Nestlé
Good Food, Good Life

Fonds de Pensions Nestlé

Annual Report 2017

In case of doubt or differences of interpretation, the French version shall prevail over the English and the German text.

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This annual report is illustrated with photographs searching for the 'Holy Grail' of instruments in Switzerland's Emmental region.

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Foreword

Message from the Chairman of the Board of Trustees

Like the vast majority of Swiss pension funds and thanks to the very good performance of its investments (9.1%), the Fonds de Pensions Nestlé (the Fund) had an encouraging year in 2017 that helped to consolidate its financial situation, with a funding ratio rising from 106.9% as at 31 December 2016 to 113% as at the end of last year. These favorable results allowed the Fund to grant an additional interest of 1.5% on the retirement savings capital of all active insured members present on 31 December, taking the overall remuneration for 2017 to 2.5%.

Given this good news, the decision to modify the pension plan as at 1 July 2018, notably by reducing the Fund's technical interest rate to 2.25% (compared with the current 3%), may at first glance appear paradoxical. However, the main duties of the Board of Trustees (the Board), alongside maintaining attractive benefits for future retirees, are anticipating changes in the environment in which we operate and defining approaches designed to ensure the sustainability of the Fund. The two main challenges facing us at present are increased life expectancy and the expected decline in future returns on the financial markets on the medium and long term perspective. To respond to these challenges, the Board has therefore decided to adapt the parameters of the pension plan with effect from 1 July 2018.

The impact of these changes on the benefits of insured members can be minimised thanks to the healthy situation of our Fund and the anticipatory measures taken in previous financial years. The accompanying generous support from the employer will allow these measures to take full effect.

Occupational benefits, which was a hot topic in 2017 in connection with the 'Prévoyance 2020' reform, is undergoing a transformation. Pursuing a vigilant and visionary approach while still maintaining a solid financial situation are therefore key to the smooth running of pension funds in general and of the Fund in particular. This is the basis on which the Board worked last year and will continue to do so.

Peter Vogt
Chairman of the Board of Trustees

Focus – Occupational Benefits

Occupational pension system under the spotlight in 2017

Along with old age and survivors' insurance (OASI), the Law on Occupational Benefits (LOB) was at the centre of debate in 2017, with the Swiss population invited to vote on the 'Prévoyance 2020' proposal put forward by the Swiss Federal Council. For the first time in the history of social insurance in Switzerland, simultaneous measures were envisaged for both the 1st and 2nd pillars to protect the overall financial stability of the pension system while maintaining the same level of pension benefits. The numerous discussions that preceded the referendum on 24 September 2017, in which the reform was ultimately rejected by 52.7% of voters, highlighted the challenges that are currently piling pressure on the entire Swiss pension system.

Occupational pension providers in particular have to deal with the ongoing increase in life expectancy (which also has a negative impact on OASI) coupled with lower expected returns on the financial markets. The fact that pension beneficiaries are, on average, living longer is clearly good news. However, it does mean that pension funds are having to pay pensions over a longer period while at the same time operating in an economic environment that is currently characterised by poor returns and near-zero or even negative interest rates. Consequently, as underlined by all political, economic and social partners during the months leading up to the September 2017 vote, adjustments are now imperative in order to guarantee the stability of the system in the years to come.

A new proposal for reforming the pension system

Following the rejection of the 'Prévoyance 2020' proposal by the Swiss population, the Swiss Federal Council presented the broad outline of its proposed future pension reform. This time it unveiled a raft of measures that only affect the 1st pillar. The main objectives of the reform, which it hopes to implement by 1 January 2021, are an identical baseline retirement age of 65 for men and women and greater flexibility with regard to the effective retirement age, allowing insured members to request that payment of their OASI pension begin between the ages of 62 and 70. OASI would be funded in the medium term by an increase in VAT. Any reform of the 2nd pillar has been postponed, with no definite timetable set at present.

Modifications to the pension plan in 2018

This is the overall context in which the Board of the Fund decided at its meeting of 21 November 2017 to modify the conversion rates used to calculate retirement pensions. This major change, which will take effect on 1 July 2018, was deemed necessary to ensure the long-term sustainability of the Fund while still continuing to offer a high level of benefits. The mortality statistics that the Fund uses to perform its actuarial calculations will also be updated on the same date. Key accompanying measures, made possible thanks to the Fund's healthy financial position and the generous support from the employer, will also be introduced to limit the impact of the lower conversion rates on active insured members. Lastly, it should be noted that the modifications will have no impact whatsoever on pensions in payment for pension beneficiaries.

Legislative amendments in 2017
Sharing in the event of divorce

The new rules on the sharing of occupational pension benefits entered into force on 1 January 2017. While this amendment does not alter the fundamental principle whereby the respective benefits acquired during the marriage must be shared equally between the spouses, it does nevertheless introduce two important new aspects for insured members.

The first concerns the reference date for calculating the shares, which is now the date divorce proceedings are initiated rather than the date on which the judgment comes into force. The second is that benefits can now be shared even if the debtor spouse is already receiving a 1st pillar pension, which was not possible before.

In addition to these two changes, the new rules also require pension funds and vested benefits foundations to report all holders of pension assets to the 2nd Pillar Central Office on a regular basis. The aim of this requirement is to make it easier for judges, who in the event of a divorce have to take all benefits acquired by the spouses into account.

Encouragement of home ownership

The minimum reimbursement of a withdrawal made under the encouragement of home ownership provisions was reduced from CHF 20 000 to CHF 10 000 on 1 October 2017. This change was introduced to make it easier for insured members to repay withdrawals, thereby allowing them to benefit from a higher level of occupational pension benefits at the time of retirement.

Organisation (at 31 December 2017)

Board of Trustees

Employer representatives

Peter Vogt, Nestlé SA, Vevey, Chairman of the Board
Nicole Dominik, Nestlé Suisse SA, Vevey
Ricardo Cortes-Monroy, Nestlé SA, Vevey
Anna Quaranta, Nestlé Suisse SA, Vevey
Mathieu Rieder, Nestec SA, Vevey
Daniel Weston, Nestlé Nespresso SA, Lausanne

Member representatives

Marcel Buret, Nestec SA, Orbe
Soizic Gouzer, Nestec SA, Vers-chez-les-Blanc
Christa Meier, Nestlé Suisse SA, Vevey
Oriane Seydoux, Nestec SA, Vevey
Vincent Testa, Nestlé Nespresso SA, Orbe
Rolf Widmer, Nestlé Suisse SA, Wangen

Pensioners' representative in an advisory capacity

Jean Macchi

Investment Committee

Members of the Investment Committee

Mathieu Rieder, Nestec SA, Vevey, Chairman of the Committee
Pascal Frei, PPCmetrics SA
Oriane Seydoux, Nestec SA, Vevey
Daniel Weston, Nestlé Nespresso SA, Lausanne

Other contributors

Administration

Christophe Sarrasin, Director
Christian Rey, Head of Benefit administration

Investment Advisor

Nestlé Capital Advisers (NCA) SA, Vevey

Certified pension actuary

Jean-Marc Wanner, Nyon

Auditors

KPMG SA, Lausanne

Fonds de Pensions Nestlé

The mandates of the member representatives expire at the end of June 2018. They are to be renewed for a period of four years, from July 2018 to June 2022.

Visit the website www.fpn.ch for more information.

Key figures

		31.12.2017	31.12.2016
Funding ratio		113.0 %	106.9 %
Total of Balance sheet	In millions of CHF	7 339.7	6 793.0
Liabilities		6 391.8	6 265.1
– Pension reserve for pensioners		3 476.9	3 403.4
– Pension reserve for active members		2 546.0	2 515.1
– Technical provisions		368.9	346.6
Downward risk provision		831.2	430.0
Investments performance		9.1 %	5.9 %
Assets allocation			
– Cash		3.4 %	2.8 %
– Equities		36.3 %	33.2 %
– Bonds		33.4 %	33.4 %
– Real estate		20.5 %	14.9 %
– Alternative investments		6.4 %	15.7 %
Interest payments on retirement savings capital		2.50 %	1.25 %
Technical interest rate		3.00 %	3.00 %
Mortality tables		LPP 2010	LPP 2010
Total headcount		16 255	16 605
– Active members		10 599	11 031
– Pensioners		5 656	5 574

Overview of the financial year

Financial situation of the Fund

The Fonds de Pensions Nestlé (the Fund) posted a positive performance of 9.1% in 2017 thanks to a very good financial year. This result, the best since 2009, is higher than the average performance of around 8.0% achieved by Swiss pension funds in general.

As to the Fund's funding ratio as at 31 December 2017, it was 113%, compared with 106.9% as at 31 December 2016. The funding ratio is one of the most commonly used statistical measures for evaluating the financial health of a pension fund, since it reflects the ratio of its assets to its liabilities.

It should be noted that this funding ratio of 113% takes into account an amount of CHF 319.5 million, which corresponds to the value of the provision for increased life expectancy of CHF 145.9 million and of the provision for a future reduction in the technical interest rate of CHF 173.6 million. These provisions have been funded with a view to anticipating the consequences of increased life expectancy and a reduction in the technical interest rate. They will be dissolved as at 30 June 2018 when the mortality tables are updated and the new technical interest rate is applied.

Board of Trustees decisions

In 2017, the Board decided to:
- offer an additional interest of 1.5% on retirement savings capital as at 31 December 2017 and consequently to grant 2.50% on retirement savings capital in 2017;
- not grant any pension increase as at 1 January 2018 in light of the Fund's financial situation and the absence of inflation in 2017;
- fix the rate of interest on retirement savings capital at 1% for 2018, in line with the decision of the Swiss Federal Council regarding the LOB minimum interest rate.

The following changes will enter into force on 1 July 2018 in accordance with Board decisions:
- reduction in the technical interest rate from 3% to 2.25%;
- update of mortality tables by adopting the LOB 2015 actuarial tariffs;
- integration of mitigating measures to limit the reduction of retirement benefits.

Finally, the Board amended the annex to the investment regulations to take formal account of the change in the strategic asset allocation, without hedge fund and commodities, implemented in 2017.

Year 2017

As at 31 December 2017, active insured members were credited with additional interest, taking their overall remuneration to 2.5%.

Balance sheet

In millions of CHF

	2017	2016
Assets		
Investments	7 298.6	6 773.0
Cash and short-term investments	250.3	186.9
Equities	2 649.3	2 246.7
Private equities	445.0	448.9
Bonds	2 436.9	2 266.2
Swiss real estate	1051.9	692.8
International real estate	443.0	317.8
Hedge funds	22.2	498.5
Commodities	0.0	115.1
Accrued income	41.1	20.0
Assets and receivables	23.7	1.7
Employer participation	0.6	0.0
Prepayments and accrued income	16.8	18.3
Assets: grand total	**7 339.7**	**6 793.0**
Liabilities		
Accrued expenses	58.1	40.7
Vested benefits and pensions	50.7	28.9
Other payables	6.2	11.4
Accrued expenses and deferred income	1.2	0.4
Employers' contributions reserve	58.6	57.2
Pension reserves and technical provision	6 391.8	6 265.1
Pension reserve for active members	2 546.0	2 515.1
Pension reserve for pensioners	3 476.9	3 403.4
Provision for increased life expectancy	145.9	122.5
Provision for death and disability risks	49.4	53.9
Provision for a future reduction in the technical interest rate	173.6	170.2
Downward risk provision	831.2	430.0
Disposable surplus	0.0	0.0
Liabilities: grand total	**7 339.7**	**6 793.0**

Income statement

in millions of CHF	2017	2016
Ordinary and other contributions	291.8	285.3
Employers' contributions	132.3	132.9
Supplementary employer contributions	7.3	9.6
Members' contributions	86.1	86.2
Single premiums and voluntary purchase	65.9	56.4
Subsidies from Guarantee Fund	0.1	0.2
Vested benefits from other institutions	137.8	166.5
Vested benefits rolled over from other institutions	24.6	39.3
Refunds of early withdrawals for home ownership and divorce	4.2	3.6
Reserve transfers from other Nestlé Funds + Swiss	5.6	6.2
Transfer from the Fonds de Pensions Complémentaire Nestlé (retirees)	103.4	117.4
Contributions and vested benefits from other institutions	**429.6**	**451.8**
Statutory benefits paid out	(311.7)	(302.5)
Statutory pensions	(291.2)	(282.1)
Lump sums and one-time allowances	(20.5)	(20.4)
Non-statutory benefits	(0.1)	0.0
Voluntary pensions – non-statutory	(0.1)	0.0
Vested benefits and early withdrawals	(198.3)	(215.6)
Vested benefits rolled over to other institutions	(161.4)	(184.9)
Benefits paid following partial liquidation	(4.4)	0.0
Early withdrawals for home ownership and divorce	(19.2)	(15.3)
Return to the Fonds de Pensions Complémentaire Nestlé	(13.3)	(15.4)
Expenses relating to benefits and early withdrawals	**(510.1)**	**(518.1)**
Dissolution (constitution) of pension reserves, technical provisions and contributions reserves	(128.1)	(194.9)
Pension reserve for active members	27.5	(2.5)
Provision reserve for pensioners	(73.5)	(55.1)
Provision for increased life expectancy	(23.3)	(22.1)
Provision for death and disability risks	4.5	4.5
Provision for a future reduction in the technical interest rate	(3.5)	(86.5)
Remuneration of savings capital	(58.4)	(30.1)
Employers contributions reserve	(1.4)	(3.2)
Insurance expenses – contributions to guarantee fund	(0.9)	(0.7)
Net income from insurance activity	**(209.5)**	**(262.0)**
Net investment income	614.6	377.1
Gross return on investments	674.0	448.9
Asset management fees	(59.4)	(71.8)
Other income	0.1	0.6
Other expenses	(0.5)	(0.4)
General administration costs	(3.5)	(3.2)
Balance of income (expenses) before additions to (releases from) downward risk provision	**401.2**	**112.1**
Dissolution / (constitution) of downward risk provision	(401.2)	(112.1)
Balance of income (losses)	**0**	**0**

Investments

2017 in review

We saw a synchronised and stable global economic recovery in 2017, with global growth picking up and unemployment rate falling. Inflation also continued to climb, even though it generally remains below the long-term objective set by developed countries.

The US Federal Reserve (FED) announced in September last year that it was to unwind the measures implemented in 2008 following the financial crisis. This therefore marks the end of its very accommodative monetary policy, part of the famed quantitative easing ("QE") programme, after around a decade. In October, the FED thus began to gradually trim its over USD 4 trillion balance sheet. In view of the healthy state of the US economy, and as anticipated, the FED also announced an increase of 0.25% in the federal funds rate in December, taking it to 1.5%. Further increases are expected in 2018, with FED members forecasting a median federal funds rate of 2.125%.

President Trump's tax reform, meanwhile, was finally approved. US companies will therefore benefit from a new corporate tax rate of 21% as of 1 January 2018, compared with the current rate of 35%, which could help support the US stock market going forward.

Europe, with rising growth, falling unemployment and inflation returning to reasonable levels, also enjoyed a solid recovery in 2017. Given this improving economic situation, the European Central Bank (ECB) may follow in the FED's footsteps in 2018 and announce the end of its accommodative monetary policy. This would bring to an end its asset purchase programme, which had already been reduced from EUR 60 billion to EUR 30 billion per month as of January 2018. The uncertainties surrounding the Brexit negotiations will play a key role in the ECB's policy, however, and may see the central bank adopt a more or less accommodative approach depending on the progress made. In addition, the political uncertainty in Italy, which is struggling to form a stable government, also poses a serious risk both to the eurozone and to Europe in general. Lastly, fears of trade wars with the United States triggered by President Trump's protectionist proposals are anything but reassuring.

The Swiss National Bank (SNB) also maintained its expansionary monetary policy, keeping the interest rate on assets deposited with the SNB at –0.75%, with the aim of stabilising price developments and supporting economic activity. It expects GDP growth of 2% in Switzerland in 2018. The SNB also stated that the overvaluation of the Swiss franc decreased due to its weakening against the euro. As in Europe and the US, the upward trend in inflation looks to be confirmed in Switzerland, too.

We saw a synchronised and stable global economic recovery in 2017.

Performance of the Fund

In this favourable macroeconomic environment, the Fund posted a very good performance (net of fees) of 9.1 % in 2017.

All asset classes played their part in this positive performance, with listed equities as the main contributor, thanks to the healthy economic climate. Private equities and real estate (Swiss and international) also contributed to the good performance of the Fund, while bond investments also had a positive impact thanks to emerging market debt and corporate bonds. Currency effects were the sole negative contributor to performance following the weakening of the US dollar against the Swiss franc in 2017, despite the currency hedging programme implemented by the Fund.

Main contributors

The main contributors to absolute performance in 2017 were as follows:

Performance in %

	2017	2016
Equities	6.0	3.6
Bonds	1.3	1.8
Real estate	1.2	0.7
Private equities	0.9	0.7
Currency effects	(0.6)	(1.2)

Comparison of the Fund's performance

Performance in %

	2017	3 years [1]	5 years [1]	10 years [1]
Fund	**9.1**	**4.3**	**5.5**	**1.7**
Fund Strategic asset allocation	9.5	4.5	5.8	1.9
Credit Suisse Swiss Pension Fund Index	8.1	4.2	5.2	3.1
UBS Swiss Pension Fund Index	8.0	4.1	5.1	-
Pictet LPP 2005-40 plus	7.6	4.2	6.2	3.8

1) annualised

Comparison of the Fund's performance against its strategic allocation

The Fund's performance of 9.1 % in 2017 was slightly below its strategic asset allocation of 9.5%. This underperformance was primarily attributable to management fees, which are not included in the strategic asset allocation, and the active management of North American equities. Private equities, meanwhile, were the main positive contributor to relative performance.

Comparison of the Fund's performance against its peers

Over the past five years, the Fund's performance is above the one published by UBS and Credit Suisse, according to their respective universes. Over three years, it is also above the performance measured by the Pictet LPP 2005-40 plus index, which best mirrors the Fund's strategic allocation.

The Pictet LPP index, which is calculated solely using market indices (without fees), provides a benchmark for the investment strategies of Swiss pension funds. The UBS and Credit Suisse indices provide updated information on the performance of their sample of Swiss pension funds clients. Please note that the UBS index includes fees, whereas the Credit Suisse index does not.

In summary, the performance of the Fund was not only satisfactory from an absolute point of view but also compared to its peers.

The Fund posted a positive performance (net of fees) of +9.1 % in 2017.

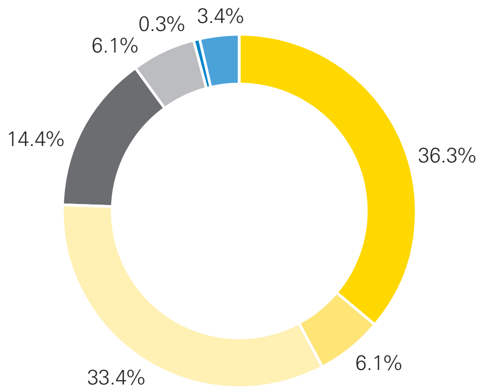
Asset allocation

In 2016 the Board decided on a new strategic allocation that excludes hedge funds and commodities. This new allocation was phased in over the course of 2017.

As at 31 December 2017, the Fund's assets were distributed as shown below:

Allocation in %

	31.12.2017	31.12.2016	Strategic allocation
Liquidities and short-term investments	3.4	2.8	3.0
Equities	36.3	33.2	33.0
Private equities	6.1	6.6	7.0
Bonds	33.4	33.5	35.0
Swiss real estate	14.4	10.2	15.0
International real estate	6.1	4.7	7.0
Hedge funds	0.3	7.3	0.0
Commodities	0.0	1.7	0.0
Total	**100.0**	**100.0**	**100.0**



- Equities
- Private equities
- Bonds
- Real estate Switzerland
- Real estate International
- Hedge funds
- Liquidities and short-term investments

Investment Committee activities

The Investment Committee's main focus in 2017 was the implementation of the new strategic allocation approved by the Board in November 2016, which came into effect as of the end of November 2017. In particular, a major analysis of the investments was carried out in order to optimize the Fund's investment structure with a view to simplifying and reducing management fees.

As a result, the main activities and decisions of the Investment Committee were as follows:

– Regular monitoring of the disvestment process of the Fund's in hedge funds and commodities, primarily in favour of Swiss real estates;
– Approval of the appointment of BlackRock as interim manager of the assets previously managed by Nestlé Capital Management (NCM);
– Reduction of active investment strategies in favour of the less costly passive ones, moreover into Swiss investment vehicles that are more tax-efficient;
– Approval of three managers for this passive management strategy: UBS, Credit Suisse and Blackrock. Assets were transferred to these managers in November 2017 (bond mandates) and January 2018 (equity mandates and the quoted international real estate mandate).

Following these activities, the Fund's asset management fees (commonly referred to as "total expense ratio" or "TER") were 0.84% in 2017 and are expected to fall to 0.6% in 2018, a major reduction compared with 1.08% in 2016. The impact of all these measures will therefore equate to an annual recurring saving of around CHF 30 million.

Finally, the Investment Committee also validated the following priorities for 2018:

– Launch of a reflection on a responsible investment policy from an environment, social and governance perspective (collectively referred to as "ESG") to potentially improve the ethical impact and sustainability of the Fund's investments;
– Analysis of opportunities in the area of infrastructure investments;
– Detailed study of the Fund's private equity portfolio;
– Review of the currency hedging strategy;
– Search for a new unquoted international real estate mandate;
– Complete revision of the investment regulations

– Appointment of an external consultant following the Nestlé Group’s decision to shift the activities of Nestlé Capital Advisers into a corporate strategy and control entity;
– Review of the composition of the Investment Committee.

Conclusion
2017 was a very good year for the Fund’s investments, enabling it to post its best annual performance since 2009. This result is all the more encouraging given that it was achieved during the implementation of major changes in our asset allocation. These changes, along with ongoing initiatives, should give the Fund greater peace of mind as it approaches the next few years, which will be characterised by poor returns as interest rates remain close to zero.

Even if financial market fundamentals remain solid, however, caution is still required in the shorter term. Listed companies were relatively highly valued at the start of 2018, and we are anticipating much more challenging markets as already evident in the first quarter.

Reflection on a responsible investment policy will be launched in 2018.

Funding ratio and actuarial situation

Actuarial situation

In millions of CHF

	31.12.2017	31.12.2016
Available assets	**7223.0**	**6695.1**
Liabilities		
Pension reserve for active members	2546.0	2515.1
Pension reserve for pensioners	3476.9	3403.4
Provision for increased life expectancy	145.9	122.5
Provision for death and disability risks	49.4	53.9
Provision for a future reduction in the technical interest rate	173.6	170.2
Total	**6391.8**	**6265.1**
Technical surplus		
Downward risk provision	831.2	430.0
Disposable surplus	0.0	0.0
Total	**831.2**	**430.0**
Funding ratio (assets / liabilities)	**113.0%**	**106.9%**

Available assets

The available assets are determined by subtracting accrued expenses and employers' contributions reserve from total balance sheet assets (p. 10).

Liabilities

The Fund's liabilities consist of:

– The **pension reserve for active members**, which corresponds to the total of the accrued retirement savings capitals of those members;

– The **pension reserve for pensioners**, which is the total amount necessary to ensure payment of current pensions. These reserves are often defined as mathematical reserves and are calculated from 31 December 2011 using 2010 actuarial tariffs and take into account a technical discount rate or internal rate of return of 3%;

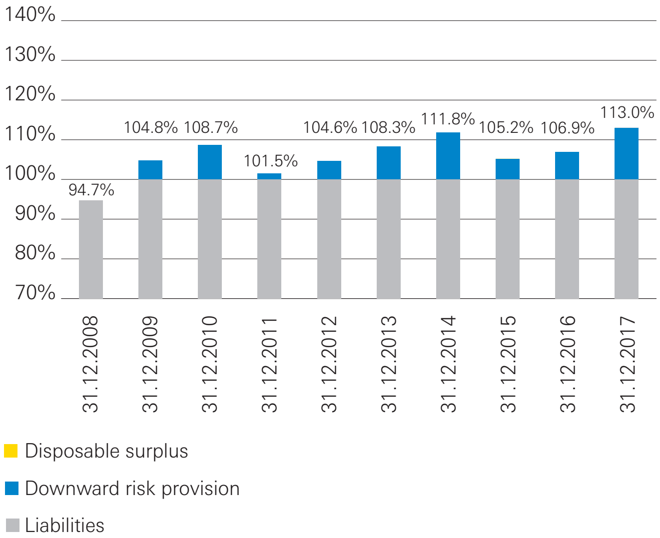
– The **provision for increased life expectancy**, which has been set up to cover the future costs which the Funds expects to incur due to this trend. This provision is funded by an annual allocation calculated on the basis of the pension reserve for pensioners. This provision stood around 4.2% or CHF 145.9 million as at 31 December 2017;

– The **provision for death and disability risks**, which aims to cover the inevitable fluctuations between the effective costs per benefit claim and its average costs. This provision stood at 49.4 milion as at 31 December 2017;

– The **provision for a future reduction in the technical interest rate**, which will cover any subsequent increase in liability relating to a potential decrease in the technical interest rate for pensioners.This provision was created in 2015 with the agreement of the certified pension actuary, and stood at CHF 173.6 million as at 31 December 2017.

Funding ratio

On 31 December 2017, the Fund's funding ratio was **113,0%** (compard to 106.9% at the end of 2016). It is calculated by dividing the Fund's available assets by its liabilities, i.e. the sum of pension reserves for active members and for pensioners as well as the technical provisions.



Technical surplus

The technical surplus consists of:

– The **downward risk provision**, which absorbs the inevitable variations in the Fund's investments results. At the end of 2017, the downward risk provision amounted to CHF 831.2 million, which represents 13% of the Fund's total liabilities. As the target of the downward riks provision is set at 20% of liabilities, the target value was not reached by December 2017. Over the coming years, the Fund will therefore have to generate sufficient performance to build up this reserve again;

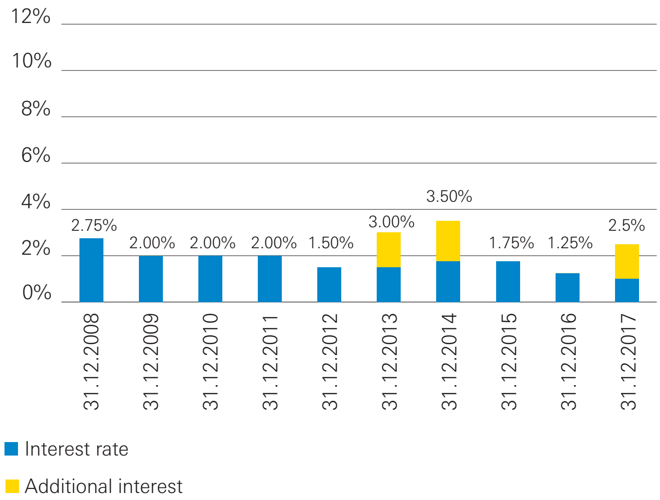
– **Disposable surplus**. As the downward risk provision has not yet been filled up, the Fund did not have any disposable surplus at the end of 2017.

Interest payments and adjustment of pensions in payment

Interest payments on retirement savings capital of active insured members

By decision of the Board, the retirement savings capital of active members were credited with the minimum LOB interest of 1 % in 2017, to which the Fund added an additional interest of 1.5 %

The average annual remuneration paid on retirement savings capital is 1.8 % over the past three years and 2.4 % over the past five years. This is higher than the average annual remuneration paid according to the minimum rate under LOB over the past three years (1.3 %) and over the past five years (1.45 %). Taking into account the past ten years, remuneration paid on the Fund's retirement savings capital is 2.22 %, compared with 1.75 % for LOB.



In %

	2017	2016	2015	2014	2013	5 years	10 years
Interest rate	1.00	1.25	1.75	1.75	1.50	1.45	1.75
Additional interest (31.12)	1.50	0.00	0.00	1.75	1.50	0.95	0.47
Total remuneration	2.50	1.25	1.75	3.50	3.00	2.40	2.22

Adjustment of pensions in payment

The decision to adjust pensions in payment is the responsibility of the Board since the Fund regulations do not provide for these to be systematically indexed to the cost of living, measured by the consumer price index or rate of inflation. This decision is based on a number of parameters, which of course include the rate of inflation, but also the Fund's performance, its financial health (funding ratio) and the principle of fairness between active members and pensioners.

In %

	2017	2016	5 years [1]
Pension adjustment rate (at 1 January of the following year)	0,0	0,0	0,0
Inflation rate	0.8	0,0	(0.78)

1) Inflation between le 01.01.2013 et le 31.12.2017

As the rate of inflation has been low and at times even negative in recent years, that the Fund does not have disposable surplus, and that fairness between active members and pensioners must be maintained, the Board decided not to adjust pensions in payment on 1 January 2018.

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Rapport de l'organe de révision au Conseil de fondation de

FONDS DE PENSIONS NESTLE (Fondation Edouard Muller), Vevey

Rapport de l'organe de révision sur les comptes annuels

En notre qualité d'organe de révision, nous avons effectué l'audit des comptes annuels ci-joints de FONDS DE PENSIONS NESTLE (Fondation Edouard Muller), comprenant le bilan, le compte d'exploitation et l'annexe pour l'exercice arrêté au 31 décembre 2017.

Responsabilité du Conseil de fondation
La responsabilité de l'établissement des comptes annuels, conformément aux dispositions légales, à l'acte de fondation et aux règlements, incombe au Conseil de fondation. Cette responsabilité comprend l'organisation, la mise en place et le maintien d'un contrôle interne relatif à l'établissement des comptes annuels afin que ceux-ci ne contiennent pas d'anomalies significatives, que celles-ci résultent de fraudes ou d'erreurs. En outre, le Conseil de fondation est responsable du choix et de l'application de méthodes comptables appropriées, ainsi que des estimations comptables adéquates.

Responsabilité de l'expert en matière de prévoyance professionnelle
Le Conseil de fondation désigne pour la vérification, en plus de l'organe de révision, un expert en matière de prévoyance professionnelle. Ce dernier examine périodiquement si l'institution de prévoyance offre la garantie qu'elle peut remplir ses engagements et si les dispositions réglementaires de nature actuarielle et relatives aux prestations et au financement sont conformes aux dispositions légales. Les provisions nécessaires à la couverture des risques actuariels se calculent sur la base du rapport actuel de l'expert en matière de prévoyance professionnelle au sens de l'art. 52e al. 1 LPP en relation avec l'art. 48 OPP 2.

Responsabilité de l'organe de révision
Notre responsabilité consiste, sur la base de notre audit, à exprimer une opinion sur les comptes annuels. Nous avons effectué notre audit conformément aux prescriptions légales et aux Normes d'audit suisses. Ces normes requièrent de planifier et réaliser l'audit de façon à obtenir raisonnablement l'assurance que les comptes annuels ne contiennent pas d'anomalies significatives.

Un audit inclut la mise en œuvre de contrôles en vue de recueillir des éléments probants concernant les valeurs et les informations fournies dans les comptes annuels. Le choix des procédures d'audit relève du jugement de l'auditeur, de même que l'évaluation des risques que les comptes annuels puissent contenir des anomalies significatives, que celles-ci résultent de fraudes ou d'erreurs. Lors de l'évaluation de ces risques, l'auditeur prend en compte le contrôle interne relatif à l'établissement des comptes annuels pour définir les procédures d'audit adaptées aux circonstances, et non pas dans le but d'exprimer une opinion sur l'efficacité de celui-ci. Un audit comprend, en outre, une évaluation de l'adéquation des méthodes comptables appliquées et du caractère plausible des estimations comptables effectuées ainsi qu'une appréciation de la présentation des comptes annuels dans leur ensemble. Nous estimons que les éléments probants recueillis constituent une base suffisante et adéquate pour former notre opinion d'audit.

Opinion d'audit
Selon notre appréciation, les comptes annuels pour l'exercice arrêté au 31 décembre 2017 sont conformes à la loi suisse, à l'acte de fondation et aux règlements.

Rapport sur d'autres dispositions légales et réglementaires

Nous attestons que nous remplissons les exigences légales relatives à l'agrément (art. 52b LPP) et à l'indépendance (art. 34 OPP 2) et qu'il n'existe aucun fait incompatible avec notre indépendance.

Nous avons également procédé aux vérifications prescrites aux art. 52c al. 1 LPP et 35 OPP 2. Le Conseil de fondation répond de l'exécution de ses tâches légales et de la mise en œuvre des dispositions statutaires et réglementaires en matière d'organisation, de gestion et de placements.

Nous avons vérifié :

- si l'organisation et la gestion étaient conformes aux dispositions légales et réglementaires et s'il existait un contrôle interne adapté à la taille et à la complexité de l'institution ;
- si les placements étaient conformes aux dispositions légales et réglementaires ;
- si les comptes de vieillesse étaient conformes aux dispositions légales ;
- si les mesures destinées à garantir la loyauté dans l'administration de la fortune avaient été prises et si le respect du devoir de loyauté ainsi que la déclaration des liens d'intérêts étaient suffisamment contrôlés par l'organe suprême ;
- si les indications et informations exigées par la loi avaient été communiquées à l'autorité de surveillance ;
- si les actes juridiques passés avec des personnes proches qui nous ont été annoncés garantissaient les intérêts de l'institution de prévoyance.

La limite réglementaire de placement pour une catégorie de placements n'a pas été respectée durant l'année et était également dépassée à la date du bilan (voir point 6.4 de l'annexe aux comptes annuels).

Nous attestons que les dispositions légales, statutaires et réglementaires applicables en l'espèce ont été respectées, à l'exception des conséquences de la situation exposée au paragraphe précédent, relative aux placements.

Nous recommandons d'approuver les comptes annuels présentés.

KPMG SA

Jean-Marc Wicki
Expert-réviseur agréé
Réviseur responsable

Renaud Jotterand
Expert-réviseur agréé

Lausanne, le 24 mai 2018

Annexe :
- Comptes annuels comprenant le bilan, le compte d'exploitation et l'annexe

Fonds de Pensions
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