

# Financial Statements 2018



**Consolidated Financial Statements  
of the Nestlé Group 2018**

**152nd Financial Statements  
of Nestlé S.A.**



# Consolidated Financial Statements of the Nestlé Group 2018

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## Principal exchange rates

CHF per

		2018	2017	2018	2017
		Year ending rates		Weighted average annual rates	
1 US Dollar	USD	0.986	0.977	0.979	0.984
1 Euro	EUR	1.128	1.168	1.154	1.113
100 Chinese Yuan Renminbi	CNY	14.335	15.001	14.776	14.593
100 Brazilian Reais	BRL	25.448	29.531	26.663	30.796
100 Philippine Pesos	PHP	1.877	1.957	1.856	1.953
1 Pound Sterling	GBP	1.256	1.316	1.302	1.271
100 Mexican Pesos	MXN	5.015	4.957	5.082	5.212
1 Canadian Dollar	CAD	0.724	0.778	0.755	0.759
100 Japanese Yen	JPY	0.894	0.867	0.886	0.878
1 Australian Dollar	AUD	0.697	0.761	0.731	0.754
100 Russian Rubles	RUB	1.416	1.694	1.554	1.688

# Consolidated income statement for the year ended December 31, 2018

In millions of CHF

	Notes	2018	2017 *
<b>Sales</b>	3	<b>91 439</b>	<b>89 590</b>
Other revenue		311	332
Cost of goods sold		(46 070)	(45 571)
Distribution expenses		(8 469)	(8 023)
Marketing and administration expenses		(20 003)	(19 818)
Research and development costs		(1 687)	(1 739)
Other trading income	4	37	112
Other trading expenses	4	(1 769)	(1 606)
<b>Trading operating profit</b>	3	<b>13 789</b>	<b>13 277</b>
Other operating income	4	2 535	379
Other operating expenses	4	(2 572)	(3 500)
<b>Operating profit</b>		<b>13 752</b>	<b>10 156</b>
Financial income	5	247	152
Financial expense	5	(1 008)	(848)
<b>Profit before taxes, associates and joint ventures</b>		<b>12 991</b>	<b>9 460</b>
Taxes	13	(3 439)	(2 773)
Income from associates and joint ventures	14	916	824
<b>Profit for the year</b>		<b>10 468</b>	<b>7 511</b>
of which attributable to non-controlling interests		333	355
of which attributable to shareholders of the parent (Net profit)		10 135	7 156
<b>As percentages of sales</b>			
Trading operating profit		15.1%	14.8%
Profit for the year attributable to shareholders of the parent (Net profit)		11.1%	8.0%
<b>Earnings per share (in CHF)</b>			
Basic earnings per share	15	3.36	2.31
Diluted earnings per share	15	3.36	2.31

\* 2017 restated figures include modifications as described in Note 1 Accounting policies and related impacts in Note 22.

# Consolidated statement of comprehensive income for the year ended December 31, 2018

In millions of CHF

	Notes	2018	2017 *
<b>Profit for the year recognized in the income statement</b>		<b>10 468</b>	<b>7 511</b>
Currency retranslations, net of taxes	17	(1 004)	(561)
Fair value changes on available-for-sale financial instruments, net of taxes	17	—	(10)
Fair value changes on debt instruments, net of taxes	17	(39)	—
Fair value changes on cash flow hedges, net of taxes		46	(55)
Share of other comprehensive income of associates and joint ventures	14/17	(21)	(240)
Items that are or may be reclassified subsequently to the income statement		(1 018)	(866)
Remeasurement of defined benefit plans, net of taxes	10/17	600	1 063
Fair value changes on equity instruments, net of taxes	17	4	—
Share of other comprehensive income of associates and joint ventures	14/17	117	52
Items that will never be reclassified to the income statement		721	1 115
<b>Other comprehensive income for the year</b>	17	<b>(297)</b>	<b>249</b>
<b>Total comprehensive income for the year</b>		<b>10 171</b>	<b>7 760</b>
of which attributable to non-controlling interests		218	328
of which attributable to shareholders of the parent		9 953	7 432

\* 2017 restated figures include modifications as described in Note 1 Accounting policies and related impacts in Note 22.

# Consolidated balance sheet as at December 31, 2018

before appropriations

In millions of CHF

	Notes	2018	2017 *
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	12/16	4 500	7 938
Short-term investments	12	5 801	655
Inventories	6	9 125	9 177
Trade and other receivables	7/12	11 167	12 036
Prepayments and accrued income		530	573
Derivative assets	12	183	231
Current income tax assets		869	917
Assets held for sale	2	8 828	357
<b>Total current assets</b>		<b>41 003</b>	<b>31 884</b>
<b>Non-current assets</b>			
Property, plant and equipment	8	29 956	30 777
Goodwill	9	31 702	29 746
Intangible assets	9	18 634	20 615
Investments in associates and joint ventures	14	10 792	11 628
Financial assets	12	2 567	6 003
Employee benefits assets	10	487	392
Current income tax assets		58	62
Deferred tax assets	13	1 816	2 103
<b>Total non-current assets</b>		<b>96 012</b>	<b>101 326</b>
<b>Total assets</b>		<b>137 015</b>	<b>133 210</b>

\* 2017 restated figures include modifications as described in Note 1 Accounting policies and related impacts in Note 22.



In millions of CHF

	Notes	2018	2017 *
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Financial debt	12	14 694	11 211
Trade and other payables	7/12	17 800	18 864
Accruals and deferred income		4 075	4 299
Provisions	11	780	819
Derivative liabilities	12	448	507
Current income tax liabilities		2 731	2 477
Liabilities directly associated with assets held for sale	2	2 502	12
<b>Total current liabilities</b>		<b>43 030</b>	<b>38 189</b>
<b>Non-current liabilities</b>			
Financial debt	12	25 700	18 566
Employee benefits liabilities	10	5 919	7 111
Provisions	11	1 033	1 147
Deferred tax liabilities	13	2 540	3 492
Other payables	12	390	2 476
<b>Total non-current liabilities</b>		<b>35 582</b>	<b>32 792</b>
<b>Total liabilities</b>		<b>78 612</b>	<b>70 981</b>
<b>Equity</b>	17		
Share capital		306	311
Treasury shares		(6 948)	(4 537)
Translation reserve		(20 432)	(19 436)
Other reserves		(183)	989
Retained earnings		84 620	83 629
<b>Total equity attributable to shareholders of the parent</b>		<b>57 363</b>	<b>60 956</b>
Non-controlling interests		1 040	1 273
<b>Total equity</b>		<b>58 403</b>	<b>62 229</b>
<b>Total liabilities and equity</b>		<b>137 015</b>	<b>133 210</b>

\* 2017 restated figures include modifications as described in Note 1 Accounting policies and related impacts in Note 22.

# Consolidated cash flow statement for the year ended December 31, 2018

In millions of CHF

	Notes	2018	2017 *
<b>Operating activities</b>			
Operating profit	16	13 752	10 156
Depreciation and amortization	16	3 924	3 934
Impairment		1 248	3 582
Net result on disposal of businesses	4	(686)	132
Other non-cash items of income and expense	16	137	(186)
<b>Cash flow before changes in operating assets and liabilities</b>		<b>18 375</b>	<b>17 618</b>
Decrease/(increase) in working capital	16	472	(244)
Variation of other operating assets and liabilities	16	(37)	361
<b>Cash generated from operations</b>		<b>18 810</b>	<b>17 735</b>
Interest paid		(684)	(609)
Interest and dividend received		192	119
Taxes paid		(3 623)	(3 628)
Dividends and interest from associates and joint ventures	14	703	582
<b>Operating cash flow</b>		<b>15 398</b>	<b>14 199</b>
<b>Investing activities</b>			
Capital expenditure	8	(3 869)	(3 938)
Expenditure on intangible assets	9	(601)	(769)
Acquisition of businesses	2	(9 512)	(696)
Disposal of businesses	2	4 310	140
Investments (net of divestments) in associates and joint ventures	14	728	(140)
Inflows/(outflows) from treasury investments		(5 159)	587
Other investing activities		(163)	(134)
<b>Investing cash flow</b>		<b>(14 266)</b>	<b>(4 950)</b>
<b>Financing activities</b>			
Dividend paid to shareholders of the parent	17	(7 124)	(7 126)
Dividends paid to non-controlling interests		(319)	(342)
Acquisition (net of disposal) of non-controlling interests	2	(528)	(526)
Purchase (net of sale) of treasury shares <sup>(a)</sup>		(6 854)	(3 295)
Inflows from bonds and other non-current financial debt	12	9 900	6 406
Outflows from bonds and other non-current financial debt	12	(2 712)	(3 190)
Inflows/(outflows) from current financial debt	12	3 520	(1 011)
<b>Financing cash flow</b>		<b>(4 117)</b>	<b>(9 084)</b>
Currency retranslations		(313)	(217)
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>(3 298)</b>	<b>(52)</b>
Cash and cash equivalents at beginning of year		7 938	7 990
<b>Cash and cash equivalents at end of year</b>	16	<b>4 640</b>	<b>7 938</b>

\* 2017 restated figures include modifications as described in Note 1 Accounting policies and related impacts in Note 22.

(a) Mostly relates to the Share Buy-Back Program launched in 2017.

# Consolidated statement of changes in equity for the year ended December 31, 2018

In millions of CHF

	Share capital	Treasury shares	Translation reserve	Other reserves	Retained earnings	Total equity attributable to shareholders of the parent	Non-controlling interests	Total equity
<b>Equity as at December 31, 2016 as originally published</b>	<b>311</b>	<b>(990)</b>	<b>(18 799)</b>	<b>1 198</b>	<b>82 870</b>	<b>64 590</b>	<b>1 391</b>	<b>65 981</b>
First application of IFRS 15	—	—	—	—	(268)	(268)	—	(268)
First application of IFRS 16	—	—	—	—	(189)	(189)	—	(189)
Other	—	—	—	—	(61)	(61)	—	(61)
<b>Equity restated as at January 1, 2017 *</b>	<b>311</b>	<b>(990)</b>	<b>(18 799)</b>	<b>1 198</b>	<b>82 352</b>	<b>64 072</b>	<b>1 391</b>	<b>65 463</b>
Profit for the year *	—	—	—	—	7 156	7 156	355	7 511
Other comprehensive income for the year *	—	—	(637)	(209)	1 122	276	(27)	249
<b>Total comprehensive income for the year *</b>	<b>—</b>	<b>—</b>	<b>(637)</b>	<b>(209)</b>	<b>8 278</b>	<b>7 432</b>	<b>328</b>	<b>7 760</b>
Dividends	—	—	—	—	(7 126)	(7 126)	(342)	(7 468)
Movement of treasury shares	—	(3 719)	—	—	113	(3 606)	—	(3 606)
Equity compensation plans	—	172	—	—	(11)	161	—	161
Changes in non-controlling interests <sup>(a)</sup>	—	—	—	—	93	93	(104)	(11)
<b>Total transactions with owners</b>	<b>—</b>	<b>(3 547)</b>	<b>—</b>	<b>—</b>	<b>(6 931)</b>	<b>(10 478)</b>	<b>(446)</b>	<b>(10 924)</b>
Other movements	—	—	—	—	(70)	(70)	—	(70)
<b>Equity restated at December 31, 2017</b>	<b>311</b>	<b>(4 537)</b>	<b>(19 436)</b>	<b>989</b>	<b>83 629</b>	<b>60 956</b>	<b>1 273</b>	<b>62 229</b>

\* 2017 restated figures include modifications as described in Note 1 Accounting policies and related impacts in Note 22.

(a) Movements reported under retained earnings include the impact of the acquisitions (see Note 2.5) as well as put options for acquisitions of non-controlling interests.

In millions of CHF

	Share capital	Treasury shares	Translation reserve	Other reserves	Retained earnings	Total equity attributable to shareholders of the parent	Non-controlling interests	Total equity
<b>Equity as at January 1, 2018</b>	<b>311</b>	<b>(4 537)</b>	<b>(19 436)</b>	<b>989</b>	<b>83 629</b>	<b>60 956</b>	<b>1 273</b>	<b>62 229</b>
First application of IFRS 9 <sup>(a)</sup>	—	—	(176)	(1 170)	1 333	(13)	(2)	(15)
<b>Equity as at January 1, 2018 after first application of IFRS 9</b>	<b>311</b>	<b>(4 537)</b>	<b>(19 612)</b>	<b>(181)</b>	<b>84 962</b>	<b>60 943</b>	<b>1 271</b>	<b>62 214</b>
Profit for the year	—	—	—	—	10 135	10 135	333	10 468
Other comprehensive income for the year	—	—	(893)	(12)	723	(182)	(115)	(297)
<b>Total comprehensive income for the year</b>	<b>—</b>	<b>—</b>	<b>(893)</b>	<b>(12)</b>	<b>10 858</b>	<b>9 953</b>	<b>218</b>	<b>10 171</b>
Dividends	—	—	—	—	(7 124)	(7 124)	(319)	(7 443)
Movement of treasury shares	—	(6 677)	—	—	(49)	(6 726)	—	(6 726)
Equity compensation plans	—	153	—	—	(3)	150	3	153
Changes in non-controlling interests <sup>(b)</sup>	—	—	—	—	181	181	(133)	48
Reduction in share capital <sup>(c)</sup>	(5)	4 113	—	—	(4 108)	—	—	—
<b>Total transactions with owners</b>	<b>(5)</b>	<b>(2 411)</b>	<b>—</b>	<b>—</b>	<b>(11 103)</b>	<b>(13 519)</b>	<b>(449)</b>	<b>(13 968)</b>
Other movements	—	—	73	10	(97)	(14)	—	(14)
<b>Equity as at December 31, 2018</b>	<b>306</b>	<b>(6 948)</b>	<b>(20 432)</b>	<b>(183)</b>	<b>84 620</b>	<b>57 363</b>	<b>1 040</b>	<b>58 403</b>

(a) Mainly relates to Nestlé's share in fair value changes of equity instruments held by associates.

(b) Movements reported under retained earnings include the impact of the acquisitions (see Note 2.5) as well as put options for acquisitions of non-controlling interests.

(c) Reduction in share capital, see Note 17.1.

## 1. Accounting policies

### Accounting convention and accounting standards

The Consolidated Financial Statements comply with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with Swiss law.

They have been prepared on a historical cost basis, unless stated otherwise. All significant consolidated companies, joint arrangements and associates have a December 31 accounting year-end.

The Consolidated Financial Statements 2018 were approved for issue by the Board of Directors on February 13, 2019, and are subject to approval by the Annual General Meeting on April 11, 2019.

### Accounting policies

Accounting policies are included in the relevant notes to the Consolidated Financial Statements and are presented as text highlighted with a grey background. The accounting policies below are applied throughout the financial statements.

### Key accounting judgements, estimates and assumptions

The preparation of the Consolidated Financial Statements requires Group Management to exercise judgement and to make estimates and assumptions that affect the application of policies, reported amounts of revenues, expenses, assets and liabilities and disclosures. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Those areas affect mainly revenue recognition (see Note 3), allowance for doubtful receivables (see Note 7), leases (see Note 8), impairment tests of goodwill and intangible assets with indefinite useful life (see Note 9), employee benefits (see Note 10), provisions and contingencies (see Note 11) and taxes (see Note 13).

### Foreign currencies

The functional currency of the Group's entities is the currency of their primary economic environment.

In individual companies, transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at year-end rates. Any resulting exchange differences are taken to the income statement, except when deferred in Other comprehensive income as qualifying cash flow hedges.

On consolidation, assets and liabilities of foreign operations reported in their functional currencies are translated into Swiss Francs, the Group's presentation currency, at year-end exchange rates. Income and expense are translated into Swiss Francs at the annual weighted average rates of exchange or at the rate on the date of the transaction for significant items.

Differences arising from the retranslation of opening net assets of foreign operations, together with differences arising from the translation of the net results for the year of foreign operations, are recognized in Other comprehensive income.

When there is a change of control in a foreign operation, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on disposal.

### Hyperinflationary economies

Several factors are considered when evaluating whether an economy is hyperinflationary, including the cumulative three-year inflation, and the degree to which the population's behaviors and government policies are consistent with such a condition.

The balance sheet and results of subsidiaries operating in hyperinflationary economies are restated for the changes in the general purchasing power of the local currency, using official indices at the balance sheet date, before translation into Swiss Francs and, as a result, are stated in terms of the measuring unit current at the balance sheet date. The hyperinflationary economies in which the Group operates are Venezuela and, as from 2018, Argentina (see Note 20).

### **Other revenue**

Other revenue are primarily sales-based royalties and license fees from third parties which have been earned during the period.

### **Expenses**

Cost of goods sold is determined on the basis of the cost of production or of purchase, adjusted for the variation of inventories. All other expenses, including those in respect of advertising and promotions, are recognized when the Group receives the risks and rewards of ownership of the goods or when it receives the services. Government grants that are not related to assets are credited to the income statement as a deduction of the related expense when they are received, if there is reasonable assurance that the terms of the grant will be met. Additional details of specific expenses are provided in the respective notes.

### **Changes in presentation – income statement**

The following main changes have been applied:

- the costs of returned or damaged products, and maintenance and other costs of trade assets (such as coffee machines, water coolers and freezers) previously reported under Marketing and administration expenses have been reclassified to Cost of goods sold; and
- some costs previously reported under Marketing and administration expenses have been reclassified to Research and development expenses and Distribution expenses.

The above changes have been made to better align with the function of the expenditure.

2017 comparatives have been restated (see Note 22).

### **Changes in presentation – cash flow statement**

There were insignificant changes in presentation between operating cash flow, cash flow from financing activities and cash flow from investing activities regarding cash flows of treasury investments and current financial debt.

2017 comparatives have been restated (see Note 22).

### **Changes in accounting policies**

The following main changes have been applied:

- some costs that were previously included in the carrying value of inventory are now expensed as incurred, following a reevaluation of the relevance of including these costs (the major part of which relates to allocated information technology costs) in inventory. For a like-for-like comparison of the performance 2017 and onwards, the value of inventory on hand at January 1, 2017, has been restated; and
- some taxes and levies on revenue or receipts, reported previously as Taxes, are considered now respectively as a reduction of Sales and as Marketing and administration expenses, in order to better align with the function of the expenditure.

2017 comparatives have been restated (see Note 22).

### Changes in accounting standards

The Group has applied as from January 1, 2018, the following new accounting standards.

#### IFRS 9 – Financial Instruments

The standard addresses the accounting principles for the financial reporting of financial assets and financial liabilities, including classification, measurement, impairment, derecognition and hedge accounting.

The Group has performed a review of the business model corresponding to the different portfolios of financial assets and of the characteristics of these financial assets.

Consequently, investments in debt instruments whose cash flows are solely payments of principal and interest ("SPPI") were designated either at amortized cost or at fair value through Other comprehensive Income depending on the objectives of the business model. The existing investments in equity instruments at the date of the initial application were generally designated at fair value through Other comprehensive Income by election. This election generated a reclassification between equity components of CHF 1.2 billion, with no net impact on the Group's total equity.

The impact of the new impairment model has been reviewed. This analysis required the identification of the credit risk associated with the counterparties and – considering that the majority of the Group's financial assets are trade receivables – integrates statistical data reflecting the actual past experience of incurred loss due to default. The amount of additional impairment recognized on January 1, 2018, was CHF 15 million.

Furthermore, the Group has updated the definitions of its hedging relationships in line with the risk management activities and policies, with a specific attention to the identification of the components in the pricing of the commodities.

This standard was mandatory for the accounting period beginning on January 1, 2018, and was applied retrospectively as at January 1, 2018, but with no restatement of comparative information for prior years. Consequently, the Group recognized any difference between the carrying amount of financial instruments under IAS 39 and the carrying amount under IFRS 9 in the opening retained earnings (or other equity components) as at January 1, 2018.

Changes to hedge accounting policies have been applied prospectively. All hedging relationships designated under IAS 39 at December 31, 2017, met the criteria for hedge accounting under IFRS 9 at January 1, 2018, and are therefore regarded as continuing hedging relationships.

See Note 22 for the impact of IFRS 9. The changes on the fair value hierarchy of financial instruments as at January 1, 2018, are presented in Note 12. The new accounting policies are also set out in Note 12.

#### IFRS 15 – Revenue from Contracts with Customers

This standard combines, enhances and replaces specific guidance on recognizing revenue with a single standard.

It defines a new five-step model to recognize revenue from customer contracts. The Group undertook a review of the main types of commercial arrangements used with customers under this model and has concluded that the application of IFRS 15 had the main following effects:

- i) as a consequence of the change in revenue recognition from transfer of risks and rewards to transfer of control, a small proportion of sales (less than 0.5% of annual sales) is recognized on average 2 days later under the new standard;
- ii) payments to customers currently treated as distribution costs have been reclassified as deductions from sales under the new standard;
- iii) the timing of accruals for certain amounts payable to customers was reviewed and as a result the current liability for these amounts at the beginning of 2017 was increased.

This standard was mandatory for the accounting period beginning on January 1, 2018, and has been applied with retrospective impact, utilizing the practical expedient to not restate contracts that begin and end within the same annual accounting period.

The new accounting policies are set out in Note 3.

2017 comparatives have been restated (see Note 22).

#### IFRS 16 – Leases

This standard replaces IAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases.

The main effect on the Group is that IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for almost all leases and therefore resulted in an increase of Property, plant and equipment and total Financial debt at January 1, 2017.

This standard is mandatory for the accounting period beginning on January 1, 2019, but the Group early adopted it on January 1, 2018, under the full retrospective approach, utilizing the practical expedient to not reassess whether a contract contains a lease.

The new accounting policies are set out in Note 8.2.

2017 comparatives have been restated (see Note 22).

### **IFRIC 23 – Uncertainty over Income Tax Treatments**

IFRIC 23 specifies how to reflect uncertainty in accounting for income taxes. IFRIC 23 is mandatory for the accounting period beginning on January 1, 2019, but the Group early adopted it with effect from January 1, 2018. There was no impact on the measurement of taxes as a consequence of this adoption. The uncertain tax liabilities formerly included under Provisions have been reclassified to Current income tax liabilities.

2017 comparatives have been restated (see Note 22).

In addition, a number of other existing standards have been modified on miscellaneous points with effect from January 1, 2018. Such changes include Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2), Annual Improvements to IFRSs 2014–2016 Cycle (Amendments to IFRS 1 and IAS 28), and IFRIC 22 Foreign Currency Transactions and Advance Consideration.

None of these other amendments had a material effect on the Group's Financial Statements.

### **Changes in IFRS that may affect the Group after December 31, 2018**

There are no standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods.



## 2. Scope of consolidation, acquisitions and disposals of businesses, assets held for sale and acquisitions of non-controlling interests

### Scope of consolidation

The Consolidated Financial Statements comprise those of Nestlé S.A. and of its subsidiaries (the Group).

Companies which the Group controls are fully consolidated from the date at which the Group obtains control. The Group controls a company when it is exposed to, or has rights to, variable returns from its involvement with the company and has the ability to affect those returns through its power over the company. Though the Group generally holds a majority of voting rights in the companies which are controlled, this applies irrespective of the percentage of interest in the share capital if control is obtained through agreements with other shareholders.

The list of the principal subsidiaries is provided in the section Companies of the Nestlé Group, joint arrangements and associates.

### Business combinations

Where not all of the equity of a subsidiary is acquired the non-controlling interests are recognized at the non-controlling interest's share of the acquiree's net identifiable assets. Upon obtaining control in a business combination achieved in stages, the Group remeasures its previously held equity interest at fair value and recognizes a gain or a loss to the income statement.

### 2.1 Modification of the scope of consolidation

#### Acquisitions

In 2018, the significant acquisitions were:

- perpetual global license of Starbucks Consumer Packaged Goods and Foodservice products ("Starbucks Alliance"), worldwide – roast and ground coffee, whole beans as well as instant and portioned coffee (Powdered and Liquid Beverages) – end of August.
- Atrium Innovations, mainly North America – nutritional health products (Nutrition and Health Science) – 100%, March.

None of the other acquisitions of 2018 were significant.

In 2017, among others, the acquisitions included:

- Blue Bottle Coffee, USA – high-end specialty coffee roaster and retailer (Powdered and Liquid Beverages) – 68%, November.

None of the acquisitions of 2017 were significant.

## Disposals

In 2018, the disposals included:

- US Confectionery business, North America – chocolate and sugar products (Confectionery) – 100%, end of March.
- Gerber Life Insurance, North America – insurance (Nutrition and Health Science) – 100%, end of December.

None of the other disposals of 2018 were significant.

In 2017, none of the disposals of the year were significant.

## 2.2 Acquisitions of businesses

The major classes of assets acquired and liabilities assumed at the acquisition date are:

In millions of CHF					
	2018				2017
	Starbucks Alliance	Atrium Innovations	Other	Total	Total
Property, plant and equipment	4	58	62	124	129
Intangible assets <sup>(a)</sup>	4 794	1 133	66	5 993	326
Inventories, prepaid inventories and other assets	176	301	59	536	72
Financial debt	—	(32)	(36)	(68)	(94)
Employee benefits, deferred taxes and provisions	—	(167)	—	(167)	(110)
Other liabilities	—	(109)	(38)	(147)	(40)
<b>Fair value of identifiable net assets</b>	<b>4 974</b>	<b>1 184</b>	<b>113</b>	<b>6 271</b>	<b>283</b>

(a) Mainly intellectual property rights, operating rights, customer list, trademarks and trade names.

Since the valuation of the assets and liabilities of recently acquired businesses is still in process, the values are determined provisionally.

The goodwill arising on acquisitions and the cash outflow are:

In millions of CHF					
	2018				2017
	Starbucks Alliance	Atrium Innovations	Other	Total	Total
Fair value of consideration transferred	7 068	2 193	341	9 602	729
Non-controlling interests <sup>(a)</sup>	—	23	6	29	49
<b>Subtotal</b>	<b>7 068</b>	<b>2 216</b>	<b>347</b>	<b>9 631</b>	<b>778</b>
Fair value of identifiable net assets	(4 974)	(1 184)	(113)	(6 271)	(283)
<b>Goodwill</b>	<b>2 094</b>	<b>1 032</b>	<b>234</b>	<b>3 360</b>	<b>495</b>

(a) Non-controlling interests have been measured based on their proportionate interest in the recognized amounts of net assets of the entities acquired.

In millions of CHF

	2018				2017
	Starbucks Alliance	Atrium Innovations	Other	Total	Total
Fair value of consideration transferred	7 068	2 193	341	9 602	729
Cash and cash equivalents acquired	—	(47)	(12)	(59)	(18)
Consideration payable	—	—	(31)	(31)	(78)
Payment of consideration payable on prior years acquisitions and other	—	—	—	—	63
<b>Cash outflow on acquisitions</b>	<b>7 068</b>	<b>2 146</b>	<b>298</b>	<b>9 512</b>	<b>696</b>

The consideration transferred consists of payments made in cash with some consideration remaining payable.

### Starbucks Alliance

At the end of August 2018, the Group acquired the perpetual rights to market, sell and distribute certain Starbucks' consumer and foodservice products globally ("Starbucks Alliance"), which transferred control over the existing businesses mainly in North America and Europe. It excludes Ready-to-Drink products and all sales of any products within Starbucks coffee shops. Consumer and foodservice products include *Starbucks*, *Seattle's Best Coffee*, *Teavana*, *Starbucks VIA* Instant, *Torrefazione Italia* coffee and Starbucks branded *K-Cup* pods. Through the Starbucks Alliance, the Group and Starbucks will work closely together on the existing Starbucks range of roast and ground coffee, whole beans as well as instant and portioned coffee with also the goal of enhancing its product offerings for coffee lovers globally. This partnership with Starbucks significantly strengthens the Group's coffee portfolio in the North American premium roast and ground and portioned coffee business. It also unlocks global expansion in grocery and foodservice for the Starbucks brand, utilizing the global reach of Nestlé. This creates synergies that result in goodwill being recognized, which is expected to be deductible for tax purposes.

Sales and profit for the year of the Starbucks Alliance business included in the 2018 Consolidated Financial Statements amount respectively to CHF 809 million and CHF 74 million. The Group's total sales and profit for the year would have amounted to CHF 92 753 million and CHF 10 575 million respectively if the acquisition had been effective January 1, 2018.

### Atrium Innovations

At the beginning of March 2018, the Group acquired Atrium Innovations, a global leader in nutritional health products with sales mainly in North America and Europe. Atrium's brands are a natural complement to Nestlé Health Science's Consumer Care portfolio and its portfolio extends Nestlé's product range with value-added solutions such as probiotics, plant-based protein nutrition and multivitamins. Atrium's largest brands are *Garden of Life*, the number one brand in the natural products industry in the US; and *Pure Encapsulations*, a full line of hypoallergenic, research-based dietary supplements and the number one recommended brand in the US practitioner market. The goodwill arising on this acquisition includes elements such as distribution synergies and strong growth potential and is not expected to be deductible for tax purposes.

Sales and profit for the year of the Atrium Innovations business included in the 2018 Consolidated Financial Statements amount respectively to CHF 653 million and CHF 86 million. The Group's total sales and profit for the year would have amounted to CHF 91 559 million and CHF 10 477 million respectively if the acquisition had been effective January 1, 2018.

### Acquisition-related costs

Acquisition-related costs have been recognized under other operating expenses in the income statement (see Note 4.2) for an amount of CHF 35 million (2017: CHF 27 million).

## 2.3 Disposals of businesses

The gain on disposals of businesses is mainly composed of the disposal at end of March 2018 of the US Confectionery business (part of the Zone AMS operating segment and classified as held for sale as of December 31, 2017). The loss on disposals is mainly composed of the disposal at end of December 2018 of the Gerber Life Insurance business (part of the Other businesses segment).

In millions of CHF

	2018			2017
	Gerber Life Insurance	US Confectionery	Other	Total
Property, plant and equipment	8	201	73	282
Goodwill and intangible assets	1 441	—	257	1 698
Inventories	—	127	29	156
Other assets	3 644	—	32	3 676
Financial liabilities	(4)	—	(1)	(5)
Employee benefits, deferred taxes and provisions	—	—	(11)	(11)
Other liabilities	(2 449)	—	(28)	(2 477)
<b>Net assets disposed of or impaired after classification as held for sale</b>	<b>2 640</b>	<b>328</b>	<b>351</b>	<b>3 319</b>
Cumulative other comprehensive income items, net, reclassified to income statement	226	37	—	263
Profit/(loss) on disposals, net of disposal costs and impairments of assets held for sale	(1 343)	2 241	(212)	686
<b>Total disposal consideration, net of disposal costs</b>	<b>1 523</b>	<b>2 606</b>	<b>139</b>	<b>4 268</b>
Cash and cash equivalents disposed of	—	—	(8)	(8)
Disposal costs not yet paid	—	52	—	52
Consideration receivable	—	—	(4)	(4)
Receipt of consideration receivable on prior years' disposals	—	—	2	2
<b>Cash inflow on disposals, net of disposal costs</b>	<b>1 523</b>	<b>2 658</b>	<b>129</b>	<b>4 310</b>

## 2.4 Assets held for sale

### Assets held for sale and disposal groups

Non-current assets held for sale and disposal groups are presented separately in the current section of the balance sheet when the following criteria are met: the Group is committed to selling the asset or disposal group, an active plan of sale has commenced, and in the judgement of Group Management it is highly probable that the sale will be completed within 12 months. Immediately before the initial classification of the assets and disposal groups as held for sale, the carrying amounts of the assets (or all the assets and liabilities in the disposal groups) are measured in accordance with the applicable accounting policy. Assets held for sale and disposal groups are subsequently measured at the lower of their carrying amount and fair value less cost to sell. Assets held for sale are no longer amortized or depreciated.

As of December 31, 2018, assets held for sale and liabilities directly associated with assets held for sale are mainly composed of the Nestlé Skin Health business, which is part of the Other businesses segment. This business has been classified as held for sale due to future growth opportunities lying outside the Group's strategic scope. The Group is expecting to lose control of this business in the second half of 2019. The related cumulative loss currently recognized in other comprehensive income has been estimated at about CHF 90 million (mainly cumulative currency translation loss) and will be recognized in the income statement at the date the control is lost.

As of December 31, 2017, assets held for sale were mainly composed of the US Confectionery business.

The composition of assets held for sale and liabilities directly associated with assets held for sale at the end of 2018 and of 2017 are the following:

In millions of CHF

			2018	2017
	Nestlé Skin Health	Other	Total	Total
Cash, cash equivalents and short-term investments	140	—	140	—
Inventories	214	16	230	117
Trade and other receivables, prepayments and accrued income	686	91	777	4
Deferred taxes	298	16	314	—
Property, plant and equipment	395	100	495	235
Goodwill and intangible assets	6 787	15	6 802	—
Other assets	70	—	70	1
<b>Assets held for sale</b>	<b>8 590</b>	<b>238</b>	<b>8 828</b>	<b>357</b>
Financial liabilities	(174)	(25)	(199)	—
Trade and other payables, accruals and deferred income	(1 026)	(67)	(1 093)	(7)
Employee benefits and provisions	(360)	(2)	(362)	(3)
Deferred taxes	(722)	—	(722)	—
Other liabilities	(126)	—	(126)	(2)
<b>Liabilities directly associated with assets held for sale</b>	<b>(2 408)</b>	<b>(94)</b>	<b>(2 502)</b>	<b>(12)</b>
<b>Net assets held for sale</b>	<b>6 182</b>	<b>144</b>	<b>6 326</b>	<b>345</b>

## 2.5 Acquisitions of non-controlling interests

### Acquisitions and disposals of non-controlling interests

The Group treats transactions with non-controlling interests that do not result in loss of control as transactions with equity holders in their capacity as equity holders. For purchases of shares from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. The same principle is applied to disposals of shares to non-controlling interests.

As in the previous year, the Group increased its ownership interests in certain subsidiaries, the most significant one was in China in 2018 as in 2017. For China and other countries, the consideration paid to non-controlling interests in cash amounted to CHF 528 million (2017: CHF 526 million) and the decrease of non-controlling interests amounted to CHF 162 million (2017: CHF 152 million). Part of the consideration was recorded as a liability in previous years for CHF 510 million (2017: CHF 518 million). The equity attributable to shareholders of the parent was positively impacted by CHF 144 million (2017: CHF 144 million).

### 3. Analyses by segment

Nestlé is organized into three geographic zones and several globally managed businesses. The Company manufactures and distributes food and beverage products in the following categories: powdered and liquid beverages, water, milk products and ice cream, prepared dishes and cooking aids, confectionery and petcare. Nestlé also manufactures and distributes nutritional science products through its globally managed business Nestlé Health Science, and science-based solutions that contribute to the health of skin, hair and nails through Nestlé Skin Health. The Group has factories in 85 countries and sales in 190 countries and employs around 308 000 people.

#### Segment reporting

Operating segments reflect the Group's management structure and the way financial information is regularly reviewed by the Group's chief operating decision maker (CODM), which is defined as the Executive Board.

The CODM considers the business from both a geographic and product perspective, through three geographic Zones and several Globally Managed Businesses (GMB). Zones and GMB that meet the quantitative threshold of 10% of total sales or trading operating profit for all operating segments, are presented on a stand-alone basis as reportable segments. Even though it does not meet the reporting threshold, Nestlé Waters is reported separately for consistency with long-standing practice of the Group. Therefore, the Group's reportable operating segments are:

- Zone Europe, Middle East and North Africa (EMENA);
- Zone Americas (AMS);
- Zone Asia, Oceania and sub-Saharan Africa (AOA);
- Nestlé Waters.

Other business activities and operating segments, including GMB that do not meet the threshold, like Nespresso, Nestlé Health Science and Nestlé Skin Health, are combined and presented in Other businesses. Following a change of business structure, effective as from January 1, 2018, Nestlé Nutrition has been managed as a Regionally Managed Business instead of a Globally Managed Business and consequently reported as part of Zone EMENA, Zone AMS and Zone AOA while Gerber Life Insurance is reported under Other businesses. In addition, the presentation of invested capital by operating segment has been modified with the goodwill related to the PetCare business reclassified from Unallocated items to the Zones following a modification on how it is reported to the Executive Board. 2017 comparatives have been adjusted.

As some operating segments represent geographic Zones, information by product is also disclosed. The seven product groups that are disclosed represent the highest categories of products that are followed internally.

Segment results (Trading operating profit) represent the contribution of the different segments to central overheads, unallocated research and development costs and the trading operating profit of the Group. Specific corporate expenses as well as specific research and development costs are allocated to the corresponding segments. In addition to the Trading operating profit, Underlying Trading operating profit is shown on a voluntary basis because it is one of the key metrics used by Group Management to monitor the Group.

Depreciation and amortization includes depreciation of property, plant and equipment (including right of use assets under leases) and amortization of intangible assets.

No segment assets and liabilities are regularly provided to the CODM to assess segment performance or to allocate resources and therefore segment assets and liabilities are not disclosed. However the Group discloses the invested capital, goodwill and intangible assets by segment and by product on a voluntary basis.

Invested capital comprises property, plant and equipment, trade receivables and some other receivables, assets held for sale, inventories, prepayments and accrued income as well as specific financial assets associated to the segments, less trade payables and some other payables, liabilities directly associated with assets held for sale, non-current other payables as well as accruals and deferred income.

Goodwill and intangible assets are not included in invested capital since the amounts recognized are not comparable between segments due to differences in the intensity of acquisition activity and changes in accounting standards which were applicable at various points in time when the Group undertook significant acquisitions. Nevertheless, an allocation of goodwill and intangible assets by segment and product and the related impairment expenses are provided.

Inter-segment eliminations represent inter-company balances between the different segments.

Invested capital and goodwill and intangible assets by segment represent the situation at the end of the year, while the figures by product represent the annual average, as this provides a better indication of the level of invested capital.

Capital additions represent the total cost incurred to acquire property, plant and equipment (including right of use assets under leases), intangible assets and goodwill, including those arising from business combinations. Since 2018 and the introduction of IFRS 16, capital expenditure representing the investment in property, plant and equipment only are not disclosed anymore.

Unallocated items represent items whose allocation to a segment or product would be arbitrary. They mainly comprise:

- corporate expenses and related assets/liabilities;
- research and development costs and related assets/liabilities; and
- some goodwill and intangible assets.

#### **Revenue**

Sales represent amounts received and receivable from third parties for goods supplied to the customers and for services rendered. Sales are recognized when control of the goods has transferred to the customer, which is mainly upon arrival at the customer.

Revenue is measured as the amount of consideration which the Group expects to receive, based on the list price applicable to a given distribution channel after deduction of returns, sales taxes, pricing allowances, other trade discounts and couponing and price promotions to consumers. The level of discounts, allowances and promotional rebates is recognized as a deduction from revenue at the time that the related sales are recognized or when the rebate is offered to the customer (or consumer if applicable). They are estimated using judgements based on historical experience and the specific terms of the agreements with the customers. Payments made to customers for commercial services received are expensed. The Group has a range of credit terms which are typically short term, in line with market practice and without any financing component.



The Group does not generally accept sales returns, except in limited cases mainly in the Infant Nutrition business. Historical experience is used to estimate such returns at the time of sale. No asset is recognized for products to be recoverable from these returns, as they are not anticipated to be resold.

Trade assets (mainly coffee machines, water coolers and freezers) may be sold or leased separately to customers.

Arrangements where the Group transfers substantially all the risks and rewards incidental to ownership to the customer are treated as finance lease arrangements. Operating lease revenue for trade asset rentals is recognized on a straight-line basis over the lease term.

Sales are disaggregated by product group and geography in Notes 3.2 and 3.4.

Other revenue is primarily sales-based royalties and license fees from third parties which have been earned during the period.

### 3.1 Operating segments

#### Revenue and results

In millions of CHF

							2018
	Sales <sup>(a)</sup>	Underlying Trading operating profit <sup>(b)</sup>	Trading operating profit	Net other trading income/(expenses) <sup>(c)</sup>	of which impairment of property, plant and equipment	of which restructuring costs	Depreciation and amortization
Zone EMENA	18 932	3 590	3 251	(339)	(41)	(250)	(769)
Zone AMS	30 975	6 521	6 078	(443)	(117)	(142)	(1 033)
Zone AOA	21 331	4 866	4 514	(352)	(215)	(70)	(771)
Nestlé Waters	7 878	865	683	(182)	(54)	(96)	(435)
Other businesses <sup>(d)</sup>	12 323	2 036	1 794	(242)	(59)	(14)	(716)
Unallocated items <sup>(e)</sup>	—	(2 357)	(2 531)	(174)	(14)	(79)	(200)
<b>Total</b>	<b>91 439</b>	<b>15 521</b>	<b>13 789</b>	<b>(1 732)</b>	<b>(500)</b>	<b>(651)</b>	<b>(3 924)</b>

In millions of CHF

							2017 *
	Sales <sup>(a)</sup>	Underlying Trading operating profit <sup>(b)</sup>	Trading operating profit	Net other trading income/(expenses) <sup>(c)</sup>	of which impairment of property, plant and equipment	of which restructuring costs	Depreciation and amortization
Zone EMENA	18 478	3 354	3 111	(243)	(77)	(118)	(740)
Zone AMS	31 255	6 425	6 062	(363)	(59)	(181)	(1 037)
Zone AOA	20 878	4 644	4 468	(176)	(99)	(33)	(782)
Nestlé Waters	7 882	1 022	958	(64)	(30)	(21)	(428)
Other businesses <sup>(d)</sup>	11 097	1 763	1 309	(454)	(119)	(286)	(729)
Unallocated items <sup>(e)</sup>	—	(2 437)	(2 631)	(194)	(7)	(34)	(218)
<b>Total</b>	<b>89 590</b>	<b>14 771</b>	<b>13 277</b>	<b>(1 494)</b>	<b>(391)</b>	<b>(673)</b>	<b>(3 934)</b>

\* 2017 adjusted following changes of business structure, effective as from January 1, 2018, mainly Nestlé Nutrition (NN) from a Globally Managed to a Regionally Managed Business transferred to the Zones and Other businesses. 2017 restated figures include also other modifications as described in Note 1 Accounting policies and related impacts in Note 22.

(a) Inter-segment sales are not significant.

(b) Trading operating profit before Net other trading income/(expenses).

(c) Included in Trading operating profit.

(d) Mainly Nespresso, Nestlé Health Science, Nestlé Skin Health and Gerber Life Insurance.

(e) Refer to the Segment reporting accounting policies above for the definition of unallocated items.

## Invested capital and other information

In millions of CHF

					2018
	Invested capital	Goodwill and intangible assets	Impairment of goodwill and non-commercialized intangible assets	Impairment of intangible assets	Capital additions <sup>(c)</sup>
Zone EMENA	6 696	5 105	(138)	(16)	1 422
Zone AMS	10 051	23 849	(43)	(14)	7 356
Zone AOA	4 930	13 258	(297)	—	1 103
Nestlé Waters	3 382	1 481	(59)	(3)	884
Other businesses <sup>(a)</sup>	2 792	12 822	(89)	(53)	3 593
Unallocated items <sup>(b)</sup> and inter-segment eliminations	1 572	623	—	(36)	353
<b>Total</b>	<b>29 423</b>	<b>57 138</b>	<b>(626)</b>	<b>(122)</b>	<b>14 711</b>

In millions of CHF

					2017 *
	Invested capital	Goodwill and intangible assets	Impairment of goodwill and non-commercialized intangible assets	Impairment of intangible assets	Capital additions <sup>(c)</sup>
Zone EMENA	7 376	4 834	—	(30)	1 021
Zone AMS	9 957	18 067	—	—	1 941
Zone AOA	5 702	13 588	(227)	—	770
Nestlé Waters	3 026	1 475	(3)	(2)	702
Other businesses <sup>(a)</sup>	4 431	11 886	(2 809)	(2)	1 712
Unallocated items <sup>(b)</sup> and inter-segment eliminations	1 459	511	—	(118)	423
<b>Total</b>	<b>31 951</b>	<b>50 361</b>	<b>(3 039)</b>	<b>(152)</b>	<b>6 569</b>

\* 2017 adjusted following changes of business structure, effective as from January 1, 2018, mainly Nestlé Nutrition (NN) from a Globally Managed to a Regionally Managed Business transferred to the Zones and Other businesses. In addition, the presentation of invested capital by operating segment has been modified with the goodwill related to the PetCare business reclassified from Unallocated items to the Zones following a modification on how it is reported to the Executive Board. 2017 restated figures include also other modifications as described in Note 1 Accounting policies and related impacts in Note 22.

(a) Mainly Nespresso, Nestlé Health Science, Nestlé Skin Health and Gerber Life Insurance.

(b) Refer to the Segment reporting accounting policies above for the definition of unallocated items.

(c) Since 2018 and the introduction of IFRS 16, capital expenditure is not disclosed anymore.

### 3.2 Products

#### Revenue and results

In millions of CHF

				2018		
	Sales	Underlying Trading operating profit <sup>(a)</sup>	Trading operating profit	Net other trading income/(expenses) <sup>(b)</sup>	of which impairment of property, plant and equipment	of which restructuring costs
Powdered and Liquid Beverages	21 620	4 898	4 572	(326)	(108)	(100)
Water	7 409	775	603	(172)	(49)	(92)
Milk products and Ice cream	13 217	2 521	2 412	(109)	(21)	(42)
Nutrition and Health Science	16 188	3 337	2 826	(511)	(239)	(79)
Prepared dishes and cooking aids	12 065	2 176	2 044	(132)	(27)	(83)
Confectionery	8 123	1 403	1 291	(112)	(17)	(50)
PetCare	12 817	2 768	2 572	(196)	(25)	(126)
Unallocated items <sup>(c)</sup>	—	(2 357)	(2 531)	(174)	(14)	(79)
<b>Total</b>	<b>91 439</b>	<b>15 521</b>	<b>13 789</b>	<b>(1 732)</b>	<b>(500)</b>	<b>(651)</b>

In millions of CHF

				2017 *		
	Sales	Underlying Trading operating profit <sup>(a)</sup>	Trading operating profit	Net other trading income/(expenses) <sup>(b)</sup>	of which impairment of property, plant and equipment	of which restructuring costs
Powdered and Liquid Beverages	20 388	4 478	4 319	(159)	(50)	(56)
Water	7 382	978	915	(63)	(30)	(20)
Milk products and Ice cream	13 430	2 515	2 333	(182)	(75)	(77)
Nutrition and Health Science	15 247	3 063	2 539	(524)	(134)	(314)
Prepared dishes and cooking aids	11 938	2 108	1 938	(170)	(47)	(77)
Confectionery	8 799	1 393	1 243	(150)	(39)	(55)
PetCare	12 406	2 673	2 621	(52)	(9)	(40)
Unallocated items <sup>(c)</sup>	—	(2 437)	(2 631)	(194)	(7)	(34)
<b>Total</b>	<b>89 590</b>	<b>14 771</b>	<b>13 277</b>	<b>(1 494)</b>	<b>(391)</b>	<b>(673)</b>

\* 2017 adjusted following changes of business structure, effective as from January 1, 2018, mainly Nestlé Nutrition (NN) from a Globally Managed to a Regionally Managed Business transferred to the Zones and Other businesses. 2017 restated figures include also other modifications as described in Note 1 Accounting policies and related impacts in Note 22.

(a) Trading operating profit before Net other trading income/(expenses).

(b) Included in Trading operating profit.

(c) Refer to the Segment reporting accounting policies above for the definition of unallocated items.

## Invested capital and other information

In millions of CHF

				2018
	Invested capital	Goodwill and intangible assets	Impairment of goodwill and non-commercialized intangible assets	Impairment of intangible assets
Powdered and Liquid Beverages	6 745	4 224	(25)	(21)
Water	3 199	1 461	(59)	(3)
Milk products and Ice cream	3 585	2 886	(22)	—
Nutrition and Health Science	6 732	25 762	(89)	(39)
Prepared dishes and cooking aids	3 299	5 560	(134)	(21)
Confectionery	2 449	1 623	(250)	—
PetCare	4 349	10 172	—	(2)
Unallocated items <sup>(a)</sup> and intra-group eliminations	1 916	1 968	(47)	(36)
<b>Total</b>	<b>32 274</b>	<b>53 656</b>	<b>(626)</b>	<b>(122)</b>

In millions of CHF

				2017 *
	Invested capital	Goodwill and intangible assets	Impairment of goodwill and non-commercialized intangible assets	Impairment of intangible assets
Powdered and Liquid Beverages	6 411	831	(3)	—
Water	2 900	1 502	(3)	(2)
Milk products and Ice cream	3 715	3 073	(137)	(1)
Nutrition and Health Science	7 352	27 191	(2 806)	(2)
Prepared dishes and cooking aids	3 388	5 590	—	(26)
Confectionery	3 207	1 749	(90)	(3)
PetCare	4 094	10 095	—	—
Unallocated items <sup>(a)</sup> and intra-group eliminations	1 587	1 900	—	(118)
<b>Total</b>	<b>32 654</b>	<b>51 931</b>	<b>(3 039)</b>	<b>(152)</b>

\* 2017 adjusted following changes of business structure, effective as from January 1, 2018, mainly Nestlé Nutrition (NN) from a Globally Managed to a Regionally Managed Business transferred to the Zones and Other businesses. 2017 restated figures include also other modifications as described in Note 1 Accounting policies and related impacts in Note 22.

(a) Refer to the Segment reporting accounting policies above for the definition of unallocated items.

### 3.3a Reconciliation from Underlying Trading operating profit to profit before taxes, associates and joint ventures

In millions of CHF

	2018	2017
<b>Underlying Trading operating profit <sup>(a)</sup></b>	<b>15 521</b>	<b>14 771</b>
Net other trading income/(expenses)	(1 732)	(1 494)
<b>Trading operating profit</b>	<b>13 789</b>	<b>13 277</b>
Impairment of goodwill and non-commercialized intangible assets	(626)	(3 039)
Net other operating income/(expenses) excluding impairment of goodwill and non-commercialized intangible assets	589	(82)
<b>Operating profit</b>	<b>13 752</b>	<b>10 156</b>
Net financial income/(expense)	(761)	(696)
<b>Profit before taxes, associates and joint ventures</b>	<b>12 991</b>	<b>9 460</b>

(a) Trading operating profit before Net other trading income/(expenses).

### 3.3b Reconciliation from invested capital to total assets

In millions of CHF

	2018	2017
Invested capital as per Note 3.1	29 423	31 951
Liabilities included in invested capital	24 230	24 329
<b>Subtotal</b>	<b>53 653</b>	<b>56 280</b>
Intangible assets and goodwill as per Note 3.1 <sup>(a)</sup>	57 138	50 361
Other assets	26 224	26 569
<b>Total assets</b>	<b>137 015</b>	<b>133 210</b>

(a) Including Intangible assets and goodwill classified as assets held for sale of CHF 6802 million (2017: CHF nil), see Note 2.4.

### 3.4 Disaggregation of sales by geographic area (country and type of market)

The Group disaggregates revenue from the sale of goods by major product group as shown in Note 3.2. Disaggregation of sales by geographic area is based on customer location and is therefore not a view by management responsibility as disclosed by operating segments in Note 3.1.

In millions of CHF

	2018	2017
<b>EMENA</b>	<b>26 890</b>	<b>26 095</b>
France	4 561	4 426
United Kingdom	2 930	2 703
Germany	2 752	2 681
Italy	1 819	1 781
Russia	1 595	1 620
Spain	1 552	1 525
Switzerland	1 241	1 262
Rest of EMENA	10 440	10 097
<b>AMS</b>	<b>41 063</b>	<b>40 541</b>
United States	27 618	26 521
Brazil	3 683	4 317
Mexico	2 813	2 722
Canada	2 064	1 943
Rest of AMS	4 885	5 038
<b>AOA</b>	<b>23 486</b>	<b>22 954</b>
Greater China Region	7 004	6 578
Philippines	2 476	2 571
Japan	1 782	1 751
Australia	1 552	1 569
India	1 529	1 457
Rest of AOA	9 143	9 028
<b>Total sales</b>	<b>91 439</b>	<b>89 590</b>
of which developed markets	53 040	51 168
of which emerging markets	38 399	38 422

### 3.5 Geography

Sales and non-current assets in Switzerland and countries which individually represent at least 10% of the Group sales or 10% of the Group non-current assets are disclosed separately.

The analysis of sales is stated by customer location.

Non-current assets relate to property, plant and equipment (including right of use assets under leases), intangible assets and goodwill. Property, plant and equipment and intangible assets are attributed to the country of their legal owner. Goodwill is attributed to the countries of the subsidiaries where the related acquired business is operated.

In millions of CHF

	2018		2017	
	Sales	Non-current assets	Sales	Non-current assets
USA	27 618	32 925	26 521	27 005
Switzerland	1 241	10 847	1 262	15 841
Rest of the world	62 580	36 520	61 807	38 292
<b>Total</b>	<b>91 439</b>	<b>80 292</b>	<b>89 590</b>	<b>81 138</b>

### 3.6 Customers

There is no single customer amounting to 10% or more of Group's revenues.



## 4. Net other trading and operating income/(expenses)

### Other trading income/(expenses)

These comprise restructuring costs, impairment of property, plant and equipment and intangible assets (other than goodwill and non-commercialized intangible assets), litigations and onerous contracts, result on disposal of property, plant and equipment, and specific other income and expenses that fall within the control of operating segments.

Restructuring costs are restricted to dismissal indemnities and employee benefits paid to terminated employees upon the reorganization of a business or function. It does not include dismissal indemnities paid for normal attrition, poor performance, professional misconduct, etc.

### Other operating income/(expenses)

These comprise impairment of goodwill and non-commercialized intangible assets, results on disposals of businesses (including impairment and subsequent remeasurement of businesses classified as held for sale, as well as other directly related disposal costs like restructuring costs directly linked to businesses disposed of and legal, advisory and other professional fees), acquisition-related costs, the effect of the hyperinflation accounting, and income and expenses that fall beyond the control of operating segments and relate to events such as natural disasters and expropriation of assets.

### 4.1 Net other trading income/(expenses)

In millions of CHF

	Notes	2018	2017
<b>Other trading income</b>		<b>37</b>	<b>112</b>
Restructuring costs		(651)	(673)
Impairment of property, plant and equipment and intangible assets <sup>(a)</sup>	8/9	(622)	(543)
Litigations and onerous contracts		(438)	(302)
Miscellaneous trading expenses		(58)	(88)
<b>Other trading expenses</b>		<b>(1 769)</b>	<b>(1 606)</b>
<b>Total net other trading income/(expenses)</b>		<b>(1 732)</b>	<b>(1 494)</b>

(a) Excluding non-commercialized intangible assets.

#### 4. Net other trading and operating income/(expenses)

### 4.2 Net other operating income/(expenses)

In millions of CHF

	Notes	2018	2017
Profit on disposal of businesses	2	2 344	60
Miscellaneous operating income		191	319
<b>Other operating income</b>		<b>2 535</b>	<b>379</b>
Loss on disposal of businesses	2	(1 658)	(192)
Impairment of goodwill and non-commercialized intangible assets	9	(626)	(3 039)
Miscellaneous operating expenses		(288)	(269)
<b>Other operating expenses</b>		<b>(2 572)</b>	<b>(3 500)</b>
<b>Total net other operating income/(expenses)</b>		<b>(37)</b>	<b>(3 121)</b>

### 5. Net financial income/(expense)

Net financial income/(expense) includes net financing cost of net financial debt and net interest income/(expense) on defined benefit plans.

Net financing cost comprises the interest income earned on cash and cash equivalents and short-term investments, as well as the interest expense on financial debt (including leases), collectively termed "net financial debt" (see Note 16.5). These headings also include other income and expense such as exchange differences on net financial debt and results on related foreign currency and interest rate hedging instruments. Certain borrowing costs are capitalized as explained under the section on Property, plant and equipment.

In millions of CHF

	Notes	2018	2017
Interest income		212	122
Interest expense		(820)	(612)
<b>Net financing cost of net financial debt</b>		<b>(608)</b>	<b>(490)</b>
Interest income on defined benefit plans		35	30
Interest expense on defined benefit plans		(186)	(231)
<b>Net interest income/(expense) on defined benefit plans</b>	10	<b>(151)</b>	<b>(201)</b>
Other		(2)	(5)
<b>Net financial income/(expense)</b>		<b>(761)</b>	<b>(696)</b>

## 6. Inventories

Raw materials and purchased finished goods are valued at the lower of purchase cost calculated using the FIFO (first-in, first-out) method and net realizable value. Work in progress, sundry supplies and manufactured finished goods are valued at the lower of their weighted average cost and net realizable value. The cost of inventories includes the gains/losses on cash flow hedges for the purchase of raw materials and finished goods.

In millions of CHF

	2018	2017
Raw materials, work in progress and sundry supplies	3 889	3 864
Finished goods	5 435	5 531
Allowance for write-down to net realizable value	(199)	(218)
	<b>9 125</b>	<b>9 177</b>

Inventories amounting to CHF 260 million (2017: CHF 289 million) are pledged as security for financial liabilities.

## 7. Trade and other receivables/payables

### 7.1 Trade and other receivables

#### Recognition and measurement

Trade and other receivables are recognized initially at their transaction price and subsequently measured at amortized cost less loss allowances.

#### Expected credit losses

The Group applies the IFRS 9 simplified approach to measuring expected credit losses (ECLs) for trade receivables at an amount equal to lifetime ECLs. The ECLs on trade receivables are calculated based on actual credit loss experience over the preceding three to five years on the total balance of non-credit impaired trade receivables. The Group's credit loss experience has shown that aging of receivable balances is primarily due to negotiations about variable consideration.

The Group considers a trade receivable to be credit impaired when one or more detrimental events have occurred such as:

- significant financial difficulty of the customer; or
- it is becoming probable that the customer will enter bankruptcy or other financial reorganization.

Impairment losses related to trade and other receivables are not presented separately in the consolidated income statement but are reported under the heading Marketing and administration expenses.

## 7. Trade and other receivables/payables

In millions of CHF

	2018			2017		
	Gross carrying amount	Expected credit loss allowance	Total	Gross carrying amount	Expected credit loss allowance	Total
Trade receivables (not credit impaired)	9 141	(50)	9 091	9 814	(87)	9 727
Other receivables (not credit impaired)	2 098	(41)	2 057	2 334	(34)	2 300
Credit impaired trade and other receivables	239	(220)	19	236	(227)	9
<b>Total</b>	<b>11 478</b>	<b>(311)</b>	<b>11 167</b>	<b>12 384</b>	<b>(348)</b>	<b>12 036</b>

The five major customers represent 12% (2017: 12%) of trade and other receivables, none of them individually exceeding 6% (2017: 7%).

Based on the historic trend and expected performance of the customers, the Group believes that the above expected credit loss allowance sufficiently covers the risk of default.

### 7.2 Trade and other payables by type

In millions of CHF

	2018	2017
<b>Due within one year</b>		
Trade payables	13 045	12 890
Social security and sundry taxes and levies	1 934	2 282
Other payables	2 821	3 692
	<b>17 800</b>	<b>18 864</b>

## 8. Property, plant and equipment

Property, plant and equipment comprises owned and leased assets.

In millions of CHF			
	Notes	2018	2017
Property, plant and equipment – owned	8.1	26 837	27 666
Right-of-use assets – leased	8.2b	3 119	3 111
		<b>29 956</b>	<b>30 777</b>

### 8.1 Owned assets

Owned property, plant and equipment are shown on the balance sheet at their historical cost.

Depreciation is assessed on components that have homogenous useful lives by using the straight-line method so as to depreciate the initial cost down to the residual value over the estimated useful lives. The residual values are 30% on head offices and nil for all other asset types. The useful lives are as follows:

Buildings	20–40 years
Machinery and equipment	10–25 years
Tools, furniture, information technology and sundry equipment	3–15 years
Vehicles	3–10 years

Land is not depreciated.

Useful lives, components and residual amounts are reviewed annually. Such a review takes into consideration the nature of the assets, their intended use including but not limited to the closure of facilities and the evolution of the technology and competitive pressures that may lead to technical obsolescence.

Depreciation of property, plant and equipment is allocated to the appropriate headings of expenses by function in the income statement.

Borrowing costs incurred during the course of construction are capitalized if the assets under construction are significant and if their construction requires a substantial period to complete (typically more than one year). The capitalization rate is determined on the basis of the short-term borrowing rate for the period of construction.

Government grants are recognized as deferred income which is released to the income statement over the useful life of the related assets.

## 8. Property, plant and equipment

In millions of CHF

	Land and buildings	Machinery and equipment	Tools, furniture and other equipment	Vehicles	Total
<b>Gross value</b>					
At January 1, 2018	17 841	31 103	8 013	615	57 572
Currency retranslations	(617)	(980)	(160)	(5)	(1 762)
Capital expenditure <sup>(a)</sup>	1 025	2 013	782	40	3 860
Disposals	(135)	(592)	(466)	(88)	(1 281)
Reclassification (to)/from held for sale	(387)	(260)	(85)	(2)	(734)
Modification of the scope of consolidation	20	9	(15)	—	14
<b>At December 31, 2018</b>	<b>17 747</b>	<b>31 293</b>	<b>8 069</b>	<b>560</b>	<b>57 669</b>
<b>Accumulated depreciation and impairments</b>					
At January 1, 2018	(6 124)	(17 642)	(5 721)	(419)	(29 906)
Currency retranslations	225	499	162	1	887
Depreciation	(484)	(1 581)	(742)	(51)	(2 858)
Impairments	(138)	(269)	(18)	(7)	(432)
Disposals	74	536	438	75	1 123
Reclassification to/(from) held for sale	159	102	50	1	312
Modification of the scope of consolidation	10	21	10	1	42
<b>At December 31, 2018</b>	<b>(6 278)</b>	<b>(18 334)</b>	<b>(5 821)</b>	<b>(399)</b>	<b>(30 832)</b>
<b>Net at December 31, 2018</b>	<b>11 469</b>	<b>12 959</b>	<b>2 248</b>	<b>161</b>	<b>26 837</b>
<b>Gross value</b>					
At January 1, 2017	17 169	30 148	7 644	715	55 676
Currency retranslations	(93)	(16)	110	(26)	(25)
Capital expenditure <sup>(a)</sup>	1 033	2 058	799	44	3 934
Disposals	(95)	(498)	(494)	(101)	(1 188)
Reclassification (to)/from held for sale	(215)	(568)	(47)	(17)	(847)
Modification of the scope of consolidation	42	(21)	1	—	22
<b>At December 31, 2017</b>	<b>17 841</b>	<b>31 103</b>	<b>8 013</b>	<b>615</b>	<b>57 572</b>
<b>Accumulated depreciation and impairments</b>					
At January 1, 2017	(5 621)	(16 704)	(5 469)	(461)	(28 255)
Currency retranslations	(45)	(51)	(23)	19	(100)
Depreciation	(466)	(1 581)	(724)	(65)	(2 836)
Impairments	(166)	(177)	(17)	(6)	(366)
Disposals	63	454	474	83	1 074
Reclassification to/(from) held for sale	109	400	35	11	555
Modification of the scope of consolidation	2	17	3	—	22
<b>At December 31, 2017</b>	<b>(6 124)</b>	<b>(17 642)</b>	<b>(5 721)</b>	<b>(419)</b>	<b>(29 906)</b>
<b>Net at December 31, 2017</b>	<b>11 717</b>	<b>13 461</b>	<b>2 292</b>	<b>196</b>	<b>27 666</b>

(a) Including borrowing costs.

At December 31, 2018, property, plant and equipment include CHF 1528 million of assets under construction (2017: CHF 938 million). Net property, plant and equipment of CHF 208 million are pledged as security for financial liabilities (2017: CHF 291 million).

At December 31, 2018, the Group was committed to expenditure amounting to CHF 797 million (2017: CHF 527 million).

#### **Impairment of property, plant and equipment**

Reviews of the carrying amount of the Group's property, plant and equipment are performed when there is an indication of impairment. An indicator could be unfavorable development of a business under competitive pressures or severe economic slowdown in a given market as well as reorganization of the operations to leverage their scale.

In assessing value in use, the estimated future cash flows are discounted to their present value, based on the time value of money and the risks specific to the country where the assets are located. The risks specific to the asset are included in the determination of the cash flows.

Impairment of property, plant and equipment arises mainly from the plans to optimize industrial manufacturing capacities by closing or selling inefficient production facilities.

### **8.2 Leases – Group as a lessee**

The Group assesses whether a contract is or contains a lease at inception of the contract. This assessment involves the exercise of judgement about whether it depends on a specified asset, whether the Group obtains substantially all the economic benefits from the use of that asset, and whether the Group has the right to direct the use of the asset.

The Group recognizes a right-of-use (ROU) asset and a lease liability at the lease commencement date, except for short-term leases of 12 months or less which are expensed in the income statement on a straight-line basis over the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses an incremental borrowing rate specific to the country, term and currency of the contract. Lease payments can include fixed payments; variable payments that depend on an index or rate known at the commencement date; and extension option payments or purchase options, if the Group is reasonably certain to exercise. The lease liability is subsequently measured at amortized cost using the effective interest rate method and remeasured (with a corresponding adjustment to the related ROU asset) when there is a change in future lease payments in case of renegotiation, changes of an index or rate or in case of reassessment of options.

At inception, the ROU asset comprises the initial lease liability, initial direct costs and the obligations to refurbish the asset, less any incentives granted by the lessors. The ROU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset. The ROU asset is subject to testing for impairment if there is an indicator for impairment, as for owned assets.

ROU assets are included in the heading Property, plant and equipment, and the lease liability is included in the headings current and non-current Financial debt.

**8.2a Description of lease activities****Real estate leases**

The Group leases land and buildings for its office and warehouse space and retail stores. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leases are typically made for a fixed period of 5–15 years and may include extension options which provide operational flexibility. If the Group exercised all extension options not currently included in the lease liability, the additional payments would amount to CHF 0.8 billion (undiscounted) at December 31, 2018.

**Vehicles leases**

The Group leases trucks for distribution in specific businesses and cars for management and sales functions. The average contract duration is 6 years for trucks and 3 years for cars.

**Other leases**

The Group also leases Machinery and equipment and Tools, furniture and other equipment that combined are insignificant to the total leased asset portfolio.

**8.2b Right-of-use assets**

In millions of CHF

	Land and buildings	Vehicles	Other	Total
<b>Net carrying amount</b>				
December 31, 2018	2 523	428	168	3 119
December 31, 2017	2 547	415	149	3 111
<b>Depreciation expense for the year ended</b>				
December 31, 2018	(512)	(156)	(78)	(746)
December 31, 2017	(512)	(141)	(71)	(724)
<b>Impairment for the year ended</b>				
December 31, 2018	(68)	—	—	(68)
December 31, 2017	(25)	—	—	(25)

Additions to right-of-use assets during 2018 were CHF 775 million (2017: CHF 916 million).

**8.2c Other lease disclosures**

A maturity analysis of lease liabilities is shown in note 12.2b.

The Group incurred interest expense on lease liabilities of CHF 98 million (2017: CHF 98 million). The expense relating to short-term leases and variable lease payments not included in the measurement of lease liabilities is not significant. The total cash outflow for leases amounted to CHF 994 million (2017: CHF 926 million).

There are no significant lease commitments for leases not commenced at year-end.



## 9. Goodwill and intangible assets

### Goodwill

Goodwill is initially recognized during a business combination (see Note 2). Subsequently it is measured at cost less impairment.

### Intangible assets

This heading includes intangible assets that are internally generated or acquired, either separately or in a business combination, when they are identifiable and can be reliably measured. Internally generated intangible assets (essentially management information system software) are capitalized provided that there is an identifiable asset that will be useful in generating future benefits in terms of savings, economies of scale, etc. Payments made to third parties in order to in-license or acquire intellectual property rights, compounds and products are capitalized as non-commercialized intangible assets, as they are separately identifiable and are expected to generate future benefits. Non-commercialized intangible assets are not amortized, but tested for impairment (see Impairment of goodwill and intangible assets below). Any impairment charge is recorded in the consolidated income statement under Other operating expenses. They are reclassified as commercialized intangible assets once development is complete, usually when approval for sales has been granted by the relevant regulatory authority.

Indefinite life intangible assets mainly comprise certain brands, trademarks, operating rights and intellectual property rights which can be renewed without significant cost and are supported by ongoing marketing activities. They are not amortized but tested for impairment annually or more frequently if an impairment indicator is triggered. The assessment of the classification of intangible assets as indefinite is reviewed annually.

Finite life intangible assets are amortized over the shorter of their contractual or useful economic lives. They comprise mainly management information systems, patents and rights to carry on an activity (e.g. exclusive rights to sell products or to perform a supply activity). Finite life intangible assets are amortized on a straight-line basis assuming a zero residual value: management information systems over a period ranging from 3 to 8 years; other finite intangible assets over the estimated useful life or the related contractual period, generally 5 to 20 years or longer, depending on specific circumstances. Useful lives and residual values are reviewed annually. Amortization of finite life intangible assets starts when they are available for use and is allocated to the appropriate headings of expenses by function in the income statement.

### Research and development

Internal research costs are charged to the income statement in the year in which they are incurred. Development costs are only recognized as assets on the balance sheet if all the recognition criteria set by IAS 38 – Intangible Assets are met before the products are launched on the market. Development costs are generally charged to the income statement in the year in which they are incurred due to uncertainties inherent in the development of new products because the expected future economic benefits cannot be reliably determined. As long as the products have not reached the market place, there is no reliable evidence that positive future cash flows would be obtained.

Capitalized development costs are subsequently accounted for as described in the section Intangible assets above.

## 9. Goodwill and intangible assets

In millions of CHF

	Goodwill	Brands and intellectual property rights	Operating rights and others	Management information systems	Total intangible assets	of which internally generated
<b>Gross value</b>						
At January 1, 2018	36 370	17 560	2 964	4 958	25 482	4 447
of which indefinite useful life	—	16 218	32	—	16 250	—
Currency retranslations	(272)	(228)	(21)	(81)	(330)	(79)
Expenditure	—	8	220	373	601	301
Disposals	—	(11)	(55)	(9)	(75)	(2)
Reclassification (to)/from held for sale	(3 107)	(5 926)	(1 326)	(108)	(7 360)	(2)
Modification of the scope of consolidation <sup>(a)</sup>	3 030	917	3 911	(79)	4 749	(84)
<b>At December 31, 2018</b>	<b>36 021</b>	<b>12 320</b>	<b>5 693</b>	<b>5 054</b>	<b>23 067</b>	<b>4 581</b>
of which indefinite useful life	—	12 239	4 700	—	16 939	—
of which non-commercialized intangible assets	—	24	219	—	243	—
<b>Accumulated amortization and impairments</b>						
At January 1, 2018	(6 624)	(435)	(544)	(3 888)	(4 867)	(3 561)
of which indefinite useful life	—	(52)	(10)	—	(62)	—
Currency retranslations	105	5	4	76	85	74
Amortization	—	(76)	(79)	(165)	(320)	(122)
Impairments <sup>(b)</sup>	(592)	(56)	(29)	(71)	(156)	(61)
Disposals	—	11	55	9	75	2
Reclassification to/(from) held for sale	2 773	426	232	74	732	—
Modification of the scope of consolidation	19	—	17	1	18	—
<b>At December 31, 2018</b>	<b>(4 319)</b>	<b>(125)</b>	<b>(344)</b>	<b>(3 964)</b>	<b>(4 433)</b>	<b>(3 668)</b>
of which indefinite useful life	—	(67)	—	—	(67)	—
of which non-commercialized intangible assets	—	(6)	(29)	—	(35)	—
<b>Net at December 31, 2018</b>	<b>31 702</b>	<b>12 195</b>	<b>5 349</b>	<b>1 090</b>	<b>18 634</b>	<b>913</b>
of which indefinite useful life	—	12 172	4 700	—	16 872	—
of which non-commercialized intangible assets	—	18	190	—	208	—

(a) Goodwill: acquisition of businesses amounts to CHF 3360 million and disposal of businesses to CHF 330 million.  
Operating rights and other: acquisition of businesses amounts to CHF 4930 million and disposal of businesses to CHF 1019 million.

(b) Of which CHF 34 million of non-commercialized intangible assets.

## 9. Goodwill and intangible assets

In millions of CHF

	Goodwill	Brands and intellectual property rights	Operating rights and others	Management information systems	Total intangible assets	of which internally generated
<b>Gross value</b>						
At January 1, 2017	36 654	17 447	2 848	4 486	24 781	4 049
of which indefinite useful life	—	16 200	33	—	16 233	—
Currency retranslations	(769)	(173)	(85)	9	(249)	18
Expenditure	—	86	214	469	769	384
Disposals	—	(9)	(49)	(5)	(63)	(2)
Reclassification (to)/from held for sale	—	—	—	(2)	(2)	(2)
Modification of the scope of consolidation <sup>(a)</sup>	485	209	36	1	246	—
<b>At December 31, 2017</b>	<b>36 370</b>	<b>17 560</b>	<b>2 964</b>	<b>4 958</b>	<b>25 482</b>	<b>4 447</b>
of which indefinite useful life	—	16 218	32	—	16 250	—
of which non-commercialized intangible assets	—	34	194	—	228	—
<b>Accumulated amortization and impairments</b>						
At January 1, 2017	(3 647)	(315)	(465)	(3 604)	(4 384)	(3 307)
of which indefinite useful life	—	(20)	(10)	—	(30)	—
Currency retranslations	56	(3)	3	(15)	(15)	(19)
Amortization	—	(88)	(132)	(154)	(374)	(120)
Impairments <sup>(b)</sup>	(3 033)	(37)	(1)	(120)	(158)	(118)
Disposals	—	8	49	4	61	2
Reclassification to/(from) held for sale	—	—	—	1	1	1
Modification of the scope of consolidation	—	—	2	—	2	—
<b>At December 31, 2017</b>	<b>(6 624)</b>	<b>(435)</b>	<b>(544)</b>	<b>(3 888)</b>	<b>(4 867)</b>	<b>(3 561)</b>
of which indefinite useful life	—	(52)	(10)	—	(62)	—
of which non-commercialized intangible assets	—	(6)	—	—	(6)	—
<b>Net at December 31, 2017</b>	<b>29 746</b>	<b>17 125</b>	<b>2 420</b>	<b>1 070</b>	<b>20 615</b>	<b>886</b>
of which indefinite useful life	—	16 166	22	—	16 188	—
of which non-commercialized intangible assets	—	28	194	—	222	—

(a) Goodwill: acquisition of businesses amounts to CHF 495 million and disposal of businesses to CHF 10 million.

(b) Of which CHF 6 million of non-commercialized intangible assets.

In addition to the above, the Group has entered into long-term agreements to in-license or acquire intellectual property or operating rights from some third parties or associates (related parties). If agreed objectives or performance targets are achieved, these agreements may require potential milestone payments and other payments by the Group, which may be capitalized as non-commercialized intangible assets (see accounting policy in Note 9 – Intangible assets).

As of December 31, 2018, the Group's committed payments (undiscounted and not risk-adjusted) and their estimated timing are:

In millions of CHF

	2018			2017		
	Unconditional commitments	Potential milestone payments	Total	Unconditional commitments	Potential milestone payments	Total
Within one year	55	47	102	2	85	87
In the second year	—	77	77	—	156	156
In the third and fourth year	—	40	40	—	284	284
Thereafter	—	726	726	—	1 198	1 198
<b>Total</b>	<b>55</b>	<b>890</b>	<b>945</b>	<b>2</b>	<b>1 723</b>	<b>1 725</b>
of which related parties	—	635	635	—	1 105	1 105

#### Impairment of goodwill and intangible assets (including non-commercialized intangible assets)

Goodwill and intangible assets with an indefinite life or not yet available for use are tested for impairment at least annually and when there is an indication of impairment. Finite life intangible assets are tested when there is an indication of impairment.

The annual impairment tests are performed at the same time each year and at the cash generating unit (CGU) level. The Group defines its CGU for goodwill impairment testing based on the way that it monitors and derives economic benefits from the acquired goodwill. For indefinite life intangible assets, the Group defines its CGU as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Finally, the CGU for impairment testing of non-commercialized intangible assets is defined at the level of the intangible asset itself. The impairment tests are performed by comparing the carrying value of the assets of these CGU with their recoverable amount, usually based on their value in use, which corresponds to their future projected cash flows discounted at an appropriate pre-tax rate of return. Usually, the cash flows correspond to estimates made by Group Management in financial plans and business strategies covering a period of five years after making adjustments to consider the assets in their current condition. They are then projected to perpetuity using a multiple which corresponds to a steady or declining growth rate. The Group assesses the uncertainty of these estimates by making sensitivity analyses. The discount rate reflects the current assessment of the time value of money and the risks specific to the CGU (essentially country risk). The business risk is included in the determination of the cash flows. Both the cash flows and the discount rates include inflation.

An impairment loss in respect of goodwill is never subsequently reversed.

## 9.1 Impairment

### 9.1.1 Impairment charge during the year

In 2018, there were various impairments of goodwill (predominantly in Zone AOA) and intangible assets. None of them were individually significant.

In 2017, the impairment charge mainly related to the Nestlé Skin Health goodwill CGU and other various non-significant impairments of goodwill (predominantly in Zone AOA) and intangible assets (predominantly in Unallocated items). For the Nestlé Skin Health CGU, a goodwill impairment charge of CHF 2799 million was recognized under the heading Other operating expenses in the income statement. The Nestlé Skin Health CGU goodwill is included in the Other businesses segment disclosed in Note 3.1.

### 9.1.2 Annual impairment tests

Impairment reviews have been conducted for more than 50 Cash Generating Units (CGU).

The following table sets out the key assumptions for those CGUs that have significant Goodwill or Intangible assets with an indefinite useful life allocated to them.

						2018
	Carrying amount	Period of cash flow projections	Annual sales growth	Annual margin evolution	Terminal growth rate	Pre-tax discount rate
<b>Goodwill CGU</b>						
PetCare Zone AMS	7 887	5 years	5% to 7%	Declining	2.7%	8.6%
Nutrition AOA <sup>(a)</sup>	5 964	5 years	2% to 5%	Stable	3.7%	10.3%
DSD for Frozen Pizza and Ice Cream – USA	2 509	5 years	0% to 1%	Improvement	1.7%	8.4%
<b>Subtotal</b>	<b>16 360</b>					
Other CGUs	15 342					
<b>Total Goodwill</b>	<b>31 702</b>					
<b>Intangible assets with indefinite useful life CGU</b>						
Nestlé Nutrition Worldwide <sup>(a)</sup>	5 677	5 years	2% to 4%	Improvement	3.4%	10.4%
Nestlé Starbucks North America	4 321	5 years	3% to 5%	Improvement	2.5%	8.1%
<b>Subtotal</b>	<b>9 998</b>					
Other CGUs	6 874					
<b>Total Intangible assets with indefinite useful life</b>	<b>16 872</b>					

(a) Following the reorganization of the Nutrition business from a GMB to a RMB in the Zones (see Note 3), the goodwill has been allocated to the respective operating segments. Only the goodwill in Zone AOA is significant.

						2017
	Carrying amount	Period of cash flow projections	Annual sales growth	Annual margin evolution	Terminal growth rate	Pre-tax discount rate
<b>Goodwill CGU</b>						
PetCare Zone AMS	7 812	5 years	2% to 4%	Declining	2.0%	9.0%
Wyeth Infant Nutrition	4 567	5 years	-1% to 6%	Stable	3.2%	8.0%
Nestlé Infant Nutrition	3 673	5 years	1% to 4%	Improvement	3.5%	11.6%
DSD for Frozen Pizza and Ice Cream – USA	2 485	5 years	-1% to 0%	Improvement	1.8%	8.7%
<b>Subtotal</b>	<b>18 537</b>					
Other CGUs	11 209					
<b>Total Goodwill</b>	<b>29 746</b>					
<b>Intangible assets with indefinite useful life CGU</b>						
Nestlé Skin Health	4 621	5 years	4% to 7%	Improvement	2.3%	8.7%
Wyeth Infant Nutrition	4 508	5 years	-1% to 6%	Stable	3.2%	8.0%
<b>Subtotal</b>	<b>9 129</b>					
Other CGUs	7 059					
<b>Total Intangible assets with indefinite useful life</b>	<b>16 188</b>					

For each significant CGU the recoverable amount is higher than its carrying amount. The recoverable amount has been determined based upon a value-in-use calculation. Cash flows have been projected over 5 years. They have been extrapolated using a steady or declining terminal growth rate and discounted at a pre-tax weighted average rate.

Finally, the following has been taken into account in the impairment tests:

- The pre-tax discount rates have been computed based on external sources of information.
- The cash flows for the first five years were based upon financial plans approved by Group Management which are consistent with the Group's approved strategy for this period. They are based on past performance and current initiatives.
- The terminal growth rates have been determined to reflect the long-term view of the nominal evolution of the business.

Management believes that no reasonably possible change in any of the above key assumptions would cause the CGU's recoverable amount to fall below the carrying value of the CGUs except for the Goodwill CGU DSD for Frozen Pizza and Ice Cream – USA for which the following changes in the material assumptions lead to a situation where the value in use equals the carrying amount:

	Sensitivity
Sales growth (CAGR)	Decrease by 360 basis points
Margin improvement	Decrease by 40 basis points
Terminal growth rate	Decrease by 100 basis points
Pre-tax discount rate	Increase by 110 basis points

## 10. Employee benefits

### 10.1 Employee remuneration

The Group's salaries of CHF 12 196 million (2017: CHF 12 350 million) and welfare expenses of CHF 4234 million (2017: CHF 4221 million) represent a total of CHF 16 430 million (2017: CHF 16 571 million). In addition, certain Group employees are eligible to long-term incentives in the form of equity compensation plans, for which the cost amounts to CHF 227 million (2017: CHF 247 million). Employee remuneration is allocated to the appropriate headings of expenses by function.

### 10.2 Post-employment benefits

The liabilities of the Group arising from defined benefit obligations, and the related current service cost, are determined using the projected unit credit method. Actuarial advice is provided both by external consultants and by actuaries employed by the Group. The actuarial assumptions used to calculate the defined benefit obligations vary according to the economic conditions of the country in which the plan is located. Such plans are either externally funded (in the form of independently administered funds) or unfunded. The deficit or excess of the fair value of plan assets over the present value of the defined benefit obligation is recognized as a liability or an asset on the balance sheet.

Pension cost charged to the income statement consists of service cost (current and past service cost, gains and losses arising from curtailment and settlement) and administration costs (other than costs of managing plan assets), which are allocated to the appropriate heading by function, and net interest expense or income, which is presented as part of net financial income/(expense). The actual return less interest income on plan assets, changes in actuarial assumptions, and differences between actuarial assumptions and what has actually occurred are reported in other comprehensive income.

Some benefits are also provided by defined contribution plans. Contributions to such plans are charged to the income statement as incurred.

Certain disclosures are presented by geographic area. The three regions disclosed are Europe, Middle East and North Africa (EMENA), Americas (AMS) and Asia, Oceania and sub-Saharan Africa (AOA). Each region includes the corresponding Zones as well as the portion of the GMB activity in that region.

### Pensions and retirement benefits

Apart from legally required social security arrangements, the majority of Group employees are eligible for benefits through pension plans in case of retirement, death in service, disability and in case of resignation. Those plans are either defined contribution plans or defined benefit plans based on pensionable remuneration and length of service. All pension plans comply with local tax and legal restrictions in their respective country, including funding obligations.

The Group manages its pension plans by geographic area and the major plans, classified as defined benefit plans under IAS 19, are located in EMENA (Switzerland, United Kingdom and Germany) and in AMS (USA). In accordance with applicable legal frameworks, these plans have Boards of Trustees or General Assemblies which are generally independent from the Group and are responsible for the management and governance of the plans.

In Switzerland, Nestlé's pension plan is a cash balance plan where contributions are expressed as a percentage of the pensionable salary. The pension plan guarantees the amount accrued on the members' savings accounts, as well as a minimum interest on those savings accounts. At retirement date, the savings accounts are converted into pensions. However, members may opt to receive a part of the pension as a lump sum. Increases of pensions in payment are granted on a discretionary basis by the Board of Trustees, subject to the financial situation of the plan. To be noted that there is also a defined benefit plan that has been closed to new entrants in 2013 and whose members below age 55 as of that date were transferred to the cash balance plan. This heritage plan is a hybrid between a cash balance plan and a plan based on a final pensionable salary. Finally, the Group has committed to make additional contributions up to a maximum of CHF 440 million, of which CHF 115 million had been contributed as at December 31, 2018, in order to mitigate the impact of changes in mortality and decrease in conversion rates applicable since July 1, 2018.

In the United Kingdom, Nestlé's pension plan is a hybrid arrangement combining a defined benefit career average section plus a defined contribution section. The defined benefit section was closed to new entrants during 2016. In the defined benefit section, from August 2017 onwards, members accrue a pension defined on their capped salary each year, plus defined contribution provision above the capped salary. Accrued pensions are automatically revalued according to inflation, subject to caps. Similarly, pensions in payment are increased annually in line with inflation, subject to caps as applicable. At retirement, there is a lump sum option. Finally, the funding of the shortfall of the Nestlé UK Pension Fund is defined on the basis of a triennial independent actuarial valuation in accordance with local regulations. As a result, an amount of GBP 86 million has been paid by Nestlé UK Ltd during the year in accordance with the agreed schedule of contributions. The undiscounted future payments after December 31, 2018, related to the shortfall amount to GBP 407 million (GBP 172 million between 2019 to 2020, GBP 86 million in 2021 and GBP 149 million in 2022).

Nestlé's pension plan in Germany is a cash balance plan, where members benefit from a guarantee on their savings accounts. Contributions to the plan are expressed as a percentage of the pensionable salary. Increases to pensions in payment are granted in accordance with legal requirements. There is also a heritage plan, based on final pensionable salary, which has been closed to new entrants in 2006.

In the USA, Nestlé's primary pension plan is non-contributory for the employees. The plan is a pension equity design, under which members earn pension credits each year based on a schedule related to the sum of their age and service with Nestlé. A member's benefit is the sum of the annual pension credits earned multiplied by an average earning payable as a lump sum. However, in lieu of the lump sum, members have the option of converting the benefit to a monthly pension annuity. The plan does not provide for automatic pension increases. This plan was closed to new entrants at the end of 2015. In 2018, Nestlé elected to contribute in advance the anticipated contributions of the years 2019–2021 in addition to 2018 for a total amount of USD 233 million to its US based defined benefit plans.

### **Post-employment medical benefits and other employee benefits**

Subsidiaries, principally in AMS, maintain medical benefit plans, classified as defined benefit plans under IAS 19, which cover eligible retired employees. The obligations for other employee benefits consist mainly of end of service indemnities, which do not have the character of pensions.



### **Risks related to defined benefit plans**

The main risks to which the Group is exposed in relation to operating defined benefit plans are:

- mortality risk: the assumptions adopted by the Group make allowance for future improvements in life expectancy. However, if life expectancy improves at a faster rate than assumed, this would result in greater payments from the plans and consequently increases in the plans' liabilities. In order to minimize this risk, mortality assumptions are reviewed on a regular basis.
- market and liquidity risks: these are the risks that the investments do not meet the expected returns over the medium to long-term. This also encompasses the mismatch between assets and liabilities. In order to minimize the risks, the structure of the portfolios is reviewed and asset-liability matching analyses are performed on a regular basis.

As certain of the Group's pension arrangements permit benefits to be adjusted in the case that downside risks emerge, therefore the Group does not always have full exposure to the risks described above.

### **Plan amendments and restructuring events**

Plans within the Group are regularly reviewed as to whether they are aligned with market practice in the local context. Should a review indicate that a plan needs to be changed, prior agreement with the local Board of Trustees or the General Assembly, the regulator and, if applicable, the members, is sought before implementing plan changes.

During the year, there were individually non-significant plan amendments and restructuring activities leading to curtailments and settlements. The related past service costs (income) of CHF 78 million have been recognized in the income statement primarily under Marketing and administration costs.

### **Asset-liability management and funding arrangement**

Plan trustees or General Assemblies are responsible for determining the mix of asset classes and target allocations of the Nestlé's plans with the support of investment advisors. Periodic reviews of the asset mix are made by mandating external consultants to perform asset liability matching analyses. Such analyses aim at comparing dynamically the fair value of assets and the liabilities in order to determine the most adequate strategic asset allocation.

The overall investment policy and strategy for the Group's funded defined benefit plans is guided by the objective of achieving an investment return which, together with the contributions paid, is sufficient to maintain reasonable control over the various funding risks of the plans. As those risks evolve with the development of capital markets and asset management activities, the Group addresses the assessment and control process of the major investment pension risks. In order to protect the Group's defined benefit plans funding ratio and to mitigate the financial risks, protective measures on the investment strategies are in force. To the extent possible, the risks are shared equally amongst the different stakeholders.

## 10.2a Reconciliation of assets and liabilities recognized in the balance sheet

In millions of CHF

	2018			2017		
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total
Present value of funded obligations	24 364	58	24 422	27 347	62	27 409
Fair value of plan assets	(22 625)	(33)	(22 658)	(24 656)	(35)	(24 691)
Excess of liabilities/(assets) over funded obligations	1 739	25	1 764	2 691	27	2 718
Present value of unfunded obligations	737	1 874	2 611	862	2 018	2 880
Unrecognized assets	29	—	29	23	—	23
<b>Net defined benefit liabilities/(assets)</b>	<b>2 505</b>	<b>1 899</b>	<b>4 404</b>	<b>3 576</b>	<b>2 045</b>	<b>5 621</b>
Other employee benefit liabilities			1 028			1 098
<b>Net liabilities</b>			<b>5 432</b>			<b>6 719</b>
Reflected in the balance sheet as follows:						
Employee benefit assets			(487)			(392)
Employee benefit liabilities			5 919			7 111
<b>Net liabilities</b>			<b>5 432</b>			<b>6 719</b>

## 10.2b Funding situation by geographic area of defined benefit plans

In millions of CHF

	2018				2017			
	EMENA	AMS	AOA	Total	EMENA	AMS	AOA	Total
Present value of funded obligations	18 201	4 703	1 518	24 422	20 425	5 247	1 737	27 409
Fair value of plan assets	(16 361)	(4 968)	(1 329)	(22 658)	(17 675)	(5 341)	(1 675)	(24 691)
Excess of liabilities/(assets) over funded obligations	1 840	(265)	189	1 764	2 750	(94)	62	2 718
Present value of unfunded obligations	377	1 920	314	2 611	472	2 082	326	2 880

**10.2c Movement in the present value of defined benefit obligations**

In millions of CHF

	2018			2017		
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total
<b>At January 1</b>	<b>28 209</b>	<b>2 080</b>	<b>30 289</b>	27 976	2 073	30 049
of which funded defined benefit plans	27 347	62	27 409	27 201	52	27 253
of which unfunded defined benefit plans	862	2 018	2 880	775	2 021	2 796
Currency retranslations	(572)	(103)	(675)	415	(76)	339
Service cost	680	30	710	689	52	741
of which current service cost	735	53	788	778	57	835
of which past service cost	(55)	(23)	(78)	(89)	(5)	(94)
Interest expense	595	99	694	649	111	760
Actuarial (gains)/losses	(1 872)	26	(1 846)	144	56	200
Benefits paid on funded defined benefit plans	(1 432)	(7)	(1 439)	(1 484)	(5)	(1 489)
Benefits paid on unfunded defined benefit plans	(58)	(162)	(220)	(73)	(129)	(202)
Modification of the scope of consolidation	(3)	(1)	(4)	(1)	(2)	(3)
Reclassification to/(from) held for sale	(211)	(30)	(241)	—	—	—
Transfer from/(to) defined contribution plans	(235)	—	(235)	(106)	—	(106)
<b>At December 31</b>	<b>25 101</b>	<b>1 932</b>	<b>27 033</b>	<b>28 209</b>	<b>2 080</b>	<b>30 289</b>
of which funded defined benefit plans	24 364	58	24 422	27 347	62	27 409
of which unfunded defined benefit plans	737	1 874	2 611	862	2 018	2 880

## 10.2d Movement in fair value of defined benefit plan assets

In millions of CHF

	2018			2017		
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total
At January 1	(24 656)	(35)	(24 691)	(23 013)	(24)	(23 037)
Currency retranslations	503	2	505	(326)	(1)	(327)
Interest income	(544)	(1)	(545)	(560)	—	(560)
Actual return on plan assets, excluding interest income	1 142	—	1 142	(1 685)	(9)	(1 694)
Employees' contributions	(127)	—	(127)	(141)	—	(141)
Employer contributions	(736)	(6)	(742)	(547)	(6)	(553)
Benefits paid on funded defined benefit plans	1 432	7	1 439	1 484	5	1 489
Administration expenses	24	—	24	21	—	21
Modification of the scope of consolidation	1	—	1	5	—	5
Reclassification to/(from) held for sale	125	—	125	—	—	—
Transfer (from)/to defined contribution plans	211	—	211	106	—	106
<b>At December 31</b>	<b>(22 625)</b>	<b>(33)</b>	<b>(22 658)</b>	<b>(24 656)</b>	<b>(35)</b>	<b>(24 691)</b>

The major categories of plan assets as a percentage of total plan assets of the Group's defined benefit plans are as follows:

	2018	2017
<b>Equities</b>	<b>27%</b>	<b>28%</b>
of which US equities	6%	12%
of which European equities	16%	9%
of which other equities	5%	7%
<b>Debts</b>	<b>49%</b>	<b>45%</b>
of which government debts	35%	32%
of which corporate debts	14%	13%
<b>Real estate</b>	<b>12%</b>	<b>11%</b>
<b>Alternative investments</b>	<b>10%</b>	<b>11%</b>
of which hedge funds	6%	7%
of which private equities	4%	4%
<b>Cash/Deposits</b>	<b>2%</b>	<b>5%</b>

Equities and government debts represent 62% (2017: 60%) of the plan assets. Almost all of them are quoted in an active market. Corporate debts, real estate, hedge funds and private equities represent 36% (2017: 35%) of the plan assets. Almost all of them are either not quoted or quoted in a market which is not active.

The plan assets of funded defined benefit plans include property occupied by subsidiaries with a fair value of CHF 23 million (2017: CHF 23 million). Furthermore, funded defined benefit plans may invest in Nestlé S.A. (or related) shares. There was no direct investment at end of 2018 (2017: CHF 35 million). The Group's investment management principles allow such investment only when the position in Nestlé S.A. (or related) shares is passive, i.e. in line with the weighting in the underlying benchmark.

The Group expects to contribute CHF 464 million to its funded defined benefit plans in 2019.

### 10.2e Expenses recognized in the income statement

In millions of CHF

	2018			2017		
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total
Service cost	680	30	710	689	52	741
Employees' contributions	(127)	—	(127)	(141)	—	(141)
Net interest (income)/expense	53	98	151	90	111	201
Administration expenses	24	—	24	21	—	21
<b>Defined benefit expenses</b>	<b>630</b>	<b>128</b>	<b>758</b>	<b>659</b>	<b>163</b>	<b>822</b>
<b>Defined contribution expenses</b>			<b>330</b>			<b>335</b>
<b>Total</b>			<b>1 088</b>			<b>1 157</b>

The expenses for defined benefit and defined contribution plans are allocated to the appropriate headings of expenses by function.

## 10.2f Remeasurement of defined benefit plans reported in other comprehensive income

In millions of CHF

	2018			2017		
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total
Actual return on plan assets, excluding interest income	(1 142)	—	(1 142)	1 685	9	1 694
Experience adjustments on plan liabilities	331	(10)	321	(81)	10	(71)
Change in demographic assumptions on plan liabilities	526	(59)	467	55	(1)	54
Change in financial assumptions on plan liabilities	1 015	43	1 058	(118)	(65)	(183)
Transfer from/(to) unrecognized assets and other	(4)	—	(4)	19	—	19
<b>Remeasurement of defined benefit plans</b>	<b>726</b>	<b>(26)</b>	<b>700</b>	<b>1 560</b>	<b>(47)</b>	<b>1 513</b>

## 10.2g Principal financial actuarial assumptions

The principal financial actuarial assumptions are presented by geographic area. Each item is a weighted average in relation to the relevant underlying component.

	2018				2017			
	EMENA	AMS	AOA	Total	EMENA	AMS	AOA	Total
Discount rates	1.8%	5.1%	4.3%	2.9%	1.5%	4.5%	4.4%	2.5%
Expected rates of salary increases	1.8%	2.7%	5.0%	2.6%	1.7%	2.7%	4.6%	2.3%
Expected rates of pension adjustments	1.2%	0.4%	1.4%	1.0%	1.3%	0.4%	1.6%	1.1%
Medical cost trend rates		6.9%		6.9%		5.3%		5.3%

### 10.2h Mortality tables and life expectancies by geographic area for Group's major defined benefit pension plans

Expressed in years

		2018	2017	2018	2017
		Life expectancy at age 65 for a male member currently aged 65		Life expectancy at age 65 for a female member currently aged 65	
Country	Mortality table				
EMENA					
Switzerland	LPP 2015	21.6	22.0	23.1	23.9
United Kingdom	S2NA	21.8	21.8	23.1	23.1
Germany	Heubeck Richttafeln 2018 G	20.6	20.1	24.1	23.6
AMS					
USA	RP-2014 with projection	20.9	20.9	23.0	23.0

Life expectancy is reflected in the defined benefit obligations by using mortality tables of the country in which the plan is located. When those tables no longer reflect recent experience, they are adjusted by appropriate loadings.

### 10.2i Sensitivity analyses on present value of defined benefit obligations by geographic area

The table below gives the present value of the defined benefit obligations when major assumptions are changed.

In millions of CHF

	2018				2017			
	EMENA	AMS	AOA	Total	EMENA	AMS	AOA	Total
As reported	18 578	6 623	1 832	27 033	20 897	7 329	2 063	30 289
Discount rates								
Increase of 50 basis points	17 294	6 265	1 731	25 290	19 308	6 901	1 966	28 175
Decrease of 50 basis points	20 036	7 023	1 947	29 006	22 724	7 815	2 172	32 711
Expected rates of salary increases								
Increase of 50 basis points	18 705	6 672	1 863	27 240	21 064	7 390	2 094	30 548
Decrease of 50 basis points	18 461	6 574	1 802	26 837	20 742	7 268	2 035	30 045
Expected rates of pension adjustments								
Increase of 50 basis points	19 569	6 650	1 898	28 117	22 074	7 384	2 124	31 582
Decrease of 50 basis points	17 633	6 614	1 814	26 061	20 264	7 291	2 044	29 599
Medical cost trend rates								
Increase of 50 basis points	18 579	6 676	1 833	27 088	20 898	7 381	2 065	30 344
Decrease of 50 basis points	18 577	6 581	1 830	26 988	20 896	7 281	2 061	30 238
Mortality assumption								
Setting forward the tables by 1 year	17 992	6 484	1 798	26 274	20 205	7 177	2 031	29 413
Setting back the tables by 1 year	19 171	6 758	1 866	27 795	21 600	7 479	2 095	31 174

All sensitivities are calculated using the same actuarial method as for the disclosed present value of the defined benefit obligations at year-end.

### 10.2j Weighted average duration of defined benefit obligations by geographic area

Expressed in years

	2018				2017			
	EMENA	AMS	AOA	Total	EMENA	AMS	AOA	Total
At December 31	14.8	12.1	12.2	14.0	16.5	13.0	10.3	15.3



## 11. Provisions and contingencies

### Provisions

Provisions comprise liabilities of uncertain timing or amount that arise from restructuring plans, environmental, litigation and other risks. Provisions are recognized when a legal or constructive obligation stemming from a past event exists and when the future cash outflows can be reliably estimated. Provisions are measured at the present value of the expenditures unless the impact of discounting is immaterial. Obligations arising from restructuring plans are recognized when detailed formal plans have been established and when there is a valid expectation that such plans will be carried out by either starting to implement them or announcing their main features. Obligations under litigation reflect Group Management's best estimate of the outcome based on the facts known at the balance sheet date.

### Contingent assets and liabilities

Contingent assets and liabilities are possible rights and obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not fully within the control of the Group.

### 11.1 Provisions

In millions of CHF

	Restructuring	Environmental	Legal and Tax	Other	Total
<b>At January 1, 2018</b>	<b>929</b>	<b>25</b>	<b>544</b>	<b>468</b>	<b>1 966</b>
Currency retranslations	(19)	1	(53)	(6)	(77)
Provisions made during the year <sup>(a)</sup>	590	5	322	185	1 102
Amounts used	(410)	(1)	(98)	(87)	(596)
Reversal of unused amounts	(101)	(1)	(139)	(134)	(375)
Reclassification (to)/from held for sale	(154)	—	(3)	(46)	(203)
Modification of the scope of consolidation	—	—	—	(4)	(4)
<b>At December 31, 2018</b>	<b>835</b>	<b>29</b>	<b>573</b>	<b>376</b>	<b>1 813</b>
of which expected to be settled within 12 months					780
<b>At January 1, 2017</b>	<b>583</b>	<b>27</b>	<b>590</b>	<b>519</b>	<b>1 719</b>
Currency retranslations	19	(1)	(13)	4	9
Provisions made during the year <sup>(a)</sup>	619	2	252	148	1 021
Amounts used	(234)	(2)	(172)	(99)	(507)
Reversal of unused amounts	(58)	(1)	(131)	(103)	(293)
Modification of the scope of consolidation	—	—	18	(1)	17
<b>At December 31, 2017</b>	<b>929</b>	<b>25</b>	<b>544</b>	<b>468</b>	<b>1 966</b>
of which expected to be settled within 12 months					819

(a) Including discounting of provisions.

### **Restructuring**

Restructuring provisions arise from a number of projects across the Group. These include plans to optimize production, sales and administration structures, mainly in the geographies EMENA and AMS. Restructuring provisions are expected to result in future cash outflows when implementing the plans (usually over the following two to three years).

### **Legal and tax**

Legal provisions have been set up to cover legal and administrative proceedings that arise in the ordinary course of the business. Tax provisions include disputes and uncertainties on non-income taxes (mainly VAT and sales taxes). It covers numerous separate cases whose detailed disclosure could be detrimental to the Group interests. The Group does not believe that any of these cases will have a material adverse impact on its financial position. The timing of outflows is uncertain as it depends upon the outcome of the cases. Group Management does not believe it is possible to make assumptions on the evolution of the cases beyond the balance sheet date.

### **Other**

Other provisions are mainly constituted by onerous contracts and various damage claims having occurred during the year but not covered by insurance companies. Onerous contracts result from termination of contracts or supply agreements above market prices in which the unavoidable costs of meeting the obligations under the contracts exceed the economic benefits expected to be received or for which no benefits are expected to be received.

## **11.2 Contingencies**

The Group is exposed to contingent liabilities amounting to a maximum potential payment of CHF 1860 million (2017: CHF 2024 million) representing potential litigations of CHF 1788 million (2017: CHF 1979 million) and other items of CHF 71 million (2017: CHF 45 million). Potential litigations relate mainly to labor, civil and tax litigations in Latin America.

Contingent assets for litigation claims in favor of the Group amount to a maximum potential recoverable amount of CHF 453 million (2017: CHF 461 million), mainly in Latin America.

## 12. Financial instruments

### Financial assets – Classes and categories

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The Group classifies financial assets in the following categories:

- measured at amortized cost;
- measured at fair value through Other comprehensive income (abbreviated as FVOCI); and
- measured at fair value through the income statement (abbreviated as FVTPL, fair value through profit or loss).

For an equity investment that is not held for trading, the Group may irrevocably elect to classify it as measured at FVOCI. This election is made at initial recognition on an investment by investment basis.

### Financial assets – Recognition and derecognition

The settlement date is used for initial recognition and derecognition of financial assets as these transactions are generally under contracts whose terms require delivery within the time frame established by regulation or convention in the market place (regular-way purchase or sale). Financial assets are derecognized when substantially all the Group's rights to cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

### