Member Update
June 2018

Welcome

From Brussels

Back in 2007, Nestlé European Pension Fund OFP (NEPF) has been created to manage pension plans throughout different countries. The purpose is to have a core engine, enabling increased governance.

While having a unique pension fund established and regulated under Belgian prudential laws, members are served locally congruous with the requirements of local social & labor laws. The present report will provide you some insights on how things have evolved throughout the year 2017, both at NEPF level and for your section.

Through the year, we are pleased to report increased financial strength, further work toward always better governance and, last but not least, the on-boarding of a new plan in the Middle-East.
In a still challenging environment, the fund benefited from a performance above its long term expected return. This shall not keep us away from our cautious stance toward the near future.

We hope the present update will be of interest for you and look forward to hearing any feedback that you may have.

Jean-François Vaccaro
Chairman of the Board

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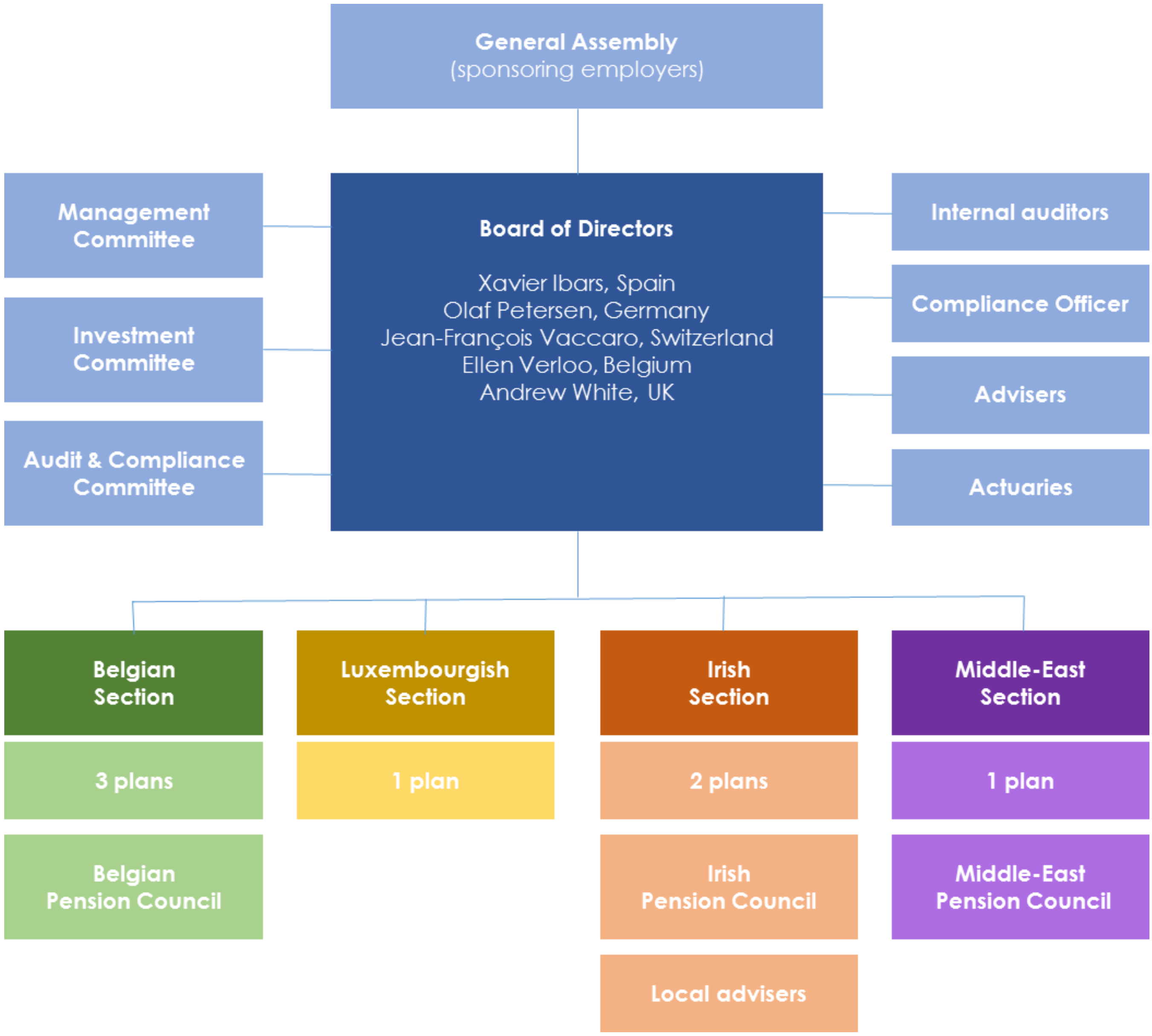
How is the NEPF run?



