Pension changes

AUGUST 2011

Important information for all active members of the Nestlé (Ireland) Pension Fund

Nestlé has been providing great pensions for many decades. And we want to keep doing that. We believe in offering valuable pensions which are fair and available to all our staff, while at the same time making sure our pension arrangements are affordable for you and Nestlé. We have been reviewing our pension arrangements and the pages that follow outline some changes the Company is making and the reason why change is essential.

Why is change necessary? (see page 2)

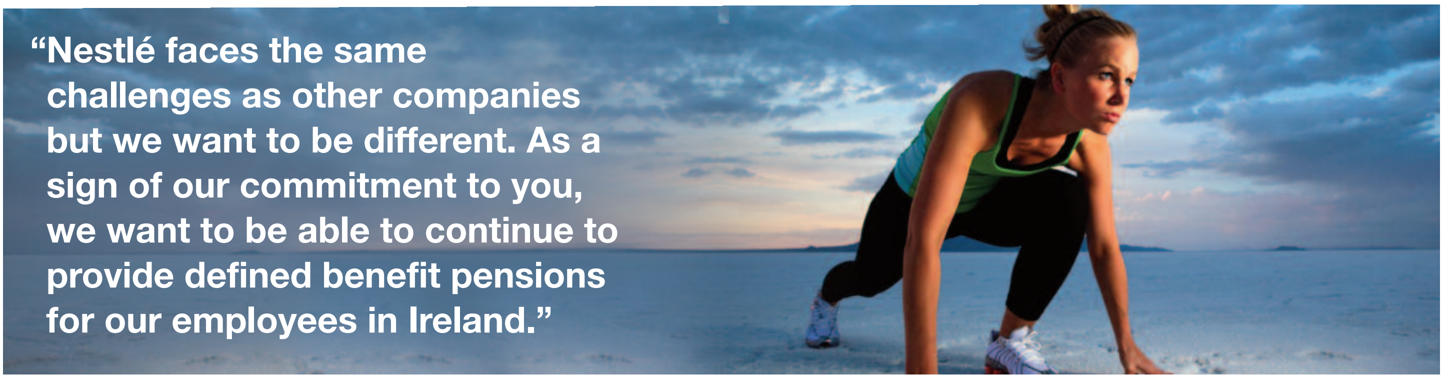
Your current pension is called a 'defined benefit' pension which means that it's based on your service and your salary. Many companies with defined benefit schemes in Ireland are considering the future of their schemes as they are becoming too risky and expensive to provide because:

- People are living longer and so pensions have to be paid for longer;
- The legislative requirements for the funding of pensions are onerous in Ireland, particularly in the current difficult economic climate, and this makes pension schemes like ours more expensive to run; and
- Investment markets around the world are likely to provide lower investment returns in the future than they have in the past.

Nestlé faces the same challenges but we want to be different. As a sign of our commitment to you, we want to be able to continue to provide defined benefit pensions for our employees in Ireland. We believe we have found a way to do so, which is why we need to talk to you now.

It is very important that you read this newsletter, which will help you understand:

- Why the changes are being made;
- What the changes are;
- Your choices for the future;
- How the changes will affect you; and
- What happens next.



What happens now?

During the next four weeks, you will have the opportunity to learn more about the changes. This is an introductory newsletter which gives you information about the new benefit structure (see pages 4-7), what happens to past benefits (pages 14-15) and a proposed development regarding the management of the pension arrangements for employees in Ireland (page 16). You will have an opportunity to attend a presentation in the next few weeks and to ask questions. **Please note you do not need to take any action at the moment.**

The case for change

Contents

The risks and costs of providing the Company's current pension arrangements are significant. In particular, the cost of people living longer, greater regulation and the likelihood of lower future returns from investment markets are putting further pressure on the Fund. The Company currently bears all of the risks associated with providing final salary defined benefit pensions.

In the last few years the Company has faced significant challenges due to the difficult economic environment. However, in 2010 it did deliver a strong performance overall. The Company realises how tough the future economic outlook remains.

Many other companies have already made significant changes to their pension arrangements. Whilst Nestlé has continued to offer defined benefit pensions to new recruits, many companies have closed their schemes and now offer only defined contribution schemes. Some companies have also closed their defined benefit schemes to existing members, whilst others have introduced a variety of benefit changes to future pensions for their existing members.

In this context, the Company has carried out a review of its existing pension arrangements in both Ireland and the UK. You may be aware that during 2010 significant changes were made to the UK pension arrangements. The Company can only continue to provide quality pension benefits in the future if both risks and costs are sustainable over the long term and are shared between members and the Company.

Another issue of concern to the Company is the fact that although the Fund has remained open, many employees do not join. They feel they cannot afford the current contribution rates or that the benefits on offer are not appropriate for them. The Company wants to make future pension benefits more accessible to all in terms of both cost and choice of benefits.

Pensions are an important and valuable part of your reward package. Whilst the proposed changes are significant, the Company will continue to offer a defined benefit option, but on a new career average basis, rather than the current final salary basis. The pension package will continue to be very competitive.

The proposed changes to the pension arrangements are a critical part of the Company's strategy. They will help distribute the costs and risks between the Company and members. This will assist in ensuring the long-term sustainability of the pension arrangements and help the Company to invest in its brands and operate as efficiently and effectively as possible.

The changes aim to make sure that:

- The Company can continue to provide good quality pension benefits that are fair to all employees;
- The pension benefits are accessible to employees, in terms of both cost and the choice of benefits on offer, so they suit their financial and personal circumstances;
- The pension provision is financially sustainable for the business in the long term;
- The risk and cost of providing pension benefits is fairly shared between the Company and its employees; and
- The administrative costs of running the pension arrangements are reduced.

The good news

Defined benefit retained

The good news is that the Company will continue to offer a defined benefit pension arrangement to both new and existing employees. This will be a Career Average Revalued Earnings (CARE) arrangement and not a final salary arrangement like the current Fund.

Current members will also be able to choose between two different contribution levels to build up benefits in this way. Employees joining Nestlé from 1 January 2012 will only have one defined benefit contribution option.

> **"The good news is that the Company will continue to offer a defined benefit pension arrangement to both new and existing employees."**

From 2013, the Company is also planning to introduce a new defined contribution option in addition to the two defined benefit options. This will have a lower minimum contribution level and, in addition, will offer improved flexibility and accessibility to all employees.

You can read more about how these types of pension arrangements work in this newsletter.

Improved financial security

As part of the changes, the Company is proposing to make significant additional contributions to address funding issues. This will not only provide greater security for members, but will mean that we may be able to start offering early retirement again.

Where can I find out more?

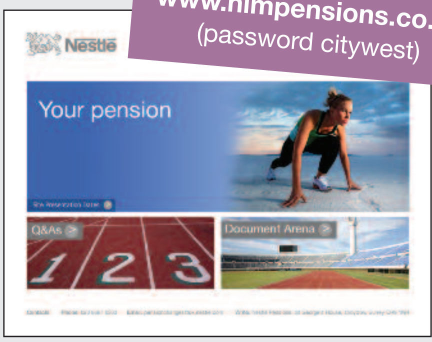
A new website will be available from mid-August 2011. This is an external website that you can access from your home computer, as well as at work.

On this website you will find:

- Frequently asked questions;
- Copies of documents sent to members about the changes;
- Dates that presentations will be held.

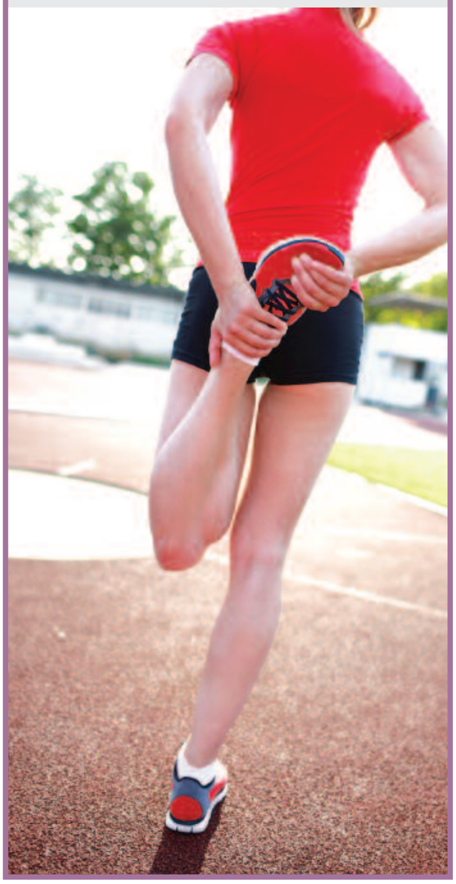
The website will be updated regularly with member questions and all further communications to members.

Visit the website at **www.nimpensions.co.uk** (password citywest)



The changes at a glance

- More choice for future pension build up.
- Revised contribution rates for employees and the Company.
- Revised definition of Pensionable Earnings.
- Improved ill-health pension.
- All benefits built up in the past will be calculated as at 31 December 2011 and increased in future in line with inflation subject to a maximum of 5% each year.
- Proposal to transfer all the assets and pensions from the current Fund into a Nestlé pan-European pension arrangement based in Belgium.



Please note that this newsletter sets out the changes proposed by the Company. The Company has the right to alter or withdraw these proposals. Many of the terms in this newsletter are explained in more detail in the technical notes found on page 18.

Future benefits – the lanes

Over the next few pages we look at the options that will be available to you from 1 January 2012.

More choice

From 1 January 2012 you will have a choice as to how your benefits build up in the future. Initially you will have two options or 'lanes'. Then from 2013, you will be given a further option with the introduction of a third lane. The choice of contribution level in each of the lanes and the benefits you can build up are shown in the table below.

	Type of arrangement	Member contribution level	Benefit building up from 1 January 2012
Lane 3	**Career Average Revalued Earnings (CARE).** For more details about how this works see pages 5 to 7.	5% of Pensionable Earnings until the next risk-sharing review (see 'Sharing the risk' on page 7).	1/60 of average revalued Pensionable Earnings for each year of service.
Lane 2	**Career Average Revalued Earnings (CARE).** For more details about how this works see pages 5 to 7.	4% of Pensionable Earnings until the next risk-sharing review (see 'Sharing the risk' on page 7).	1/80 of average revalued Pensionable Earnings for each year of service. This builds up pension at a lower rate than Lane 3.
FROM 2013			
Lane 1	**Defined contribution (DC).** For more details about how this works see page 17.	From 3% of Pensionable Earnings upwards.	Contributions are invested to provide benefits at retirement. The Company will contribute 1.5 x the contribution level you choose up to a maximum Company contribution of 12%.

Please note: When you retire, whichever lane you choose for the future, you will also receive your benefits built up to 31 December 2011. These will be calculated at that date and increased to keep up with Consumer Price Index (CPI) inflation (up to a maximum of 5% a year) until you retire. For further details see page 14.

Changing lanes and opting out

Whether you choose Lane 3 or Lane 2, you will have the option to switch between lanes once a year. So, if your circumstances change, you can move to a lane with a lower or higher contribution rate. This will also include Lane 1 in the future.

If you opt out of the Fund before or after 31 December 2011, you will stop building up pension benefits and you will only be allowed to rejoin Lane 2 (or Lane 1) in the future. You will not be eligible to rejoin Lane 3. Remember, the death benefits available to you will also reduce. In particular, a lower lump sum will be payable if you die while working for the Company.

Lanes 3 and 2 CARE

Lanes 3 and 2 of the new arrangements are based on Career Average Revalued Earnings (CARE). CARE is a defined benefit pension arrangement where the pension at retirement is linked to your Pensionable Earnings each year, your length of service and the rate your pension builds up (known as an accrual rate).

Before we look at how CARE works, here's a reminder of how a final salary pension arrangement works. In a final salary scheme, your pension is calculated as follows:

Final salary scheme

Accrual rate X Final Pensionable Earnings X Pensionable Service

In the current arrangements, the accrual rate is 1/60.

CARE uses the same calculation but, instead of Final Pensionable Earnings, it uses an average of your revalued Pensionable Earnings from each year up to retirement.

CARE

Accrual rate X Career Average Revalued Pensionable Earnings X Pensionable Service

Career Average Revalued Pensionable Earnings

To calculate the Career Average Revalued Pensionable Earnings at retirement, each year's Pensionable Earnings is increased in line with CPI inflation from the end of that year to your retirement date (up to 2.5% a year) and added up to give your total revalued Pensionable Earnings. This is then divided by your number of years' Pensionable Service in Lane 3 or Lane 2.

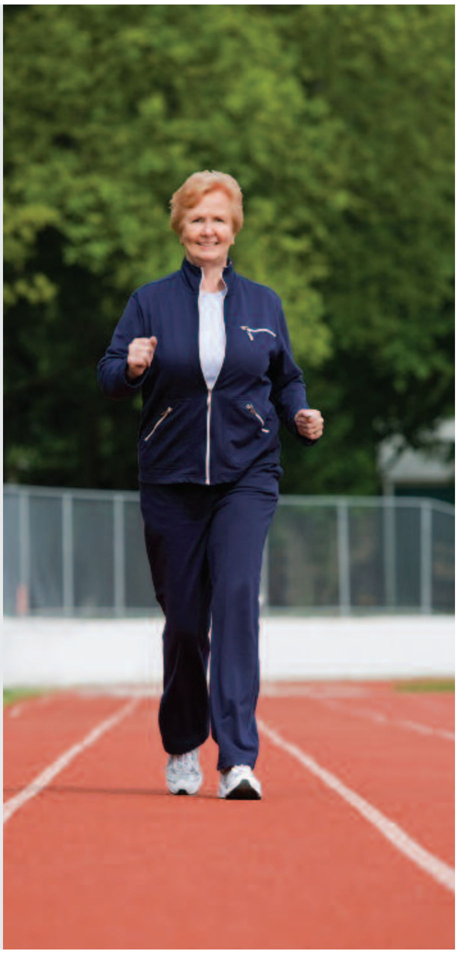
example

Gerry retires on his Normal Pension Date on 31 December 2014 with three years' Pensionable Service. In the three years from 1 January 2012 to his retirement in 2014, Gerry's Pensionable Earnings were €30,000 in year 1, €31,000 in year 2 and €32,000 in year 3. Let's assume that when Gerry retires, CPI has been 2.5% each year over his period of service.

Year 1	Year 2	Year 3
Pensionable Earnings revalued for 2 years	Pensionable Earnings revalued for 1 year	Pensionable Earnings
= €30,000 + 2.5% (year 2) + 2.5% (year 3)	**= €31,000 + 2.5% (year 3)**	**= €32,000**
= €31,518.75 at retirement	**= €31,775 at retirement**	

So, Gerry's total average revalued Pensionable Earnings are calculated as follows:

$$\frac{€31{,}518.75 + €31{,}775 + €32{,}000}{3 \text{ years}} = \mathbf{€31{,}764.58}$$



Lanes 3 and 2 CARE

How much pension would I receive in Lane 3?

Lane 3 has an accrual rate of 1/60. This is the same as in the current arrangements. Your pension at retirement will be calculated as follows:

1/60 x Career Average Revalued Pensionable Earnings X Pensionable Service in Lane 3 from 1 January 2012

example

Niamh had built up a pension of €5,000 a year at 31 December 2011. She then chooses to build up pension in Lane 3. She retires at age 65 with Career Average Revalued Pensionable Earnings of €35,000 and 15 years' Pensionable Service from 1 January 2012. Her pension is calculated as follows:

1/60 x €35,000 x 15 = €8,750 a year

This is paid in addition to the €5,000 a year she had already built up, increased in line with CPI (up to 5% a year)*.

How much pension would I receive in Lane 2?

Lane 2 has an accrual rate of 1/80. This is a lower accrual rate than in Lane 3 and the existing arrangements. This means that you will build up a lower pension in Lane 2 than in Lane 3. Your pension at retirement will be calculated as follows:

1/80 x Career Average Revalued Pensionable Earnings X Pensionable Service in Lane 2 from 1 January 2012

example

Liam had built up a pension of €5,000 a year at 31 December 2011. He then chooses to build up pension in Lane 2. He retires at age 65 with Career Average Revalued Pensionable Earnings of €35,000 and 15 year's Pensionable Service from 1 January 2012. His pension is calculated as follows:

1/80 x €35,000 x 15 = €6,562.50 a year

This is paid in addition to the €5,000 a year he had already built up, increased in line with CPI (up to 5% a year)*.

*See page 14-15 for details on past benefits.

What will it cost in Lane 3?

5%

In Lane 3, you contribute 5% of your Pensionable Earnings each month. This contribution level will be reviewed in the future (see 'Sharing the risk' below).

See page 9 for a description of Pensionable Earnings.

What will it cost in Lane 2?

4%

In Lane 2, you contribute 4% of your Pensionable Earnings each month. This contribution level will be reviewed in the future (see 'Sharing the risk' below).

See page 9 for a description of Pensionable Earnings.

Sharing the risk

From 1 January 2012, the cost of building up benefits in Lanes 3 and 2 will be shared between the Company and members. This will allow the Company to share some of the risk involved with providing defined benefit pension arrangements with members.

At least every three years a formal financial health check of the Fund (known as a valuation) is carried out by the Actuary. Valuations determine the level of contributions that need to be paid into the Fund to cover the cost of providing future pension benefits. In the future, as part of these valuations, the Company and member contribution rates will be reviewed and changed if necessary, so that the Company pays 60% of the contributions and members 40%.

"From 1 January 2012, the cost of building up benefits in Lanes 3 and 2 will be shared between the Company and members. This will allow the Company to share some of the risk involved with providing defined benefit pension arrangements with members."

The contribution rates quoted in this newsletter are based on the current analysis of the financial health of the Fund. No further changes to contribution rates will be proposed until after the 31 December 2014 valuation. As valuations take some time to complete, contribution rates in Lanes 3 and 2 will not be reviewed again until early 2016.

Please note the Company is responsible for paying additional contributions if the Actuary finds that more money is needed to cover past benefits.

Things to consider

Why choose Lane 3?

If you want to build up pension in a defined benefit arrangement at the highest rate possible, then Lane 3 could be for you.

Lane 3 has the same accrual rate as the current Fund (1/60).

Why choose Lane 2?

If you want to build up pension in a defined benefit arrangement, but you wish to pay contributions at a lower level than in Lane 3, then Lane 2 could be for you.

Lane 2 has a lower accrual rate than the current Fund (1/80), which means that you will build up benefits at a lower rate than in Lane 3.

Your total benefits at retirement

Remember, your total benefits from the Fund would be made up of:

Benefits built up to 31 December 2011 + Any benefits built up in Lane 3 + Any benefits built up in Lane 2 + Any benefits built up in Lane 1 (from 2013)

In addition to the above, you will also receive any State pension to which you are entitled.

Taking tax-free cash

You will still have the option to take part of the value of your pension as a tax-free cash lump sum. This would result in a smaller yearly pension. Since 1 January 2011, there has been a limit to the tax relief you can receive on a retirement lump sum payment. Lump sums up to €200,000 are tax free. Lump sums between €200,000 and €575,000 are taxed at 20%, and lump sums over €575,000 are taxed at the taxpayer's marginal rate. Lump sum benefits are subject to limits set by the Revenue Commissioners.

Tax savings

Remember, pension contributions receive tax relief, which means that they cost less than you might think.

There is a limit to the amount of tax relief you can receive. The maximum amount of your pension contributions that are entitled to tax relief, in any one year, is related to your age and is expressed as a percentage of your gross income. In 2011 the maximum gross income figure for tax relief purposes is €115,000.

The percentage relief limits are shown opposite:

Age	Tax relief limited to (as % of net relevant earnings*)
Under 30	15%
30-39	20%
40-49	25%
50-54	30%
55-59	35%
60 +	40%

*Earnings means gross pay for tax purposes

Revenue Commissioners' Limits

The Revenue Commissioners impose limits on the total contributions in any tax year and on the total benefits you can take at retirement. These limits will continue to apply to the benefits on offer from 1 January 2012 onwards and could change in future.

Integration

The Fund is currently not an integrated scheme. This means that it does not take the State Retirement (Contributory) Pension into account in its design. The new arrangements will continue to operate on a non-integrated basis from 1 January 2012.

The detail

Other changes are detailed below.

Pensionable Pay and Pensionable Earnings

From 1 January 2012, instead of Pensionable Pay, Pensionable Earnings will be used to calculate your pension. The difference between these is shown below.

Definition up to 31 December 2011	Definition from 1 January 2012
Pensionable Pay: Your Pay less a deduction of €10,632 (in the year beginning 1 January 2011) Your Pensionable Pay is never less than half your Pay.	Pensionable Earnings: Your Base Pay + Work pattern-based pay elements (if applicable) There will no longer be a deduction. Bonuses continue to be excluded.

"As there will no longer be a deduction from your Pay, your Pensionable Earnings will be higher. This means that your contributions and benefits will be based on a higher figure."

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example

Sinead has an annual salary of €40,000.

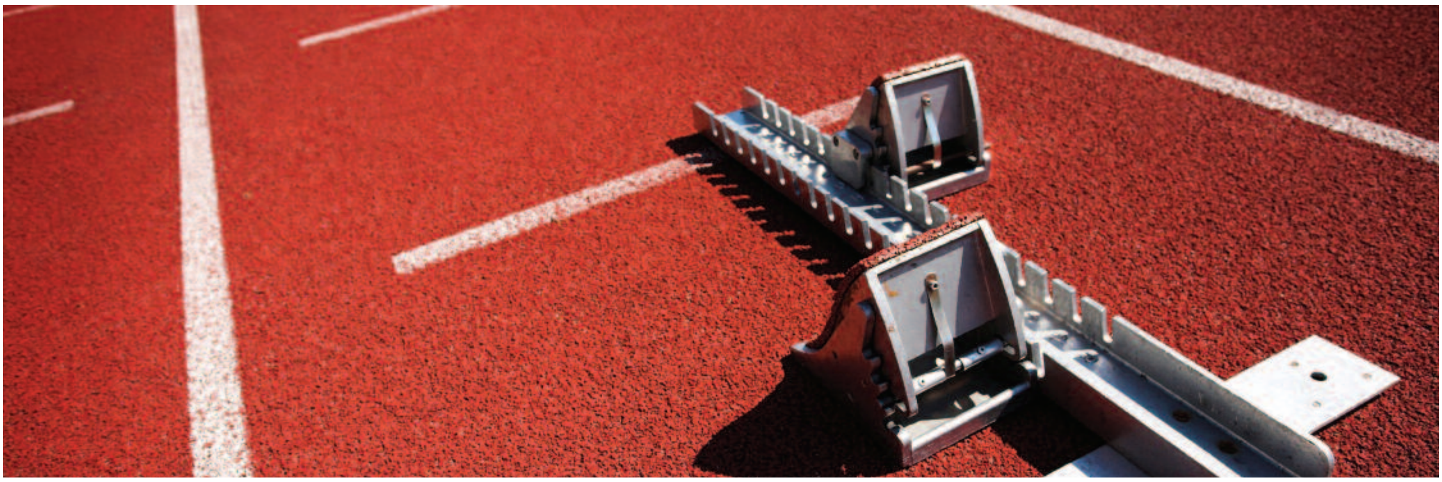
Apart from an annual bonus, she does not receive any other elements of pay.

At the moment, for pension purposes, her Pay is currently €40,000, from which €10,632 is deducted in the year beginning 1 January 2011.

For the purposes of calculating her current pension benefits and her contributions, her Pensionable Pay is €29,368 (€40,000 - €10,632 = €29,368).

After the changes, Sinead's Base Pay will still be €40,000, but her Pensionable Earnings will now be €40,000 as the deduction will no longer be applied.

Her pension benefits and her contributions will be based on this figure from 1 January 2012.



The detail

What will it cost?

If your Pay is more than €29,000 in the 2011 tax year, your gross monthly contribution will be no higher than your current contribution. This is because the contribution rates for Lanes 3 and 2 are lower than the current contribution of 8%, and this will remain the case until the next valuation. The table below shows how this will work.

Base Pay	NOW	FROM 1 JANUARY 2012	
	Existing basis 8% of Pensionable Pay per month	Lane 3 5% of Pensionable Earnings per month	Lane 2 4% of Pensionable Earnings per month
€10,000	€33.33	€41.67	€33.33
€15,000	€50.00	€62.50	€50.00
€20,000	€66.67	€83.33	€66.67
€25,000	€95.79	€104.17	€83.33
€30,000	€129.12	€125.00	€100.00
€35,000	€162.45	€145.83	€116.67
€40,000	€195.79	€166.67	€133.33
€45,000	€229.12	€187.50	€150.00
€50,000	€262.45	€208.33	€166.67
€55,000	€295.79	€229.17	€183.33

The table assumes you do not earn any work pattern-related pay elements.

If you receive any work pattern-related pay elements, the amount you pay each month may increase from 1 January 2012. This is because elements like overtime are not included in the current definition of Pay, but will be included in your Pensionable Earnings from 1 January 2012.

If your Pay is less than €29,000 a year in the 2011 tax year, your monthly contribution to Lane 3 will cost you more than your current contribution. This is because your Pensionable Earnings from 1 January 2012 will not have a deduction applied to it. However, your contribution to Lane 2 will be equal to or lower than your current contribution. As above, contribution rates will remain the same at least until the next valuation.

What impact will this have on my pension in retirement?

Normally you would receive a lower pension at retirement on a CARE basis than on a final salary basis. This is because the benefits are calculated using the average of your earnings over your entire period of service, rather than your earnings at the end of your career, which tend to be higher.

However, in our case, the benefits you receive at retirement may be higher than those you would have built up on the current final salary basis. This is because your CARE benefits from 1 January 2012 will be calculated on a higher earnings figure because your Pensionable Earnings will not have a deduction applied. However, the benefit for each member will depend on their future salary increases and future inflation.

Pension in retirement

example

Maeve will reach her Normal Pension Date on 1 January 2017.

Her Pay in the year beginning 1 January 2012 is €30,000.

Over the five years to her Normal Pension Date, Maeve receives annual pay increases of 1.6% and inflation (CPI) is 2% a year. By the time she reaches her Normal Pension Date, Maeve's Pay has increased to €31,967.

On the existing final salary basis, if the deduction is still €10,632 when Maeve retires at 1 January 2017, her pension at retirement would be calculated as follows:

Pay at date of retirement = €31,967
Less deduction – €10,632

Final Pensionable Pay = €21,335 (€31,967 – €10,632)

On the existing final salary basis

(Accrual rate X Final Pensionable Pay X Pensionable Service = Pension at retirement)

1/60 X €21,335 X 5 years = €1,777.92 a year

On the new CARE basis, Maeve's pension at retirement would be calculated as follows:

	Pensionable Earnings		Inflation increases		Revalued Pensionable Earnings at retirement
Year 1	€30,000	+	2%	for 4 years	€32,473
Year 2	€30,480	+	2%	for 3 years	€32,346
Year 3	€30,968	+	2%	for 2 years	€32,219
Year 4	€31,463	+	2%	for 1 year	€32,092
Year 5	€31,967	+	2%	no increase	€31,967
Total					**€161,096**
Divided by 5 years					€32,219

On the new CARE basis

(Career Average Revalued Pensionable Earnings x Pensionable Service x accrual rate = Pension at retirement)

1/60 X €32,219 x 5 years = €2,685 a year in Lane 3
1/80 X €32,219 x 5 years = €2,014 a year in Lane 2

Other benefits

In addition to providing a pension, the Fund provides other benefits for members. Your questions on these other benefits are answered here.

How will the benefits I build up from 1 January 2012 be affected if I retire early?

If you retire early from active service, your pension will be reduced by 4% for each year that you retire before your Normal Pension Date. This is to reflect the fact that the pension is being paid early and for longer. This will apply to pension built up both before and after 1 January 2012.

What if I am ill?

If you are too ill to continue working, the Fund offers an ill-health retirement option. The existing provision will be improved in two important ways from 1 January 2012:

- It will additionally include 'prospective' service; in other words, service that you would have completed if you had been well enough to remain an active member of the Fund until your Normal Pension Date.
- The benefits built up to the date of retirement will no longer be reduced for early payment.

If you qualify for an ill-health pension, you will receive:

Benefits built up to 31 December 2011

Pension built up to 31 December 2011, increased in line with CPI inflation up to a maximum of 5% a year to the date of retirement.

+

Benefits built up from 1 January 2012

Pension built up from 1 January 2012 to your Normal Pension Date based on your Career Average Revalued Pensionable Earnings at the date you retire.

See pages 5 to 7 for a reminder of how CARE works.

What if I die?

If you die while working for the Company, a lump sum and pension(s) would be payable to your family and dependants.

Spouse or dependant's pension

50% of the pension you had built up to 31 December 2011, increased in line with CPI inflation up to a maximum of 5% a year until your date of death.	+	50% of the pension you would have received at your Normal Pension Date based on your Career Average Revalued Pensionable Earnings at your date of death.

Children's pensions

A percentage of your pension as described above. There is no change to the percentage rate payable in respect of the number of children.

Lump sum

3* x Pay in the last 12 months before death plus the return of any defined contribution AVC fund with an external provider (*unless your contract states otherwise).

These examples assume that a member joins and remains in the same lane from 1 January 2012 and do not take into account any future benefits that you might build up in Lane 1 from 2013 onwards. We will provide details of the other benefits available to members of Lane 1 nearer the time.

Past benefits

This section explains what would happen to the benefits you have built up so far.

Pensions already built up

The pension that you have already built up in the Fund will be calculated at 31 December 2011, based on your Final Pensionable Pay and your Pensionable Service at that date. It will be adjusted each year until you retire in line with the Consumer Price Index (CPI) up to a maximum of 5% each year. In times of high inflation, the Company has the discretion to adjust your benefits above 5%.

This means that benefits already built up will no longer be linked to your salary at date of retirement, leaving or death.

When you take your pension, your benefits built up to 31 December 2011, including any benefits from additional service credits or Bridging Pensions that you have built up to 31 December 2011, will be paid in addition to the benefits you will build up from 1 January 2012.

Change to Value for Money Guarantee

If you joined the Fund from the Rowntree Mackintosh (Ireland) Pension Fund on 1 September 1991, you currently have a Value for Money Guarantee (VFMG). Members with VFMGs were allocated a Capital Balance at 31 August 1991, which has been increased annually. When you retire, the benefits that you have built up in the Fund are compared with the benefits that could be bought using your Capital Balance and the higher of the two pensions is paid.

From 1 January 2012, the value of your VFMG Capital Balance at 31 December 2011 will be increased each year until retirement. It will continue to receive interest on the balance at the start of the year, but will no longer be credited with any amount in respect of your contributions from 1 January 2012 onwards. When you retire, the pension that could be bought using your increased VFMG Capital Balance will be compared to your Fund pension built up to 31 December 2011, including increases to retirement. You will receive the higher of these two pension amounts.

Additional Service Credits

If you were a member of the Rowntree Mackintosh (Ireland) Pension Fund before 1 September 1991, you were granted an initial service credit on your transfer to the Fund as well as the option of building up further additional service credits.

From 1 January 2012, it will no longer be possible to add to these additional service credits. Benefits built up from these additional service credits will be calculated at 31 December 2011 and will be added to your past benefits.

Additional Voluntary Contributions

If you want to build up a bigger pension, the only option from 1 January 2012, until further notice, will be to pay Additional Voluntary Contributions (AVCs) on a money purchase basis to our current external AVC provider, Irish Life.

Bridging Pensions

Bridging Pensions are temporary pensions that are usually paid until your Normal Pension Date.

Under the new arrangements, Bridging Pensions will stop building up from 1 January 2012. The value of the Bridging Pension already built up will be converted into a smaller yearly pension, payable for the rest of your life when you retire.

Level Pension

If you retire before State Retirement Age, you will still be able to take the Level Pension option, which means you can choose to take a higher pension in the years between retirement and State Retirement Age and a lower pension after you start to receive your State pension.

Future developments

Future of the current Fund

As part of these changes, it is proposed that the Trustee transfers all the assets of the current Fund to an existing Nestlé pan-European pension arrangement based in Belgium. Under this proposal, a new Nestlé (Ireland) section would be created on 1 January 2012 to house the assets and future contributions from which both benefits built up to 31 December 2011 and future benefits built up from 1 January 2012 would be paid.

The reason for this proposal is to allow Nestlé to operate pension arrangements for several European countries from within one pan-European pension fund under a more flexible and supportive regulatory environment. The aim of the proposal is to help Nestlé deliver long-term sustainable pension provision for employees and members in Ireland.

As part of the transfer, the Company is proposing to make significant additional contributions to the new arrangement to ensure that the Nestlé (Ireland) section is fully funded on a Belgian funding basis (the basis on which the funding of a pension scheme is measured in Belgium). This may then allow the International Board of the Belgian fund to permit early retirements again.

The Irish section will remain subject to existing Irish tax legislation. All administrative arrangements for the Fund will remain unchanged.

Pension Levy

The Pension Levy is a new levy that the Government has introduced, which will be applied to pension schemes approved by the Revenue Commissioners under Irish tax legislation. The Government intends this to be a temporary levy, which will be applied for four years from 2011 to 2014 to fund the Jobs Initiative.

The levy will be 0.6% of the market value of the assets of a pension scheme on 30 June in each of the years 2011, 2012, 2013 and 2014 (or, if the scheme chooses, at the end of the previous scheme accounting year). It applies, amongst others, to occupational pension schemes like the Fund and to Additional Voluntary Contributions (AVCs). If you have defined contribution AVCs with an external provider, such as Irish Life, the provider will automatically deduct the levy from your AVC account.

The Trustee of the Fund will normally be responsible for the collection and payment of the levy that is due on the assets of the Fund (other than defined contribution AVCs). As part of the additional contributions that the Company proposes to make if the transfer to the Belgian pan-European pension fund takes place, the Company proposes to also provide additional monies to the Trustee to cover the cost of the levy. This does not include the levy due on money purchase Additional Voluntary Contributions, which is automatically deducted by the external provider.

Although the Company has agreed to cover the cost of the levy in 2011, it cannot guarantee that it will continue to do so in the future. It will keep the situation under review and, in 2012, will inform you of its decision regarding the payment of the levy due in future years.

Other developments
Lane 1 Defined Contribution

To provide greater flexibility and accessibility for all employees, we are planning to introduce a third lane with a lower contribution rate from 2013. Lane 1 will be a defined contribution (DC) arrangement. This means contributions are paid into an individual pension account for each member. You will be able to choose Lane 1 as an option at your first annual opportunity to change lanes (from 2013).

In a defined contribution arrangement, you choose how to invest your account from a range of investment choices and the value of your account will go up and down depending on the performance of those investments. At retirement, the value of your account can be used to buy a pension from an external provider, usually an insurance company.

The amount of pension you receive depends on:

- your contributions;
- the Company's contributions;
- investment returns less investment management expenses; and
- the cost of buying a pension.

Alternatively, you can continue to invest your fund after retirement subject to minimum income requirements.

In Lane 1 you will be able to contribute what you want, starting from a minimum of 3% of your Pensionable Earnings. The Company will contribute 1.5 x your chosen member contribution rate up to a maximum of 12% (8% employee contribution). The Company will also pay the administration costs of running Lane 1.

We will provide you with more information about how Lane 1 works and the investment choices available before it is introduced.

Technical notes

Career Average Revalued Earnings (CARE)

This is a defined benefit scheme where benefits at retirement are based on average revalued earnings throughout a member's membership period. For more information on how this works, see pages 5 to 7. CARE will only apply to service built up from 1 January 2012.

Company

The Company means Nestlé (Ireland) Ltd and any other associated employers that participate in the Fund.

Defined benefit (DB)

A pension arrangement where the benefits at retirement are based on a calculation, which is linked to the member's pay and length of pensionable service. Final salary and CARE are different types of DB arrangement.

Defined Contribution (DC)

A pension arrangement where contributions are made to an individual fund. These contributions are then invested to provide investment returns. The benefits paid when a member retires depend on how much money goes into the fund, how investments perform and how much a pension costs at retirement.

Final Pensionable Pay

Your Pensionable Pay when you retire, die in service or leave the Fund under the current arrangements.

Fund

The Nestlé (Ireland) Pension Fund.

Normal Pension Date

As provided under the current Trust Deed and Rules, your 60th or 65th birthday unless you have been formally notified otherwise by the Company.

Pay

Your regular contractual pay including service pay. Variable or non-contractual payments such as overtime and bonuses are excluded.

Pensionable Earnings

Under the new arrangements, your base pay plus any work-pattern based elements of pay such as overtime or shift allowance. Bonuses are excluded.

Pensionable Pay

Under the existing arrangements, your Pay less a deduction of €10,632 in the year commencing 1 January 2011.

Pensionable Service

The number of complete years and months of continuous membership of the Fund. For the calculation of the pension earned up to 31 December 2011, this will include any transferred-in service, any additional service you may have been building up or other service credits granted in the past.

Reminders

This newsletter gives you an overview of the changes to the Fund. You do not have to take any action at this stage.

What happens next?

NOW
You should read the information in this newsletter and visit the website for more information. You will have the opportunity to ask questions at presentations which will be held later this month. Presentation dates can be found on the website.

SEPTEMBER 2011
You will receive a decision pack during the first week of September. This will contain personalised information to help you make a decision about the way in which your pension builds up from 1 January 2012. You will also have an opportunity to attend a further presentation and to have a one-to-one appointment with a representative from Nestlé Pensions if required.

7 OCTOBER 2011
The deadline for returning your decision form.

OCTOBER 2011
You will receive a further communication concerning the proposed transfer of the assets and pensions to the Belgium-based Nestlé pan-European pension arrangement.

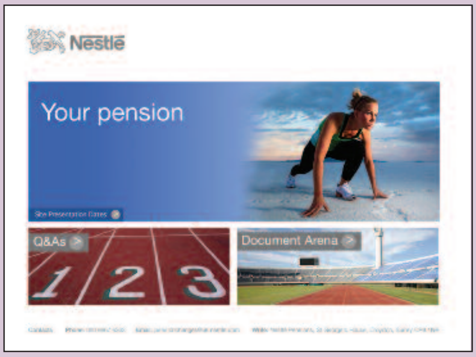
1 JANUARY 2012
The changes to benefits will be introduced from this date and benefits will begin to build up on the new basis.

2013
Your first opportunity to switch lanes. Lane 1, a defined contribution option, will also be introduced during 2013. We will send you more information nearer the time.

For more information

Website

www.nimpensions.co.uk
(password citywest)



Email

pensionchanges@uk.nestle.com

Write to

Nestlé Pensions
St George's House
Croydon
Surrey
CR9 1NR
UK

Phone

+44 208 667 6363

Finally, please note that this newsletter only summarises your pension benefits and does not confer any rights on you. Your pension benefits are currently calculated in line with the Fund's Trust Deed and Rules. It is only the Trust Deed and Rules that should be relied upon. This newsletter has been prepared based on current legislation, which may change in the future.

Nestlé Pensions, St George's House, Croydon, Surrey, CR9 1NR, UK