almost all your income components are pensionable. First of all there is your overall annual salary (12 x your gross monthly salary). Your holiday allowance and your thirteenth-month payment, (together 16.33% of your annual salary) and any shift work allowance also count. Finally, all variable income components resulting from employment regulations that are structural in nature (such as overtime supplements, or bonus payments) also count. Expense allowances (e.g. travel and relocation allowances) do not count towards the pensionable income.

Step 2

Determining your net pensionable salary and calculating the accrual of your pension benefits

As stated in paragraph 4.1 the authorities already provide a pension provision (AOW). This is taken into account when calculating your supplementary pension from the employer. For that reason, an amount (the offset) is deducted from your pensionable salary. The remaining amount is the amount over which you actually accrue a pension: the net pensionable salary. In 2007 the offset is €14,280. Each year, you accrue pension benefits of 2% over the remaining amount. Besides, you accrue pension benefits to the amount of 6% of the offset. In 2007 this means an extra pension accrual of € 85.68. You can calculate your annual overall pension accrual by adding up these amounts.

Step 3

Indexation of the pension benefits

The amount of pension benefits accrued by you are increased annually by the collective salary scale adjustment, provided the Fund has sufficient resources (see also chapter 11).

Step 4

Adding up all the (indexed) pension benefits

Finally, all accrued amounts, including the indexations, are added up. The total is the pension amount.

Example: pension accrual

Let us assume that you work full-time for Philips and your gross monthly salary is € 2,000. You are also eligible for a bonus of 3% of your annual income, i.e. € 720.

Your pension in the year in question is calculated as follows:

Step 1: determining your gross pensionable salary

12 x € 2,000	=	€	24,000	
Thirteenth-month payment (8.33 % of € 24,000)	=	€	2,000	
Holiday allowance (8 % of € 24,000)	=	€	1,920	
Bonus payment (3 % of € 24,000)	=	€	<u>720</u>	+
Gross pensionable salary	=	€	28,640	

Step 2: determining your net pensionable salary

€ 28,640 – € 14,280	=	€	14,360
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On this basic amount you accrue pension benefits of 2% per year:

2% x € 14,360	=	€	287.20
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Besides, you accrue a pension of 0.6% of the offset:

0.6% x € 14,280	=	€	85.68
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So, your total pension accrual in that year is:

€ 287.20	=	€	372.88
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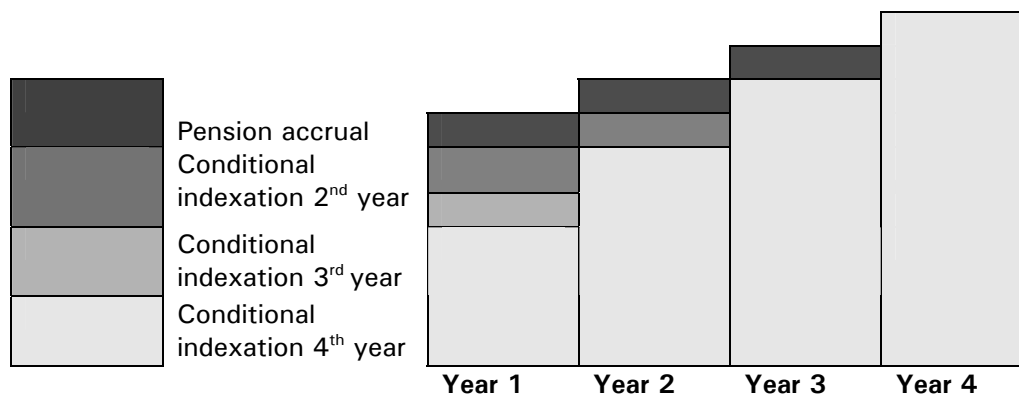
Step 3: indexation of the pension amount

The following year the collective salary scale adjustment at Philips is for example 2%. The Board of Trustees of Philips Pensioenfond's decides that the accrued pensions will be indexed by the same percentage in order to retain their value:

€ 372.88 + € 7.46 (= 2% x € 372.88)	=	€	380.34
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Step 4: adding up all the (indexed) pension amounts

The first three steps, as calculated above, are repeated every year. The gross pensionable salary and the offset will be different from year to year. As a result, the accrued pension also varies from year to year. All (indexed) amounts together determine the final level of the retirement pension. This method of calculation is shown schematically in the following diagram.



4.2.4 When will your pension be paid?

As a standard, your pension takes effect from the age of 65 and is paid in monthly instalments. You receive the first pension payment at the beginning of the month following the month during which you attain the age of 65. You may opt for a different retirement age yourself; see paragraph 4.3.1.

4.3 Retirement options

4.3.1 Selecting the retirement age

You may deviate from the standard retirement age of 65. Under the flex plan you can retire between the age of 60 and 65. If you opt for retiring earlier, your annual pension will be lower, because your pension has to be paid during a longer period. Moreover, you miss out on a number of years for accruing your pension. To see the financial effects of advancing your pension you can consult the Pension Planner. The Pension Planner gives you an insight into your personal pension situation, which may help you in making specific choices.

4.3.2 Part-time retirement

The flex pension offers the possibility of retiring partially during the last period before your full retirement, so that you can already start working less hours without actually quitting work altogether. For the part you continue working, your pension accrual continues until age 65. 'Part-time retirement' must always be arranged in consultation with the employer. At a written request of your HRM department, Philips Pensioenfondsen can calculate the amount of your pension upon part-time retirement. If you opt for part-time retirement, you must notify Philips Pensioenfondsen at the age of 62.5 at the latest.

Example: part-time retirement

Date of birth	:	21 April 1956
Gross pensionable salary	:	€ 50,000
Net pensionable salary	:	€ 35,720
Retirement date part-time	:	1 May 2018 (age 62)
Retirement date full-time	:	1 May 2021 (age 65)

Pension accrued at age 62 (effective from age 65)

At the age of 62 you have accrued a lifelong retirement pension of € 10,000 a year which takes effect from the age of 65.

Pension situation from age 62 on a full-time basis

As soon as you retire earlier (full-time) than the standard retirement age of 65, your accrued pension of € 10,000 is advanced to a lifelong retirement pension from the age of 62.

Lifelong retirement pension: € 7,900

Pension situation from age 62 on a part-time basis

However, you retire part-time (50%) at age 62. As a result, you receive 50% of your advanced pension from the age of 62.

Lifelong retirement pension: € 3,950

Besides, you receive a salary on the basis of your part-time employment. Your gross annual salary on the basis of a part-time percentage of 50% amounts to € 25,000. As you started to work part-time, you accrue less pension from age 62 up to age 65. You accrue € 400 a year, which is 50% of the pension accrual on the basis of full-time employment.

Pension situation from age 65

As soon as you attain the age of 65, you will retire full-time. Then you receive:

The non-advanced part of the retirement pension (50% of € 10,000)	€ 5,000	
The advanced part of the retirement pension	€ 3,950	
The pension accrued between age 62 and 65 (3 x € 400)	€ 1,200	
Total lifelong retirement pension (from age 65)	€ 10,150	a year

From the age of 65 you will be paid the total lifelong retirement pension every year until the time of your decease.

4.3.3 High-low structure

As a participant in the flex pension you have the opportunity of tailoring the level of your retirement pension to your personal wishes via the high-low structure. Under this plan your retirement pension is increased up to a specific age and decreased in the next period. If you wish to make use of the high-low structure, such must be indicated on your retirement date.

Pursuant to law, the lowest benefit payment may not be under 75% of the highest benefit payment. There are three options:

- A ratio of 10:9
- A ratio of 11:9
- A ratio of 12:9.

Suppose, you decide to receive a higher retirement pension from age 65 up to 70 and next a lower pension in the ratio of 12:9. In that case your personal pension data are as follows:

Pension accrued at age 65 (before exchange)	:	€ 10,000
From age 65 up to age 70 your annual pension is	:	€ 11,890
From age 70 your annual pension will be	:	€ 8,910

4.4 If you participated even before 1 January 2006

If you already participated in the Philips flex pension plan before 1 January 2006, you also accrued a pension under the Philips flex pension plan with a standard retirement age of 62.5. Besides, the possibility existed up to 1 January 2006 to make additional savings for your pension under the pre-retirement plan.

4.4.1 Retirement pension

If you already participated in the Philips flex pension plan before 1 January 2006, you also accrued a pension under the Philips flex pension plan with a standard retirement age of 62.5. In principle, your pension accrued under this pension plan will be paid from the age of 62.5. As soon as you attain the age of 65 you will receive the pension you accrued under the current plan, the Philips flex pension plan 2006.

Flexible elements

As a participant in the Philips flex pension plan you have the opportunity of determining yourself at what time your pension payments should start. For example, you may opt for deferring your pension with a retirement age of 62.5 to 64 and advancing the pension with a retirement age of 65 to 64. You can also arrange your retirement pension to be higher from the age of 65 by deferring the pension with a retirement age of 62.5. This way you can have your pension suit your personal wishes.

4.4.2 Pre-retirement capital

Under the Philips flex pension plan applicable until 1 January 2006, you had the opportunity of saving under the pre-retirement plan. However, for tax reasons it is no longer possible to save for early retirement. You may no longer deposit any capital in the pre-retirement plan. If you participated until 1 January 2006 in the pre-retirement plan, your pre-retirement capital is still being invested. You can still choose how your capital should be invested. The pre-retirement capital can still be used for retiring earlier, or for increasing your retirement pension.

Provision of information

Once every quarter you will receive a statement on the amount of your pre-retirement capital. Besides, the Investment Report Pre-Retirement Plan is published on our website once a year. Here, the development of the various funds is explained and the investment yield stated. In the Pension Planner you can check the current value of your pre-retirement capital. On our website you can find the prices of the various funds during the month concerned.

More information about your investment options

On the website of Philips Pensioenfondsen more information is given about your investment options. This information is included in the section 'accruing a pension' under the Philips flex pension plan 2006. Here you will find the investment yield as well as frequently asked questions and their answers.

4.4.3 Bridging payment

Until 1 January 2006 the Philips flex pension plan included a bridging payment because the standard retirement age was 62.5 until that date. From the age of 65 you will receive a state AOW benefit. The bridging payment was intended for absorbing the lack of AOW benefit between age 62.5 and 65. As from 1 January 2006 no bridging payment is needed any longer in the Philips flex pension plan as the standard retirement age is 65. Moreover, the law prohibits the accrual of bridging payments as from this date. If your age was 50 or over on 1 January 2006, you already accrued part of the bridging payment, which amount can be found in the Pension Planner.

4.4.4 Compensatory allowance

The compensatory allowance is a temporary benefit paid from age 62.5 until age 65 which is similar to the bridging payment. Currently, all those under 50 did not accrue any bridging payment. For this lack of accrual compensation was agreed in the CLA which is called the compensatory allowance. Here the term compensation is used in the meaning of supplement: the compensatory allowance is a supplement to the bridging payment that was accrued under the pension Plan Rules. The compensatory allowance is a conditional right: every year, during 15 years of employment at Philips as a maximum, the compensatory allowance is partly made unconditional and added to your accrued pension benefits. The compensatory allowance applies to those employees who were employed by Philips on 31 December 2005 and are 25 or older on this date. If you are entitled to compensatory allowance, you find the maximum amount that can be accrued in your Personal Pension Statement of 2005.

Conditionality of the compensatory allowance

The compensatory allowance is accrued in 15 years' time. If you leave the employment during these 15 years, you will not be entitled to a full compensatory allowance and only receive part thereof. In other words: the condition for the full compensatory allowance is that you continue your employment at Philips for another 15 years. The conditionality does not apply if you leave the employment due to retirement. If you retire between the age of 60 and 65 and the compensatory allowance has not yet been accrued in full, the remaining part will be granted as a lump sum on the retirement date.

5 In the event of your death

Usually, a pension plan offers more than just a pension when you retire and the Philips flex pension plan is no exception. It also has provisions for your partner and/or children in the event of your decease: the survivor's pension, the ANW shortfall insurance and the orphan's pension. This chapter deals with all the provisions for surviving dependants. We also indicate what is provided as a standard and where you need to take action yourself.

5.1 Survivor's pension

The insurance for the survivor's pension offers a lifelong benefit for your partner in the event of your decease. The flex pension plan distinguishes three kinds of survivor's pension: before 65, after 65, and from any capital by virtue of the pre-retirement plan (if you were to die before your retirement date).

5.1.1 The survivor's pension before the age of 65

Who is entitled to survivor's pension?

All participants in the flex pension plan are automatically insured for the survivor's pension, provided the partner is registered with Philips Pensioenfonds. If you are married or have entered into a registered partnership and are a resident of the Netherlands, the local authorities automatically notify the Fund. In that case you do not have to take any action to be automatically insured for the survivor's pension. However, if you cohabit and are unmarried you must register your partner with Philips Pensioenfonds. The State attaches the same conditions to cohabitation as it does in the Surviving Dependant's Act (ANW). If you live abroad, you must also register your partner yourself and if you start a relationship in the future, you should not forget to register your partner either.

How much pension will my partner be paid?

The annual survivor's pension is 50% of your income above the offset (the pensionable salary). The average of the variable income components (such as bonus, and overtime allowance) over the past three years also counts. The survivor's pension is paid to your partner in monthly instalments until his/her decease.

Please note: if your partner is more than 20 years younger, the benefit is decreased upon your decease by 2.5% for each full year your partner is more than 20 years younger.

Example: survivor's pension

Let us assume that your gross monthly salary is € 1,750 without any additional supplements. Your total annual income will then be $12 \times € 1,750 + \text{holiday allowance (8\%)} + 13^{\text{th}} \text{ month (8.33\%)} = € 24,429$. In the event of your decease, your partner will be entitled to the following pension:

50 % of your annual income above € 14,280
= 50 % x € 10,149 (€ 24,429 – € 14,280)
= an annual survivor's pension of € 5,075.

How much premium do I pay for the survivor's pension?

As from 1 January 2006 you pay a premium of 0% for the survivor's pension. This was agreed upon in the CLA and may change in the future. All those participating in the flex pension plan are automatically insured, provided the partner is registered with the Pension Fund.

What will happen to my survivor's pension if my relationship should end?

The survivor's pension is insured under a term insurance. This means that after registration your partner will be entitled to a pension in the event of your death for as long as you are insured. It also means that no pension provision is accrued for your partner. If your partner is registered at Philips Pensioenfond, you are automatically insured. As soon as your relationship ends, your ex-partner is no longer eligible for the pension. After all, he/she no longer meets the conditions. We automatically discontinue the insurance as soon as we are notified of the termination of your relationship. In paragraph 8.5 'Divorce' you can find out more about the effect of divorce on your pension. If you enter into a new relationship, do not forget to register your new partner!

What will happen to my survivor's pension if my partner should die?

After we have been notified of your partner's decease, we will discontinue the insurance. As a term insurance policy is concerned here, no survivor's pension provision has accrued that a future partner, for example, might benefit from. If you remarry or cohabit and have your partner registered in the future, you will once again be insured for the survivor's pension automatically.

What will happen to my survivor's pension if I leave Philips?

If your employment contract with Philips terminates, the surviving dependant's insurance is automatically discontinued and your partner is no longer entitled to a pension from the Fund in the event of your death. However, there are two exceptions. If your pension accrual is continued after the termination of your employment, for example under a severance scheme, or in the event of disability, the insurance will be continued. Upon termination of the employment without continuation of pension accrual we offer a different possibility for providing a survivor's pension for your partner. In that case, part of your accrued retirement pension may be converted into a survivor's pension. More information can be found in chapter 6.

What will happen to my survivor's pension when I retire?

If you retire before the age of 65, your insurance for the survivor's pension will automatically continue up to and including the month during which you attain the age of 65. After that the term insurance ends. You have not accrued anything. That does not mean, however, that you can no longer make provision for your partner. In the following paragraph more is explained about this possibility.

5.1.2 The survivor's pension from the age of 65

When you reach the age of 65, you have the option of exchanging part of your retirement pension for a survivor's pension. As a result, your retirement pension will be lower, in exchange for the survivor's pension. How much lower, will depend on the level of the survivor's pension desired by you. There is a choice of three levels, which are shown in the below table. Depending on the personal situation of you and your partner you can decide what level suits you best.

Survivor's pension as % of the reduced retirement pension	Reduction of retirement pension
75%	22.3%
50%	16.0%
25%	8.7%

A few months before your 65th birthday you will receive a letter from us in which this exchange option is offered. You do not have to make your decision until that moment, even if you retire earlier. Please note: once you have opted for exchange this cannot be reversed later.

Example: exchange of retirement pension for survivor's pension

Let us assume that you have a retirement pension of € 10,000 gross per year and you will soon turn 65. You would like your partner to be insured for a survivor's pension should you decease after the age of 65. In view of your personal circumstances you opt for a survivor's pension of 50% of the (reduced) retirement pension. Your pension and that of your partner will be as follows:

After you turned 65, your lifelong retirement pension of € 10,000 is reduced by 16% to € 8,400 gross per year.

The lifelong survivor's pension your partner will receive following your decease is € 4,200 gross per year. This is 50% of the reduced retirement pension of € 8,400.

What happens to this surviving dependant's provision if my partner dies?

This provision provides an income for your partner after your decease. However, if your partner should predecease, this provision will be cancelled. The retirement pension that has been reduced for making this provision remains unchanged after your partner's decease. So, your pension is not returned again to its former level, nor can you 'set aside' this surviving dependant's provision for any future partner.

5.1.3 A survivor's pension under the pre-retirement scheme

You may have saved in the pre-retirement plan up to 1 January 2006. Your accrued pre-retirement capital is invested until your retirement age, when the total amount will be appropriated for purchasing a pension.

Should you decease before your retirement, the pre-retirement capital accrued by you will accrue to your partner. Then the pre-retirement capital is converted into a survivor's pension for your partner which is paid in monthly instalments. The level of this pension is determined at the time of decease and depends on such factors as your partner's age at the time of your decease. Possibly, it will be subject to a specific maximum amount on account of tax requirements. Your partner will receive this pension until his/her decease.

If you have already retired and did not opt for exchange of retirement pension into survivor's pension, your pre-retirement pension capital has been converted into retirement pension benefits. There is no entitlement to a survivor's pension from the pre-retirement pension capital any longer, and this cannot be changed at a later time.

5.2 ANW shortfall insurance

There is another possibility for providing an income for your partner upon your decease: the ANW shortfall insurance. This insurance is intended to cover a shortfall in, or lack of, benefits under the Surviving Dependants Act (ANW).

5.2.1 What is the Algemene Nabestaandenwet - ANW (*Surviving Dependants Act*)?

The ANW is the statutory basic provision of the Dutch government for those who lose their partner due to decease. Both men and women, whether married or cohabiting, are eligible for an ANW benefit.

When is my partner entitled to an ANW benefit?

There are a number of conditions your partner must meet to qualify for an ANW benefit. First of all, your partner must be younger than 65. In addition, at least one of the following three situations must apply:

Your partner was born before 1950;

Your partner is pregnant or has a child younger than 18;

Your partner has been unfit for work for at least 45% during at least 3 months.

If your partner has his/her own income, (part of) that income is deducted from the ANW benefit. It may even happen that no benefit is paid because of high own income. This does not end the entitlement to an ANW benefit, for the entitlement remains in force. The level of the benefit is determined anew whenever there is a change in your partner's own income.

How much ANW benefit is paid?

As from 1 July 2007, the ANW benefit amounts to € 1,040 gross per month. This amount does not include the allowance by virtue of the Health Care Insurance Act. If your partner has children under 18 – irrespective of how many – an additional € 251 gross per month is added. Besides, there is a holiday allowance of € 66 and € 19 is paid on top if your partner has children younger than 18.

If your partner has income of his/her own, this income is deducted from the benefit. Part of your partner's income is exempted. A distinction is made after income from employment and income linked to employment. If your children have an income, this is not deducted from the benefit.

Income from employment

Earnings from employment, self-employment or a business, as well as early retirement pay, advanced pension, and other non-statutory supplements from the (ex-) employer. To this income an exemption rule applies: the first € 659 is exempted plus one-third of the income above that. If your partner has his/ her own income from employment of € 659 or less per month, he/she is entitled to a full ANW benefit. If the monthly income is higher, a deduction takes place. If the income is above € 2,198, no benefit is payable at all.

Income linked to employment

This includes benefits paid under statutory social security provisions, such as the WW benefit (upon unemployment), or WAO or WIA benefit (upon disability). This income is deducted in full from the ANW benefit.

When does the entitlement to an ANW benefit end?

The entitlement to an ANW benefit ends once your partner attains the age of 65. The entitlement also ends if your partner remarries or cohabits after your death. If the cohabitation ends again within 6 months, payment of the ANW benefit is continued again.

If your partner does not meet, or no longer meets, the conditions, the entitlement to an ANW benefit ceases. That is the case if, for example, your partner was born in or after 1950 and the youngest child becomes 18 years of age.

When does an ANW shortfall arise?

An ANW shortfall arises if, upon your decease, your partner receives only a limited ANW benefit or no benefit at all. Your partner will not be entitled to an ANW benefit if he/she does not meet, or no longer meets the conditions. The level of the benefit may also be reduced (partially) because your partner has his/her own income.

Furthermore, a shortfall may arise in time because the youngest child turns 18, because your partner is no longer unfit for work for at least 45%, because your partner remarries or starts cohabiting, or because your partner receives an income or an increased income of his/her own.

5.2.2 What does the ANW shortfall insurance of Philips Pensioenfond's imply?

The ANW shortfall insurance is intended to compensate for the absence of or shortfall on the ANW benefit for your partner in the event of your death. You can only take out this insurance if your partner was born in or after 1950. So, if your partner was born before 1950, you do not qualify for the ANW shortfall insurance of Philips Pensioenfond's. Your partner is the person to whom you are married, with whom you cohabit, or with whom you entered into a registered partnership.

If you are unmarried and cohabiting, you must meet the following conditions:

- you live together at the same address;
- you both contribute to the cost of the household or provide for each other in any other way.

You must also register your partner in writing with the Pension Fund, using the 'Registration form partner data Philips flex pension' form. This form can be obtained from your HRM department, via downloading from our website (www.philipspensioenfond's.nl), or from Client Service of Hewitt Associates.

What benefit levels are possible?

The ANW shortfall insurance has various levels of benefit. You can insure yourself, for example, for the maximum benefit level. This level is € 1,238 gross per month as from 1 April 2007. You may also opt for a lower benefit level of one-third (€ 413) or two-thirds (€ 825) of the maximum benefit.

If, for example, your partner is entitled to an ANW benefit but receives a reduced benefit due to his/her own income, it would make sense to take out a partial ANW shortfall insurance. It should be noted that the ANW shortfall benefit and also the survivor's pension under the Philips pension plan are not deducted from the ANW benefit.

Please note: if your partner is more than 20 years younger than you, the benefit is reduced upon your decease by 2.5% for every full year your partner is more than 20 years younger.

When is the ANW shortfall benefit payable and for how long?

If you are insured at the time of your death, Philips Pensioenfond's will pay the ANW shortfall benefit to your partner each month from that time. The benefit continues until your partner attains the age of 65. Should your partner predecease, payment of the ANW shortfall benefit will cease. If your partner were to have a new partner after your decease, this benefit, unlike the ANW benefit, continues to be paid.

The benefit follows the indexation policy of Philips Pensioenfond's. A resolution on adjustment of the indexation is passed by the Board of Trustees each year. This adjustment is conditional and dependent on the financial resources of the Pension Fund. See also chapter 11.

When can I take out an ANW shortfall insurance?

Firstly, you can only take out this insurance if your partner was born on or after 1 January 1950. Secondly, one of the following situations must apply to you:

- at the time of commencement of the employment you are married, you have a registered partnership, or you are cohabiting;
- you get married, start cohabiting, or you enter into a registered partnership;
- you become a parent.

If you wish to take out ANW shortfall insurance at any of these times, you must notify us within two months after the event occurred.

When does my ANW shortfall insurance end?

The insurance ends with immediate effect upon termination of the marriage, registered partnership, or cohabitation. If you are no longer cohabiting, it is important that you notify the Fund. Your ANW shortfall insurance also ceases if your contract of employment with Philips is terminated. Only if you continue to accrue pension benefits after termination of the employment as part of a severance scheme or due to disability you can continue the ANW shortfall insurance. Finally, we terminate the ANW shortfall insurance automatically upon your partner's decease or upon him/her attaining the age of 65.

How can I apply for an ANW shortfall insurance?

For application you should complete the 'Application/change form for ANW shortfall insurance' in full and return it to Philips Pensioenfond. You can obtain this form from your HRM department, via downloading from our website (www.philipspensioenfond.nl) or from Client Service of Hewitt Associates. The form must be returned to us within two months after commencement of the employment, any change in your civil status, or the birth of your child at the latest. If you wish to take out the insurance because of the birth/adoption of your child, you are requested to also send a copy of the official birth certificate. You will receive from us a confirmation of what you have opted for and a statement of the monthly premium payable by you. This premium is automatically withheld from your salary.

Can I adjust the level of the insurance prematurely?

You can lower the insured level of this insurance at all times. Increasing the level of the insurance is only possible at those times applicable for taking out the insurance. If you were already insured before 1 July 2001 different rules apply. In that case, you can adjust the insured level at all times, provided the insurance has not been terminated prematurely. Please refer to the Pension Fund. Any changes must be communicated in writing via the 'application/change form Anw shortfall insurance', so that the premium payments can be adjusted. The change takes effect from the date we received the form.

How much premium do I pay for my ANW shortfall insurance?

The premium for the maximum ANW shortfall insurance depends on your age. If you enter an older age category, the premium is adjusted. The following table shows the monthly premiums as applicable from 1 April 2007. The premium is a gross amount. The net amount paid by you will be less, depending on your tax rate.

Age	up to and including 34	35-39	40-44	45-49	50-54	55-59	60-64
Premium	€ 19.81	€ 28.47	€ 37.14	€ 47.04	€ 59.42	€ 66.85	€ 58.19

All amounts in the above table relate to a full ANW shortfall insurance. If you opt for partial insurance of one-third or two-thirds of the full amount, the amounts of benefits and premiums are determined proportionally. From the age of 65 the premium for the ANW shortfall insurance is determined on an individual basis.

When does the insurance take effect and when do I start to pay premiums?

Your insurance takes effect as soon as Philips Pensioenfonds receives your application form. The premium is payable from the first month following the application. The premium - on which no tax or social security contributions are payable - is withheld from your salary or pension. The premium is due every month up to and including the month of termination of the insurance.

When can I cancel the insurance?

You can cancel your ANW shortfall insurance at any time. In that case, you pay the premium up to and including the month in which Philips Pensioenfonds received your request for cancellation. When you retire, the insurance is automatically continued. From the age of 65 the premium for the ANW shortfall insurance is determined on an individual basis. A large age difference between you and your partner may result in a considerable increase of your premium. Shortly before you attain the age of 65, you will be notified in writing about your individual premium amount.

5.3 The orphan's pension

If you have children who are younger than 21 at the time of your decease, there is a standard provision for orphan's pension. No action needs to be taken. This orphan's pension is a standard element of the Philips flex pension for which no separate premium payment is payable.

5.3.1 Who is entitled to orphan's pension?

Upon your decease while being a participant in the Philips flex pension, your children under the age of 21 are entitled to orphan's pension. In some cases, children who are in your care at the time of your decease may also be eligible for orphan's pension, such at the discretion of the Board of Trustees of Philips Pensioenfonds.

5.3.2 How much orphan's pension is paid?

If you decease before the age of 65, the level of the orphan's pension is derived from your income. The orphan's pension amounts to 10% of your gross pensionable salary per year. The average of your variable income components over the past three years also counts. Expense allowances (such as travel and relocation allowances) do not count. If you decease after the age of 65, the orphan's pension amounts to 15% of the retirement pension from the age of 65 before any exchange for survivor's pension. In the case of full orphans (children who have lost both parents) this amount is doubled.

5.3.3 To whom is the orphan's pension paid?

The monthly payment to children under 18 is made to the orphan's legal representative. Payment of the pension to majors can, at their own written request to the Pension Fund, be made directly into their own bank account.

5.4 What else you need to know

5.4.1 What happens to your retirement pension in the event of your decease?

Some people think that the retirement pension goes to their partner and children after their decease. This is a complete misunderstanding. The retirement pension is the pension provision for yourself, for when you stop working and retire. Upon your death, either before or after retirement, the entitlement to retirement pension terminates in full. Your partner will only be eligible for a pension if a provision has been made for a surviving dependant.

5.4.2 How is the Pension Fund notified of your decease?

If you decease while being a resident in the Netherlands, we are automatically notified of your decease by the local authorities. So, your surviving relatives need not notify us. After receipt of this notification, we set in motion the process of awarding any pension benefits to your surviving dependants. We make sure that your partner is informed about any future pension benefit. If your children are entitled to orphan's pension, your partner will be notified.

If you are reside abroad, your surviving relatives must notify us of your decease by means of an official death certificate, since we do not receive this information automatically. Besides, we will need a certificate of residency and a life certificate of those entitled to a benefit, so we can proceed to making payment arrangements. On the basis of these documents we will determine the amount of the benefits for your partner and/or children.

6 Termination of your employment at Philips

When your contract of employment with Philips is terminated, several important things concerning your pension will change. You stop accruing pension benefits with Philips Pensioenfond, unless your employment ends due to disability or under a severance scheme. If you move to a new employer, you will probably participate in another pension fund there. At Philips Pensioenfond some matters are arranged automatically upon termination of the employment. Other matters you will have to take care of yourself.

6.1 What happens automatically upon termination of the employment?

6.1.1 Termination of participation in flex pension plan

Upon termination of employment the participation in the Philips flex pension ends automatically. You stop accruing pension benefits with Philips Pensioenfond.

6.1.2 Termination of insurance for survivor's pension and/or ANW shortfall insurance

If you were insured for a survivor's pension or against the ANW shortfall during your membership of Philips Pensioenfond, these insurance policies will automatically be discontinued as from termination of the employment. So, you will be insured no longer! As both are term insurances, there is no question of any accrued amounts your partner might be entitled to after your decease. However, there is a possibility of exchanging part of the retirement pension for a provision for your partner. More about this can be found in paragraph 6.2.

6.1.3 Paid-up policy accrued pension benefits

During your employment at Philips you accrued pension benefits with Philips Pensioenfond. Any pension accrued during the employment continues to be yours, even after termination of the employment. Several months after leaving the employment you will be informed about the accrued pension benefits via the 'paid-up policy'. This statement sets out the amounts of your accrued pension benefits and when they will be paid. The term 'paid-up' is used because in future no contributions will be made for this pension any longer. The statement also refers to the Plan Rules applicable to you. These Plan Rules are and continue to be applicable to any pension entitlements in the paid-up policy. You can download the Plan Rules or request a free copy via our website (www.philipspensioenfond.nl).

Philips Pensioenfond is kept up-to-date of any changes of address within the Netherlands by the local authorities, so that we will always be able to find you on your retirement date. If you relocate to another country, you must notify us of your new address yourself. You will automatically be contacted by us for the payment of your pension. So, you do not have to contact us to make sure that your pension will be paid.

6.1.4 Indexation of accrued pension benefits

The accrued pension benefits in the paid-up policy follow the indexation policy of Philips Pensioenfond. A resolution for adjustment is passed each year by the Board of Trustees. This adjustment is conditional and will depend on the financial resources available to the Pension Fund. In chapter 11 the indexation policy is explained in more detail.

6.2 What actions are you expected to take upon termination of your employment?

6.2.1 Transfer of pension benefits to your new employer

The pension benefits you accrued with Philips Pensioenfond can be transferred to your new employer's pension insurer. Your former as well as your new employer are obligated to inform you about your right to transfer your pension benefits. If you wish to transfer your pension benefits you must submit a request with the pension administrator of your new employer within six months after starting your new job. The new pension insurer then contacts Philips Pensioenfond to obtain information about the accrued pension benefits and their transfer value. On that basis, a quotation is prepared for you by the new pension insurer. In the quotation the pension you were entitled to with Philips Pensioenfond is converted into a new pension on the basis of the pension plan at the new employer. You then decide on the basis of this quotation if you wish the transfer to be executed or not. You should bear in mind that the whole transfer procedure will take at least six months to a year.

At the time of transfer the conversion is made on a financially neutral basis at all times. In other words: no value will be lost by transfer of pension benefits. If you decide that the pension should be transferred, you will no longer be entitled to any pension benefits from Philips Pensioenfond. Transfer offers the advantage that on the retirement date your pension will be paid by one pension insurer only.

Transfer of pension benefits is certainly advisable if your new pension plan is a final-pay plan and the expected salary increases are higher than the indexation at Philips Pensioenfond. After all, in such a plan the pension is based on the end-of-career earnings. If you transfer your pension benefits to an average-pay plan where the pension is based on the average earnings, it is important that you compare the adjustment policies of the already accrued pension benefits at the new pension insurer and Philips Pensioenfond.

If the new pension plan is a defined contribution plan, pension benefits will not be adjusted annually, because in such a plan the premiums paid are invested. That makes it harder to decide whether transfer is advantageous or not. Basically, you should compare the annually adjusted pension benefits with the expected return on assets within the defined contribution plan.

6.2.2 Exchange of retirement pension for survivor's pension

If your partner is registered with Philips Pensioenfond and you are therefore automatically insured for a survivor's pension, this insurance will end automatically after you leave Philips. Your partner is then no longer entitled to any benefits from Philips Pensioenfond in the event of your death. For example, if you do not start working elsewhere, your partner will not receive anything from Philips Pensioenfond. This is why we offer the opportunity of still making provision for your partner upon termination of the employment. You may exchange part of your retirement pension for a survivor's pension. This way, your retirement pension will be reduced by a specific percentage. This reduction percentage depends on your age at the time your employment terminates. The amount of the survivor's pension always amounts to 75% of the retirement pension after conversion. The table below gives you an indication for different ages with a retirement pension of € 1,000.

Age at termination of employment	Reduction percentage	Level of reduced retirement pension	Level of survivor's pension
30 years	33.6%	€ 664	€ 498
40 years	32.0%	€ 680	€ 510
50 years	29.6%	€ 704	€ 528

After termination of your employment you will be informed via a letter enclosed in the paid-up policy. Applications for exchange must be made within three months. If you opt for exchange, you will receive a new paid-up policy. Should you decease before you made the decision, we assume you would have wished to leave your partner with sufficient provision. He or she will then receive a survivor's pension.

6.2.3 Information from the Pension Fund after termination of your employment

After termination of the employment you will no longer be able to access the Pension Planner of Philips Pensioenfond. If you opt for leaving your pension benefits with Philips Pensioenfond, you will be informed of the level of your paid-up pension every five years. The indexation percentage is always stated on our website (www.philipspensioenfond.nl). If you require information about the level of your pension at a specific time, you can always send us a written request.

7 If you become unfit for work

7.1 General

In its CLA, Philips laid down the amount of your salary in the event of disability, as well as how a potential benefit (WAO/WIA) will be supplemented. Information is available via the brochure 'Langdurig arbeidsongeschikt. En dan?' (*What happens in the event of long-term disability*), which can be obtained from your HR department. If your employment is terminated due to disability, you are entitled to two supplementary provisions from Philips Pensioenfond. Firstly, your further pension accrual will be continued on a non-contributory basis. Secondly, you will be entitled to a disability pension.

WIA means: Work and Income according to fitness for work Act. This Act replaces the former Occupational Disability Insurance Act (WAO) and is applicable to those employees who fell ill on or after 1 January 2004.

7.2 Non-contributory continuation of pension accrual

If your employment at Philips is terminated due to disability, your pension accrual is continued with Philips Pensioenfond on a non-contributory basis. You will continue to accrue your pension without having to pay any contribution (premium). The survivor's pension will also continue to be insured for you. Your pension accrual is continued on the basis of the conditions set out in the Philips flex pension Plan Rules, as applicable on the last day before termination of the employment. Should any changes in the Plan Rules apply to you after the termination of your employment, such will be explicitly stated in the later version of the Plan Rules. The accrual of pension benefits will be based on your gross pensionable salary at the time you became unfit for work. Your gross pensionable salary is subsequently increased each year in line with the collective scale adjustments at Philips. If you are not fully disabled, your pension accrual is continued partially on a non-contributory basis.

7.3 The disability pension

If you become (partially) disabled during your employment at Philips, such may result in termination of your employment. If such is the case and you have been declared disabled for at least 35% under the WIA, you are entitled to a disability pension from Philips Pensioenfond. The disability pension is a benefit on account of disability after the continuation of salary payment upon sickness as required by law or the statutory sick pay have terminated. Insurance for this pension is standard. If you are less than 35% disabled under the WIA, you will not be entitled to any disability pension from Philips Pensioenfond.

7.3.1 The amount of your disability pension

The level of the full disability pension is determined on the basis of the gross pensionable salary in the month previous to the first day of illness plus the average of the variable income components over the last three years previous to the first day of illness. This income is increased by the collective salary scale adjustments until termination of the employment. The amount of the disability pension is 5% of this total income. If your income exceeds a specific limit, also named the maximum WAO income limit (*AO* limit), you receive a supplement on top. As from 1 July 2007 the maximum WAO income limit amounts to € 45,227. The disability pension then amounts to 5% of the maximum WAO income limit plus 75% of the income exceeding the maximum WAO income limit.

If you were declared partially disabled, you will receive a disability pension on the basis of your disability percentage.

7.3.2 Indexation of the disability pension in payment

The level of your disability pension is determined when you leave the employment of Philips. The indexation policy of Philips Pensioenfondsen determines by what percentage your disability pension will be increased each year in connection with the rising cost of living. This adjustment is conditional and depends on the financial resources available to the Fund (see chapter 11).

7.3.3 Duration of your disability pension

Disability pension benefits cease to be paid when you reach the retirement age, if your disability falls below 15%, or in the event of your decease.

Your disability pension will be paid no longer when you retire. From that time, you will receive a retirement pension.

8 Special situations

A number of situations that have consequences for your pension have not been discussed in the above chapters. These situations, which will be dealt with in this chapter, are as follows:

- 8.1 Working in shifts
- 8.2 Working part-time
- 8.3 Parental leave and other unpaid leave
- 8.4 Working as an expatriate
- 8.5 Divorce
- 8.6 Moving house within or outside the Netherlands

8.1 Working in shifts

The retirement pension

If you work in shifts, your shift work allowance counts in full towards the accrual of your Philips flex pension. After all, the shift work allowance is part of your gross pensionable salary. As a result of receiving shift work allowances, your gross pensionable salary increases, which results in a higher pension.

Example: pension accrual and working in shifts

An employee works a three-shift system. The gross full-time monthly salary is € 1,700. He works 93.75% compared with a full-time employee. The shift work allowance is 27.5% of the full-time salary. The shift work allowance counts towards the calculation of the pension. The pension is calculated as follows:

Step 1: determining your gross pensionable salary

12 x your monthly salary of € 1,700 x 93.75%	=	€	19,125	
Shift work allowance (27.5% of 100% annual salary)	=	€	5,610	
13 th month (8.33% of € 24,735)	=	€	2,060	
Holiday allowance (8% of € 24,735)	=	€	1,979	+
Gross pensionable salary	=	€	28,774	

Step 2: determining your net pensionable salary

€ 28,774 – € 14,280 (offset)	=	€	14,498
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On this amount you accrue pension benefits of 2% per year:

2% x € 14,494	=	€	289.88
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Besides, you accrue 0.6% of the offset as a pension:

0.6% x € 14,280 x 93.75%	=	€	80.33
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So, your total pension accrual in that year is:

€ 289.88 + € 80.33	=	€	370.21
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Step 3: (indexation of the pension) and step 4 (adding up all the (indexed) amounts)

This is the same for those working in shifts as those working full-time.

For comparison: had this employee not worked in shifts, his pension accrual would have been as follows in the year concerned:

Gross pensionable salary:

12 x € 1,700 + € 1,700 (13 th month) + € 1,632 (holiday allowance)	=	€	23,732
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Net pensionable salary: € 23,732 – € 14,280	=	€	9,452
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Pension accrual: € 9,452 x 2%	=	€	189.04
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Besides, the employee accrues 0.6% of the offset as a pension:

0.6% x € 14,280 x 93.75%	=	€	80.33
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So, the total pension accrual in that year is:

€ 189.04 + € 80.33	=	€	269.37
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Other pension benefits

Other pension types, such as the disability pension or survivor's pension, are based on the gross pensionable salary and the net pensionable salary, respectively. These are higher due to the shift work allowance. As a result, the disability pension and the survivor's pension are higher too. This is explained in the below sample calculation:

Example: other pensions and working shifts

The disability pension is 5% of your gross pensionable income up to a maximum of the maximum WAO salary limit (AO limit amount), increased by 75% of the amount exceeding the maximum WAO salary limit. As from 1 July 2007 this AO limit amount is

€ 45,227 per year. In this example the shift worker does not exceed the amount of the AO limit amount, so the total disability pension amounts to:

$$5\% \times \text{gross pensionable income} = 5\% \times \text{€ } 28,774 = \text{€ } 1,439$$

The survivor's pension is based on the net pensionable income. The insured amount is:

$$50\% \times \text{net pensionable income} = 50\% \times \text{€ } 14,494 = \text{€ } 7,247$$

8.2 Working part-time

The retirement pension

If you work part-time, you receive a proportionately lower salary than an employee who works full-time. When calculating the gross pensionable salary, a full-time work week will be assumed first, also for a part-time worker. The full offset is withheld. What remains is the net pensionable salary based on a full-time employment. This amount is multiplied by the percentage you are actually working. For an employee working 50% for example, the amount is multiplied by 50%.

Example: pension accrual and working part-time

An employee works three days a week (part-time percentage is 60%) and the gross monthly part-time income is € 1,400 on a part-time basis (€ 2,333 on a full-time basis). There are no additional income components. This employee's pension is calculated as follows:

Step 1: determining your gross pensionable salary

12 x full-time salary of € 2,333	=	€	28,000	
13 th month (8.33% of € 28,000)	=	€	2,332	
Holiday allowance (8% of € 28,000)	=	€	<u>2,240</u>	+
Gross pensionable salary	=	€	32,572	

Step 2: determining your net pensionable salary

€ 32,572 – € 14,280 (the offset)	=	€	18,292	
The employee works part-time. This means that the net pensionable salary must be multiplied by the part-time percentage:				
€ 18,292 x 60%	=	€	10,975	
On this basic amount you accrue a pension of 2% per year:				
2% x € 10,975	=	€	219.50	

Besides, 0.6% of the offset is accrued as a pension. For calculating the extra pension accrual of 0.6% of the offset a part-time percentage is taken into account.

0.6% x € 14,280 x 60%	=	€	51.41	
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So, the total pension accrual in that year is:

€ 219.50 + € 51.41	=	€	270.91	
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Step 3: (indexation of pension benefits) and step 4 (adding up all the (indexed) amounts)

This is the same for those working part-time as for those working full-time.

If you are entitled to the compensatory allowance, no part-time percentage will be taken into account when calculating the compensatory allowance. More information about the compensatory allowance is given in chapter 4.4.4.

Other pension benefits

Due to part-time work the bases for the disability pension and the survivor's pension will be lower. After all, in the flex pension plan these two pension types are based on the gross pensionable salary and the net pensionable salary, respectively, which are lower as a result of working part-time. As a result, the disability pension and the survivor's pension will be lower. This is explained below in a sample calculation:

Example: survivor's pension and working part-time

Let us look at the standard survivor's pension. Suppose the participant has a partner and is therefore insured for the full survivor's pension, which is 50% of the net pensionable income. The amount differs for full-time and part-time:

Full-time:	50% x full-time net pensionable salary =		
	50% x € 18,292	=	€ 9,146
Part-time:	50% x part-time net pensionable salary =		
	50% x € 10,975	=	€ 5,488

8.3 Parental leave and other unpaid leave

The Labour and Care Act (December 2001) introduced several forms of unpaid leave. Philips has made special agreements regarding the pension consequences of parental leave and the new statutory forms of leave such as adoption leave and short-term care leave. If you take up (partially) unpaid leave under the course of life savings plan, these special agreements will apply as well.

8.3.1 Retirement pension during leave

If you exercise your right to leave, you will work fewer hours for a certain period of time. During this period you will accrue less retirement pension, as if you were working part-time.

8.3.2 Decease or disability during leave

Should you decease or become disabled during the leave, your other pension benefits (survivor's, orphan's, and disability pension) are calculated on the basis of the gross pensionable salary that you had before the leave commenced. If you were insured for the ANW shortfall, you can continue this insurance during your leave.

8.4 Working as an expatriate

Expatriates who are posted abroad by Philips remain members of Philips Pensioenfondsen in the Netherlands. Their retirement pension is calculated in the same way as for Philips employees working in the Netherlands.

A number of specific pension conditions apply to expatriates, which are outlined in chapter 6.6 of the Guideline for Corporate Expatriation 'Green Book', which you receive when you are being posted abroad by Expatriate Transfers.

Corporate HRM will see to it that Philips Pensioenfondsen continues to be informed about the expatriate's current address.

8.5 Divorce

Divorce will affect your pension. In this paragraph we will enter into these consequences.

8.5.1 Effect on survivor's pension

The insurance for survivor's pension ends automatically as from the first day of the month following the month in which the divorce occurred (or the termination of cohabitation or registered partnership). This means that following your decease your ex-partner will no longer be entitled to a survivor's pension. You can find out more about this in the next paragraph, under special conversion. Your ex-partner is entitled to a survivor's pension if you have opted for exchanging part of your retirement pension for a survivor's pension after termination of the employment or attaining the age of 65. This survivor's pension is called a special survivor's pension.

8.5.2 Effect on retirement pension

As from 1 May 1995 the Settlement of Pension Entitlements upon Divorce Act (*Wet Verevening Pensioenrechten bij Scheiding - WVPS*) is applicable to all divorces and terminations of registered partnership that occurred after 1 May 1995. This Act implies that upon divorce or termination of registered partnership your ex-partner is entitled to 50% of the retirement pension accrued by you during your marriage or registered partnership. This means that the retirement pension and any pre-retirement plan capital are divided equally between you and your ex-partner (50%:50%). Such a settlement is known as the 'standard division'.

If either you or your ex-partner wish to have the 'settled' portion of the retirement pension to be paid directly to the ex-partner, the application form 'Mededeling van scheiding in verband met verdeling van ouderdomspensioen' (*Notification of divorce in connection with division of retirement pension*) must be received by the Pension Fund within two years after the divorce or termination of registered partnership. This form can be obtained from the post office or from the Pension Fund. If the form has not been received by the Pension Fund within two years after the divorce, or if no form has been submitted at all, the retirement pension will not be divided as from the retirement date and paid exclusively to you. In that case, your ex-partner can only enforce rights against you and the Pension Fund will be a party no longer.

If you opt for the 'standard division' only one of both parties needs to sign the form. There are costs involved in the division. The cost of the standard division is € 136. You and your ex-partner will share these costs.

The Settlement of Pension Entitlements upon Divorce Act came into force on 1 May 1995. If you got divorced before this date, different provisions are applicable to you. Information about this can be obtained from the Pension Fund or from the brochure 'Verdeling van Ouderdomspensioen bij Scheiding' (*Division of Retirement Pensions upon Divorce*) published by the Ministry of Justice and available from post offices and libraries.

Non-standard division

You may also opt for a non-standard division of your pension and agree that a 50%:50% will not apply, but for example a 60%:40%, where 60% is for you and 40% for your ex-partner. You may also opt for dividing (part of) the retirement pension that was accrued before the marriage or registered partnership as well. However, such deviating agreements must be laid down in the prenuptial agreement or divorce covenant (written agreement between ex-partners with a view to divorce). In principle, any kind of division of your retirement pension may be agreed. We recommend, however, that you first consult Philips Pensioenfond.

If you and your ex-partner opt for a non-standard division of the pension, you and your partner must both sign the form 'Mededeling van scheiding in verband met verdeling van ouderdomspensioen'. The costs of a non-standard division are € 272.

Opting for a standard/non-standard division of your pension implies that your ex-partner does not receive anything until you actually retire, even in the case of advancement or deferment of your pension. If your ex-partner predeceases you, you will receive your full pension again. If you predecease your ex-partner, the pension benefit payment to your ex-partner will also stop.

Conversion

Conversion is a different kind of settlement. Your pension is calculated according to the 'standard division'. Next, your ex-partner's portion and any special survivor's pension is converted into an independent entitlement to a retirement pension for your ex-partner. The independent entitlement to a retirement pension is paid out as soon as your ex-partner attains the retirement age under the Plan Rules (65). In the case of conversion you do not receive back your ex-partner's share of the divided pension upon your ex-partner's decease, as you would do in the case of a standard division. After your decease, the pension will continue to be paid to your ex-partner.

Conversion must also be laid down in a prenuptial agreement or divorce covenant. You must both sign the form 'Mededeling van scheiding in verband met verdeling van ouderdomspensioen'. The cost of conversion is also € 272.

Special conversion

Special conversion is not provided for by the 'Wet Verevening Pensioenrechten bij Scheiding' unlike division and conversion. This type of pension division was created by the Pension Fund specifically for the flex pension plan.

Within the Philips flex pension plan the survivor's pension is a term insurance policy, which is why after divorce or termination of registered partnership no special survivor's pension will be reserved for the ex-partner. In the event of your death your ex-partner will therefore not be entitled to a special survivor's pension. To still provide a special survivor's pension for your ex-partner after your decease, you and your ex-partner may opt for special conversion.

For special conversion the division of your pension is calculated according to the 'standard division'. Next, your ex-partner's pension is subsequently reduced in return for a special survivor's pension. In the event of your decease, your ex-

partner will no longer receive pension benefits but will instead receive a survivor's pension from the Pension Fund. In the event of your ex-partner's decease before the retirement date, you will get back your ex-partner's reduced retirement pension, but permanently lose the part of the pension that was converted into a special survivor's pension. To apply for special conversion you must fill in the form 'Mededeling van scheiding in verband met verdeling van ouderdomspensioen' and submit a declaration signed by both parties.

By way of explanation the table below shows your rights in three different situations: upon divorce, decease of the member, and decease of the ex-partner.

	Member	Ex-partner
(standard) division		
Divorce	RP member	RP ex-partner
Decease of member	-	-
Decease of ex-partner	RP member + RP ex-partner	-
After conversion:		
Divorce	RP member	RP ex-partner
Decease of member	-	RP ex-partner
Decease of ex-partner before Retirement date	RP member	-
After special conversion:		
Divorce	RP member	Decreased RP ex-partner + entitlement to SP
Decease of member	-	SP
Decease of ex-partner	RP member + reduced RP ex-partner	-

RP = retirement pension
 SP = survivor's pension
 - = no entitlement

8.6 Moving house within or outside the Netherlands

If you move to another address you do not have to notify Philips Pensioenfond. We will be informed of your new address by the local authorities. However, if you move abroad, you must always let us know. As a rule, you no longer accrue pension benefits with Philips Pensioenfond after you leave Philips or work for a foreign Philips unit on a local contract. Usually, the Pension Fund continues to manage the pension benefits already accrued, for transfer abroad is often very difficult or even impossible. In that case, Philips Pensioenfond will pay the pension benefits from the paid-up policy in due time.

If you wish to receive your pension benefit abroad, such can be arranged. Whether you are liable to pay tax in the Netherlands depends on the country where payment takes place. The Netherlands have concluded a tax convention with a number of countries in which it has been agreed that tax will be levied by the country of residence. If you relocate to one of these convention countries, it may be, therefore, that you do not have to pay tax in the Netherlands. We are allowed to not tax your pension if you provide us with a dispensation order from the Tax Authorities in Heerlen, Private Persons and Companies Abroad department.

9 The Pension Planner

Your future income situation is defined by pensions and course of life plans jointly. Philips Pensioenfond's offers a Pension Planner where you can combine these two items to get a total overview of your future situation. Via the Pension Planner you can get answers to if and how you can realise your individual wishes.

What is 'the course of life plan'?

All those working in the Netherlands can save as from 1 January 2006 under 'the course of life savings plan', by saving from the gross salary for a period of unpaid leave. Provided your employer agrees, it is possible to take up leave prior to retirement. This way, the course of life plan is actually used for early retirement.

In principle, you are allowed to save 12% of your gross salary as a maximum. If you were born in the period from 1 January 1950 up to and including 31 December 1954 this maximum of 12% does not apply. According to law, the total course of life balance (which consists of the deposited savings and the yield gained) cannot exceed 210% of the gross annual salary. Once this percentage is reached you cannot make any more deposits in 'the course of life plan'. Obviously, the yield can be added to your account, as a result of which the balance may still exceed 210%. After having taken up (part of) the saved amount for leave, the savings amount can again be supplemented in full. So, you can save for several leave periods.

The savings balance can be used for financing any type of leave (for example parental leave, care leave, and sabbatical leave) or early retirement. Provided your employer agrees, you can take up leave prior to your retirement. In that case the course of life plan is actually used for early retirement. By using the maximum savings amount of 210% you may for example advance your retirement by three years at 70% of your most recently earned income. The leave payment is taxed as usual. However, when taking up leave you will receive a tax credit of € 188 for each full year you saved in 'the course of life plan'.

Philips offers a collective course of life plan for all Philips employees via IAK/Aegon. You may contact the special course of life plan helpdesk of IAK via phone number 040 – 261 18 35. The IAK course of life plan helpdesk is available on work days from 9 a.m. to 5 p.m.

9.1 Lay-out of the Pension Planner

The Pension Planner is a tool to get an insight into your current pension situation. Besides, you can recalculate all your pension benefits to the age preferred by you and make calculations with unpaid leave from the course of life plan.

The Pension Planner is divided into three parts:

- your current situation;
- your options;
- general.

Your current situation

Here, all current information about your pension in the standard situation is given. Your individual data, your accrued pensions and the amount of your pension upon retirement can be found here.

Your options

Under 'options' we first ask that you make a number of standard choices. Next, you will enter a selection screen where you can 'play' with your pension yourself. For example, you can see the effect of exchanging your retirement pension for survivor's pension. You can also see how a decision to work fewer hours will affect your pension. Finally, the Pension Planner shows what consequences the course of life plan may have for your pension.

General

Under 'General' you find background information that may come in handy, such as FAQs and their answers and legal texts. Take a look at them, because the Pension Planner tool was designed especially to give you an indication of your pension level.

Who can use the Pension Planner?

All Philips employees participating in the Philips flex pension can consult the pension Planner.

How do you consult the Pension Planner?

Go to the website of Philips Pensioenfond (www.philipspensioenfond.nl). Under 'Accruing a pension' the logo of the Pension Planner is shown. By clicking on the logo of the Pension Planner it will open. Next, you will be asked to enter your salary number and password. The password has been sent to you by mail. After having entered the password you should immediately change it into a new password. Next, you will enter the start page of the Pension Planner.

9.2 Questions about the Pension Planner

FAQs and their answers can be found under 'General' in the Pension Planner. Is your question not there? Please do not hesitate to contact the Client Service of Hewitt Associates via phone number 0800 – 023 15 01 (workdays from 9 a.m. to 5 p.m.).

10 From gross to net: taxes and social security contributions

When discussing your pension level, it is actually your gross pension that is being referred to. Upon retirement statutory payroll tax and social security contributions will be payable over that pension. As a result your net pension will be lower. How much lower is hard to predict. Annually, tax rates and social security contributions will vary. For that reason you will only be informed about your net pension situation a few months before your retirement. However, we want you to have a basic idea of how your gross pension turns into a net pension. This is explained in this chapter.

10.1 Deduction of income tax

In principle, payroll tax and social security contributions (jointly referred to as the statutory payroll tax) payable by you over your pension are calculated in a similar way as your salary. The only difference is that some tax rates may differ when you receive a pension instead of a salary.

Over your full salary/pension tax will be levied. From that amount the tax credit is deducted. The remainder is the tax actually payable by you. Everybody has their own tax credit which is not transferable.

Calculation:

Gross pension x tax bracket = calculated statutory payroll tax

Calculated statutory payroll tax – tax credit = statutory payroll tax payable.

As your pension or salary increases, you will pay more tax. There are four different tax brackets and all tax brackets have their own tax rate. The exact amounts of the tax brackets are given below in this chapter.

The tax credit level

The tax credit level for those over the age of 65 and those who are younger will differ. The tax credit level applicable will also depend on the income level of those over the age of 65. If you have no income or too little income as a result of which the tax credit cannot be applied in full, the tax authorities will repay you the difference. In other words: you will receive the tax credit if you do not have any income.

Tax credit level as from 1 January 2007

	65 -	65 +
Income below € 31,758	€ 2,043	€ 1,337
Income € 31,757 or higher	€ 2,043	€ 957

Application of tax credit

For calculating the statutory payroll tax we do not take into account the tax credit as a standard, for if you receive an AOW benefit from the age of 65, the tax credit will be applied by the Sociale Verzekeringsbank (the body administrating the AOW). If you retire before the age of 65, you will receive a wage tax declaration from us. In this declaration you can indicate whether you wish the tax credit to be applied by Philips or not. If you return the wage tax declaration to us, we will base ourselves on the information filled in by you.

Boxes and tax brackets

The tax system has three boxes. To each box different tax rates apply. Your wages, but also your pension payments from Philips Pensioenfondsen are exclusively taxed in box 1. The other boxes are not relevant to your salary or pension. On the following page you will find the tax brackets applicable. Per tax bracket a different percentage of statutory payroll tax is payable, because as your income increases, you pay more statutory payroll tax.

Tax brackets as from 1 January 2007, box 1

Income	65 -	65 +
Up to € 17,319	33.65%	15.75%
From € 17,320 up to € 31,122	41.40%	23.50%
From € 31,123 up to € 53,064	42%	42%
From € 53,065	52%	52%

The first two tax brackets contain a portion of wage tax and a portion of social security contributions (for example the AOW premium). As people over 65 no longer pay any AOW premium, the first two tax brackets for over 65s are considerably lower. The third and fourth tax brackets involve taxes only. Taxes are payable by you over your total pension income from Philips.

Example: from gross to net pension

You retire at age 62.5 and receive a retirement pension of € 27,500 gross per year. On top, you receive from age 65 an AOW benefit of € 8,549 gross per year. What does your net pension look like before and after age 65?

	Up to age 65	From age 65
Retirement pension	€ 27,500	€ 27,500
AOW	€ 0 +	€ 8,549 +
Total gross	€ 27,500	€ 36,049
Base calculation taxation	33.65% x € 17,319 + 41.40% x € 10,181 +	15.75% x € 17,319 + 23.50% x € 13,803 + 42% x € 4,927 +
	€ 10,043	€ 8,041
Tax credit	€ 2,043 -	€ 957 -
Tax payable	€ 8,000 -	€ 7,084 -
Total net	€ 19,500	€ 28,965

10.2 Health insurance premiums

Upon retirement, you will pay premiums for health insurance only, besides the above-mentioned statutory payroll tax. The amount depends on your health insurance firm.

Health Care Insurance Act (Zorgverzekeringswet – Zvw)

From 1 January 2006 the new Health Care Insurance Act (Zvw) is in force. This provides one health care system for all. So, there is no longer any distinction between those insured under the Public Health system and those insured privately. The health care insurance has a (statutory) base package. The content of this base package is similar to the former public health package and most private health insurances. Insurance for the base package is compulsory.

The health care insurance has two types of premium: the nominal premium and the income-dependent contribution.

- Nominal health insurance premium

The nominal premium for the health care insurance amounts to approximately € 1,100 per year (2007). The exact premium amount can be obtained from your health care insurer. This premium is paid directly to your health care insurer by you.

- Income-dependent health care insurance contribution

All those having a taxable income must pay an income-dependent premium besides the nominal premium. This contribution amounts to 6.5% over your income. Besides, 4.4% is withheld from the supplementary pension, while a maximum gross annual income (including salary and AOW) of € 30,623 applies. This contribution is not compensated for by Philips Pensioenfond. If you receive an income from various institutions amounting to over € 30,623 in total, any excess payments made will be automatically returned by the tax authorities.

11 Indexation policy of Philips Pensioenfond

11.1 What does indexation mean?

Indexations are increases of your pension (benefits) intended to ensure that the purchasing power of your pension (benefits) will be maintained as much as possible. According to the current indexation policy (supplements policy) of Philips Pensioenfond (effective from 1 January 2004) it is determined each year when and to what extent indexation can be granted.

11.2 Explicitly conditional indexation

Indexation of your pension is explicitly conditional. This means that the indexation percentage is determined annually by the Board of Trustees for the period of one year on the basis of the available financial resources of the Pension Fund. It also means that indexation is not a right, but will depend on the financial resources available. As a result, it is uncertain for the longer term if and to what extent indexation will take place. Therefore, any resolution on indexation of the Board of Trustees will form no guarantee for future years. So, you will have to take into account that no or less indexation may occur in the future. Even if (full) indexation is granted during a great many consecutive years, no expectation for the future may be derived.

Obviously the Board of Trustees will, as before, pursue an indexation policy that is as advantageous as possible by aiming for the highest returns on investments at an acceptable level of risk. Agreements were therefore made with Philips about higher premiums if the Pension Fund's reserves should fall below specific levels. Additionally, the company will not reduce any premiums for a longer period of time. These measures are designed to enhance the probability of indexation.

11.3 Extent to which indexation occurs

The indexation of the accrued pension benefits of members still active at Philips (the actives) is derived from the collective salary scale adjustments at Philips, whereas the indexation of pensions for the pensioners and those having a paid-up policy is derived from the cost of living which is determined on the basis of the derived consumer price index (CPI) of Statistics Netherlands. The extent to which indexation will follow these bases for indexation is the same for all (active and passive) members. In case of insufficient finances, no or hardly any indexation will take place. In a situation where the financial resources allow for a higher indexation to be determined, such will apply to all members.

11.4 Transitional measure

It has been agreed that no discount will be granted to Philips on the pension premium payable by the company, which gives the Pension Fund a maximum opportunity to accrue the reserves required.

12 Uniform Pension Overview and other information

Pension funds have become increasingly aware of the importance of good communication with their members. Hence, we prepared this brochure for you. However, this is not the only information you receive from us. Every year you will receive a Uniform Pension Overview from the Pension Fund containing financial information about your pension. Apart from that, we are always ready to listen to you if you do not agree with certain decisions. For this purpose there is a complaints commission. This chapter tells you about these and the many other facilities for providing information about your pension.

12.1 Annual pension statement

It is important for you to know what your financial situation will be upon retirement. For this reason you receive a Uniform Pension Overview from Philips Pensioenfondsen every year, containing all the information about your individual pension. To gain an up-to-date insight into your pension situation you can consult the Pension Planner. Here you can simulate choices to find out their effect on your pension. In chapter 9 all about the Pension Planner can be found.

12.2 Contact

Should you have any questions, please contact the pension administrator of Philips Pensioenfondsen: Hewitt Associates.

Telephone

The Client Service of Hewitt Associates is accessible during office hours (between 9 a.m. and 5 p.m.): 0800 – 023 15 01.
From abroad you should call: + 31 40 265 38 70.

E-mail

You can send your questions by e-mail to: pensioen.ppf@hewitt.com.

Post

Send your questions by post to:
Hewitt Associates
P.O. Box 80040
5600 JP Eindhoven

Visiting address

It is also possible to make an appointment for a personal consultation.
The visiting address is:
Hewitt Associates
Beukenlaan 143
5616 VD Eindhoven

Fax

The fax number is: 040 - 265 38 77.

Internet

See www.philipspensioenfondsnl for a list of frequently asked questions and answers, specific examples and background information.

12.3 How to file a complaint

Any complaints about the administration of the Pension Plan Rules by Philips Pensioenfondsnl can be submitted to the complaints committee of the Board of Trustees. Your complaint must be submitted in writing. The complaints committee will then deal with the complaint.

The address of the complaints committee of the Board of Trustees is:

Klachtencommissie
p/a Philips Pensioenfondsnl
P.O. Box 80031
5600 JZ Eindhoven
The Netherlands

Should you be dissatisfied with the way your complaint is dealt with, please refer to the national body specialised in complaints relating to pensions: the Pensions Ombudsman. The Ombudsman, who only deals with a complaint after it has been dealt with by the complaints committee of Philips Pensioenfondsnl, will take a close look at our Plan Rules and decide on that basis whether or not your complaint is well-founded. You cannot have recourse to the Ombudsman if you disagree with the content of the pension plan. In that case your only remedy may be legal proceedings against the Philips Pensioenfondsnl.

The address of the Pensions Ombudsman is:

P.O. box 93560
2509 AN Den Haag
The Netherlands
070 333 89 99

13 Glossary

Accrual percentage

Percentage used for calculating the annually accrued pension benefits. In the flex pension plan this is 2%. Besides, you accrue an additional pension in the Philips flex pension plan to the level of 0.6% of the offset.

ANW (Algemene Nabestaandenwet)

General Surviving Dependents Act. A statutory basic provision for inhabitants of the Netherlands in the event of their partner's decease.

AOW (Algemene Ouderdomswet)

General Old Age Pensions Act. This is a statutory basic provision that you receive from the age of 65. You are entitled to a full AOW pension if you have lived and/or worked in the Netherlands from the age of 15 to 65. If you have not lived and/or worked in the Netherlands for a number of years during that period, the full AOW is reduced in principle by 2% for each missing year.

Attainable retirement pension

The level of your retirement pension if you continue working for Philips until your retirement age based on the current data.

Collective salary scale adjustments

Collective salary scale increases agreed in the CLA negotiations between the employer and the trade unions.

Compensatory allowance

A temporary benefit paid from the age of 62.5 up to the age of 65, comparable to the bridging payment. The compensatory allowance is a conditional right. Every year, during 15 years' employment at Philips as a maximum, the compensatory allowance is made unconditional in part and added to your accrued pension benefits. The compensatory allowance is only applicable to those employees who were employed by Philips on 31 December 2005 and were aged 25 or over on this date.

Defined benefit agreement

A pension agreement based on your salary and period of service. The Philips flex pension plan is a defined benefit agreement.

(Derived) Consumer Price Index (CPI)

The Consumer Price Index (CPI) shows movements in the prices of goods and services purchased for consumption by households. The derived CPI is equal to the ordinary CPI excluding the effect of changes in the rates of indirect and consumption-related taxes (e.g. VAT and duty on alcohol and tobacco) and subsidies.

Gross pensionable salary

Income on which the pension is based: 12 times the gross monthly salary + holiday allowance + 13th month + any shift work allowance + the variable income components according to the employment package which are structural in nature.

Indexation/indexing

An increase by a certain percentage for pensions in payment (following retirement) and/or (paid-up) accrued pension benefits (before retirement).

Indexed average-pay plan

A pension plan in which the level of the retirement pension is based on your average income during the membership period of the Philips Pensioenfonds. Additionally, any accrued pension benefits are adjusted annually in accordance with the indexation policy.

Net pensionable salary

The pensionable salary is the gross pensionable salary minus the offset. Next, the amount may be multiplied by the applicable part-time percentage.

Offset

The part of the income on which you do not accrue pension benefits. This is because you receive an AOW state pension from the age of 65. By deducting this offset from the gross pensionable salary, the AOW is taken into account for the accrual of the Philips supplementary pension.

Orphan's pension

Temporary pension benefit for your children in the event of your decease.

Paid-up pension benefits

Pension benefits that are no longer accrued and for which no premiums are payable any longer. These accrued pension benefits are adjusted according to the indexation policy and will be paid to you from your retirement date.

Partner

A partner is understood to mean the person to whom you are married, with whom you have entered into an officially registered partnership, or with whom you cohabit. The definition of cohabitation is derived from the Surviving Dependents Act, which provides that two persons must 'provide for each other' and 'conduct a joint household'. Furthermore, your partner must be registered with the Pension Fund.

Part-time percentage

The percentage that you work in relation to the number of hours on the basis of full-time employment.

Pre-retirement capital

The capital accrued up to 1 January 2006 in the pre-retirement plan. The accrued capital is invested until your retirement age. Until 1 January 2006 it was possible to participate in the pre-retirement plan and invest part of your income in order to be able to retire earlier with a specific pension level.

Retirement pension

The pension benefit you receive when you have attained the retirement age.

Standard retirement age

The retirement age that your pension plan is based on. In the Philips flex pension plan the standard retirement age is 65. However, you may opt for a different retirement age, provided this is situated between the age of 60 and the age of 65.

Survivor's pension

A pension for your partner in the event of your decease. Your partner is entitled to this pension if you are married/registered or cohabiting with a partner who has been registered with the Pension Fund and if a survivor's pension has been insured. The survivor's pension is also named 'partner's pension'.

WAO

Wet op de Arbeidsongeschiktheidsverzekering (*Disability Insurance Act*).

WIA

Wet Werk en Inkomen (*Work and Income according to Fitness for Work Act*).