The Board of Directors is the overall responsible for all decisions relating to funding and investment for all sections of NEPF and complying with all statutory requirements. It is the overall "Trustee" of the fund.

The currently 5 Directors are Nestlé Group employees from various countries who have relevant professional experience. They meet four to six times a year and are assisted by a range of specialist advisers.

The Directors are appointed by the General Assembly, which meets once or twice a year and consists of representatives from the various sponsoring employers.

In addition, local sections can create Pension Councils to consider local pension issues and legislation, depending on the local context. The Belgian and Irish Pension Councils are made of Nestlé and member-nominated representatives. The Luxemburgish section decided to waive on a specific pension council due to the limited number of members of the plan. This is replaced by direct communication with members.

The pension councils are not responsible for investment or funding issues, but are informed of them and can make recommendation to the Board of Directors.

The advisers

NEPF

Appointed actuary : Thierry Verkest, AON Belgium

Internal auditor : BDO

Compliance officer : An Van Damme, Claeys & Engels

Statutory auditors : Peter Coox, KPMG

Investment advisers : ORTEC, Willis Towers Watson

Investment managers : BlackRock, Pimco, SSgA and various other investment managers

Legal advice : Claeys & Engels

Underwriter : Generali

Irish Section

Actuary : Cathal Fleming, FSAI, Mercer (Ireland) Ltd

Administration : Mercer (Ireland) Ltd

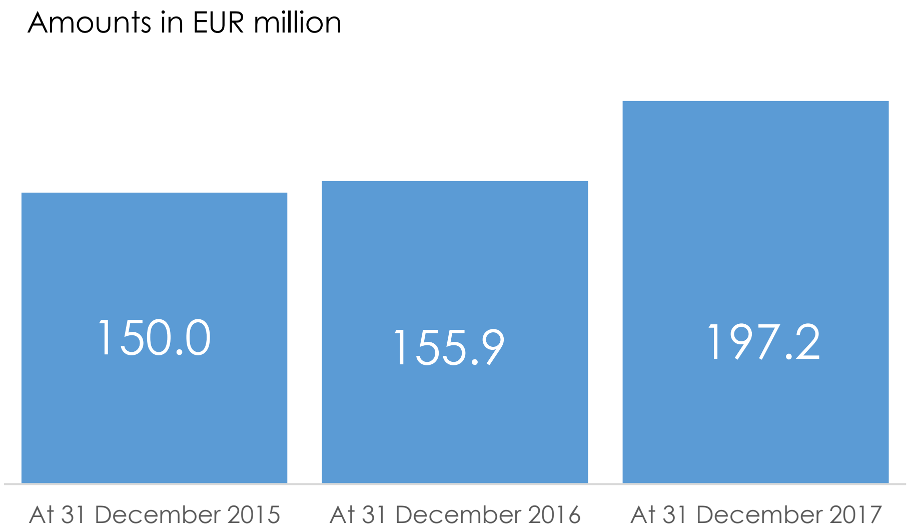
AVC providers : Irish Life Assurance PLC, The Equitable Life Assurance Society, Standard Life Assurance Ltd, Friends Life Assurance Company Ltd

Property management : Finnegan Menton

Sollicitors : William Fry

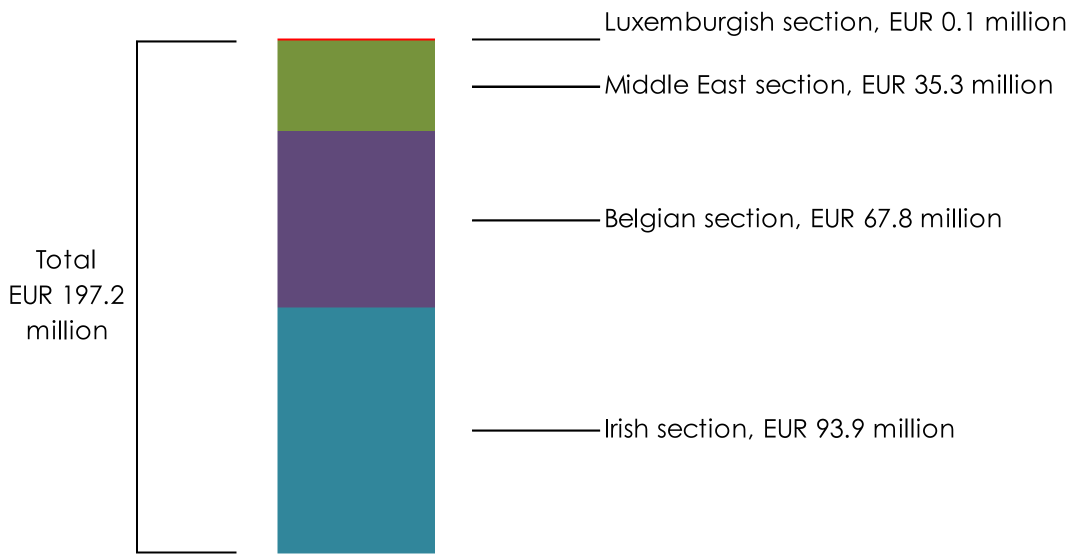
Value of NEPF

As reported by the appointed actuary of the fund the total value of NEPF established as follows :

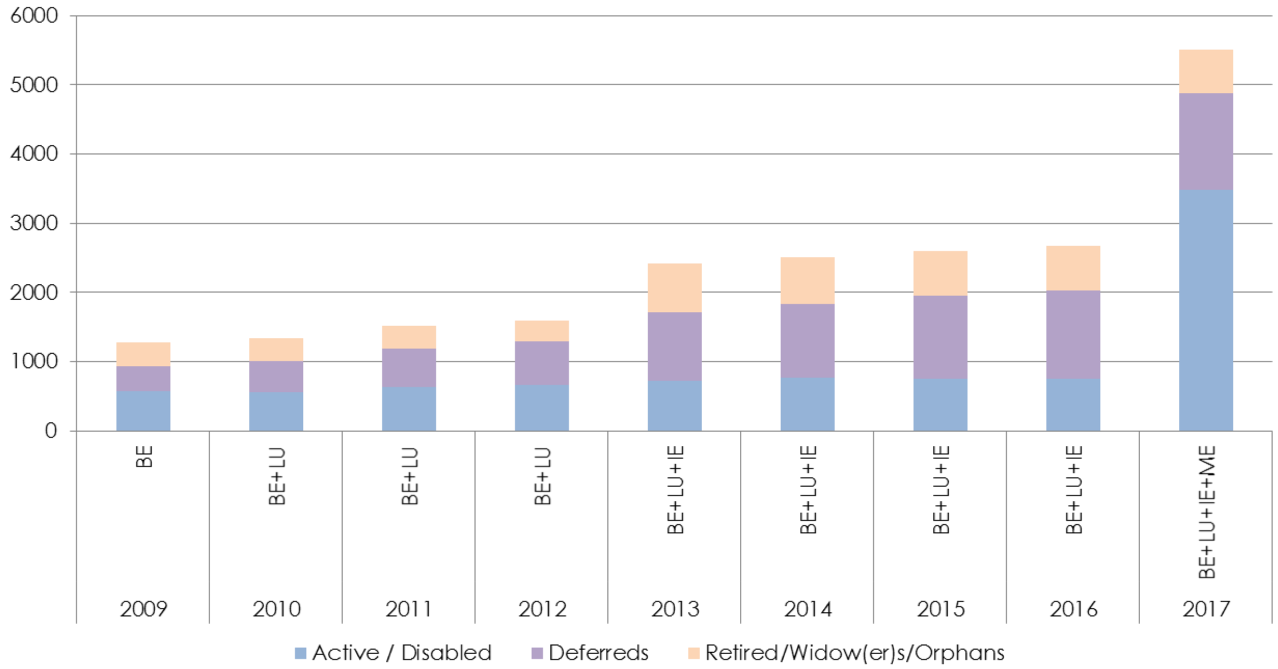


Nestlé European Pension Fund OFP (NEPF) is a cross-border pension arrangement designed to manage pension plans for Nestlé Group employees in several countries and geographical areas. It now runs 4 different sections covering Belgium, Luxembourg, Ireland and several countries in the Middle-East. It is one single legal entity, with responsibility for the assets and liabilities of all pension plans it has been entrusted the management (7 in total at this stage). With exception of pure defined contribution plans, the assets of the plans are managed collectively. However, in practice, NEPF administratively ringfences assets and liabilities of each individual plan/section based on parameters such as the value of the assets at the point each plan is transferred to NEPF

As at 31 December 2017, the assets were allocated by sections as follows :



Membership data



Membership as at 31 December 2017

	Belgium	Luxembourg	Ireland	Middle-East	NEPF
Actives	651	39	99	2'702	3'491
Deferred	1'064	10	309	5	1'388
Pensioners/beneficiaries	246	0	383	0	629
Total	1'961	49	791	2'707	5'508

Membership as at 31 December 2016

	Belgium	Luxembourg	Ireland	Middle-East	NEPF
Actives	633	37	86	n.a.	756
Deferred	973	10	293	n.a.	1'276
Pensioners/beneficiaries	253	0	391	n.a.	644
Total	1'859	47	770		2'676

Income & expenditure

As NEPF is Belgian based pension fund, the annual accounts are prepared in accordance with Belgian accounting standards and are audited accordingly. This means there are some differences in the items that are accounted for and the way in which they are accounted for, compared to pension fund accounts that would be prepared using other local standards.

Below a summary of the P&L account of NEPF for the 3 most recent years.

Figures in thousand EUR	2017	2016	2015
Related to benefits			
Company contributions	5'520.7	4'436.8	3'802.0
Employee contributions including AVCs and transfer-in			
Benefits paid	-7'649.3	-5'073.8	-5'699.3
Change in valuation of technical provisions	-28'716.0	-549.0	684.8
Net transfer from/to another fund	34'834.3	-675.8	-8.2
Annuities, reinsurance and other items	-1'543.1	-1'102.8	-1'439.9
Total	2'446.5	-2'964.5	-2'660.6
Financial & Operating result			
Investment and other financial income	345.9	318.8	328.5
Investment & banking expenses, taxes	-100.7	-100.0	-104.1
Net changes due to currency fluctuations	5'874.1	-2'294.8	-5'403.3
Net changes due to market movements	4'283.0	11'313.6	10'705.9
Administration expenses	-855.5	-847.2	-950.4
Total	9'546.8	8'390.4	4'576.7
Net result	11'993.3	5'425.9	1'916.1

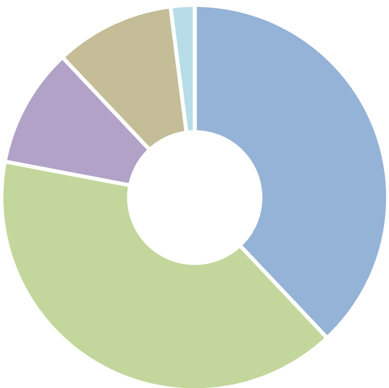
Investments

Benefits are funded by contributions received but also by the performance achieved on the assets of the fund. These are invested in accordance with its Strategic Asset Allocation (SAA) which has been designed to achieve the required expected level of performance over the long run. The SAA sets out the percentage of NEPF's overall assets should be invested in a particular type of investment or asset class over the long term.

The SAA is decided based on the findings of regular Asset Liability Modelling studies. An ALM study is a detailed financial report, which considers all the potential financial, economic and demographic risks that might impact on NEPF's financial situation, for good or bad, over the long and short term. It also makes recommendations as to how NEPF might invest its monies to offset these risks and ensure it has sufficient monies in the future to pay all benefits build by members in the various plans managed by NEPF.

NEPF conducted such an ALM study at the end of 2016, but the results led the Board to keep the SAA unchanged.

The Strategic Asset Allocation as at 31 December 2017 was :



Bonds	38%
Equities (including private equity)	40%
Property	10%
Hedge funds	10%
Cash	2%

Within each main asset class, NEPF is slicing its allocation to further benefit from diversification. Over the recent years, the bond portfolio of NEPF has been invested primarily in high quality corporate bonds, while keeping an allocation to government bonds and an allocation to inflation-linked bonds.

Following the ALM study, the Board reconfirmed its willingness to allocate part of the assets of the fund to private equity. NEPF effectively started to build up this allocation in 2017.

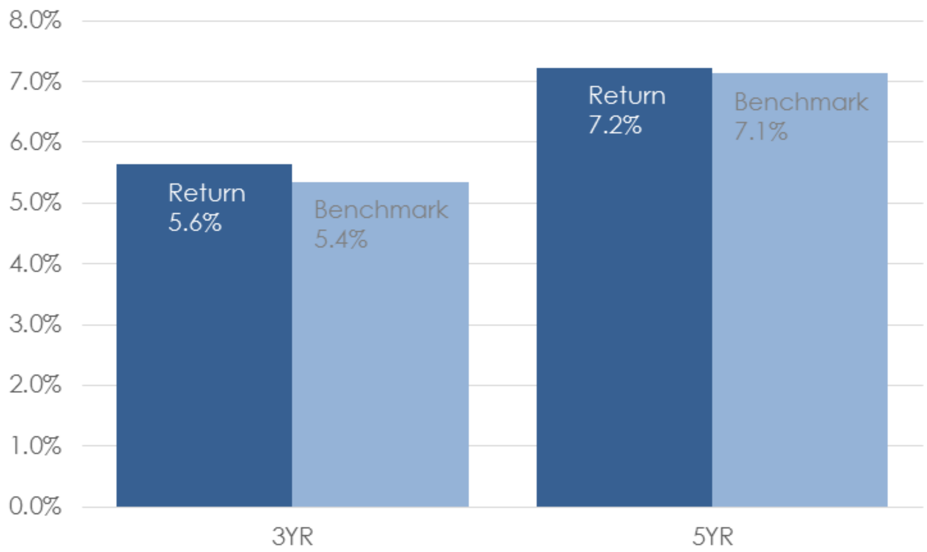
Diversifying the asset allocation worldwide bring some opportunities to investors like NEPF. However, it has a currency risk embedded. As currency fluctuations are not expected to add value on the long run, NEPF has to mitigate currency risk. For that purpose, the fund is hedging back most of the holdings in currencies other than EUR when dealing with assets of the plans of the EUR-denominated sections.

Investment performance

Since the last quarter of 2017, NEPF is running one allocation to invest the monies of the plans which base currency is EUR and one allocation specific to the newly created Middle-East section. Without entering too much into the technicalities, the main difference between these two allocations is the net currency exposure. NEPF then started to calculate performance figures for the EUR sections and for the USD section. The below will essentially focus on the EUR sections where sufficient history is available.

For EUR sections, NEPF achieved a return of 7.1% on its assets, net of investment expenses. This compares favourably with its benchmark of 6.6%. More importantly, this performance was unexpectedly positive and above the long term expect return of the fund. Everything else remaining equal, NEPF has strengthened its financial situation.

Over the three and five years to 31 December 2017, NEPF has achieved the following returns :



For information, performances are reported net of cost of managing the assets, i.e. including transaction costs or the fees paid to asset managers. These are calculated as a percentage of the market value of the assets which they manage on behalf of NEPF.

Funding levels

The Board of NEPF is regularly monitoring the adequacy of the funding of promised benefits by sufficient assets. The fund publishes every year a funding update at total level as well as country by country.

For that purpose, the Appointed Actuary of the fund compares the value of NEPF's assets (i.e. the money it has available including any debt and receivables) against its liabilities (i.e. the estimated amount of money it needs to ensure that in the future it can pay the benefits owed to the members). Comparing the assets with the liabilities gives a funding level, which indicates whether NEPF has a surplus or a deficit.

Under Belgian funding regulations, the actuaries is required to value the liabilities on both a short term and a long term basis, using different assumptions. At all times, NEPF as a whole and each of its sections must be at least 100% funded on a short term funding basis. If any section is found to be less than 100% funded, the sponsoring employers of that section is required to make additional contributions as soon as possible and in any case within the same calendar year to bring the short term funding level back to at least 100%.

Additionally, if any section is found to be less than 100% funded on the long-term funding basis, a formal recovery plan has to be put in place, under which the sponsoring employers make additional contributions to remove the deficit within a five-year period.

NEPF is satisfied that appropriate procedures are in place to monitor and ensure that both employer and employee contributions are received according to local rules relevant to the pension plans and especially, for the Irish plans, in accordance with the Rules of the Irish Section and Irish legislative requirements as set out under Section 58A of the Pensions Act 1990 under which :

- *Member contributions must be received within 21 days from the end of the month in which they were deducted from pay; and*
- *Employer contributions must be received in accordance with the timings noted by the actuary in the schedule of contributions or as stated in the Plan Rules or otherwise within 30 days of the end of the Scheme year.*

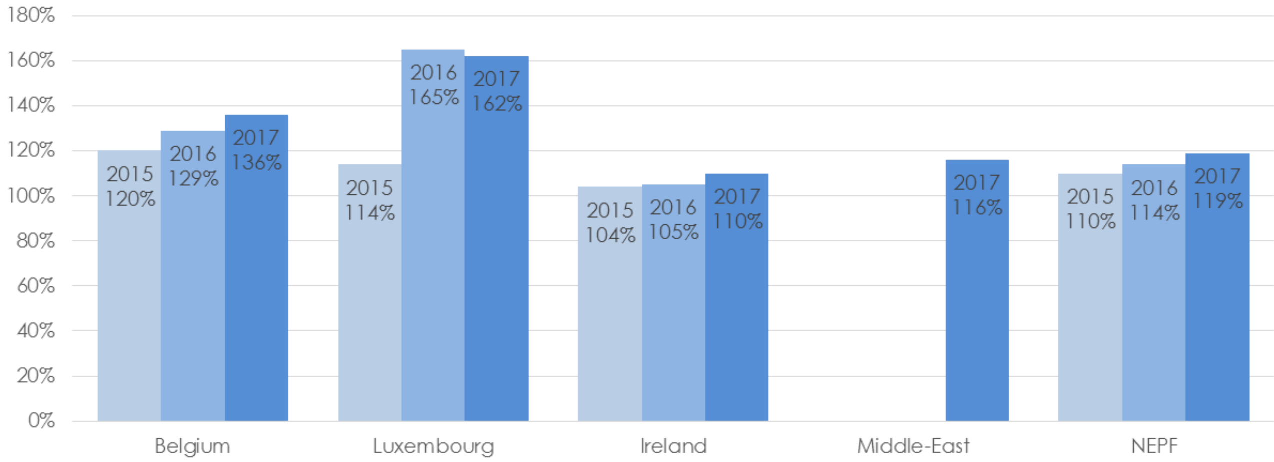
As at 31 December 2017 the funding levels on a long term basis of the fund and its section established as follows :

	Belgium	Luxembourg	Ireland	Middle-East	NEPF
Assets	67.8m	0.1m	93.9m	35.3m	197.2m
Liabilities	49.7m	0.1m	85.5m	30.5m	165.8m
Surplus	+18.07m	+0.05m	+8.43m	+4.79m	+31.34m
Funding Level	136%	162%	110%	116%	119%

Congruous with Belgian laws, NEPF was satisfactorily funded at global level as at the level of each section, at the end of last year.

Evolution of the funding levels

In the year to 31 December 2017, funding improved on both long-term and short-term basis in both the NEPF as a whole and in each of the individual sections. The graphs below show the evolution over the past three years of the long-term funding level :



This year again the main reason for the improved funding levels was the positive returns achieved on investments.

Many different factors influence the funding levels year on year – for example, the value of the assets as well as the assumptions used to perform the calculations. The assumptions are reviewed every year and can change from time to take into account market conditions. Some of the assumptions are applied across NEPF (e.g. the discount rate) some are more specific to the various countries and plans. This year, no major changes have been applied.

NEPF calculates funding levels using a Belgian funding basis. This might defer from methods applied elsewhere and especially the Minimum Funding Standard that is used to test the funding level of defined benefit pension plans in Ireland. The methods applied for calculating statutory funding levels for pension funds might also diverge from the way these are accounted according to IFRS standards.

The continuity in the method is key to assess the financial situation of a fund and the main objective will always remain allowing the fund to pay all its promises.

Other things we need to tell you

While some local laws might not be so specific, some laws require to tell you about the risks associated with NEPF. This is especially the case for Irish Law and is anyway good practice. The main risk is that there could be a shortfall in NEPF's assets to cover liabilities. In the unlikely event that NEPF has to be wound up and there is a shortfall that Nestlé is unable to make up, the appointed liquidator would determine a priority order for the discharge of benefits to different categories of members.

Pension increases

Rules depends from one country to the other and from one plan to the other.

In Ireland, pensions in payment are reviewed annually and increased in line with the annual movement in the Consumer Price Index (CPI) up to a maximum of 4%. Increases are applied as at 1 January, based on the annual movement in CPI to the end of the previous November. If CPI inflation is negative, no increase is applied, the following increases were awarded :

At 1 January 2016	At 1 January 2017	At 1 January 2018
CPI movement to 30 November 2015 = -0.2% (negative)	CPI movement to 30 November 2016 = -0.1% (negative)	CPI movement to 30 November 2017 = +0.5%
Increase in pension in payment = 0%	Increase in pension in payment = 0%	Increase in pension in payment = +0.5%

Deferred pensions are revalued annually in accordance with Pension Act 1990. The rate declared for 2017 was 0.5%

Documents you might like to see

The following documents are available on request from your pension plan administrator or through NEPF (contact details at the end of the present document)

About NEPF

- By-Laws
- Statement of Investment Principles
- Actuarial Report
- Annual Accounts
- Financing Plan
- The Management Agreement
- Data Privacy Policy

About your section

- Plan rules
- Constitution and Powers of the local Pension Council (if relevant)

About the NEPF

The NEPF is a cross-border pension scheme registered with the Financial Services and Markets Authority in Belgium under FSMA reference number 50.111. Its registered address is:

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Rue de Birmingham, 221
1070-Anderlecht
Brussels
Belgium

Email: nepf@be.nestle.com
Please address any correspondence to the above address for the attention of the Compliance Manager.

Member contact details

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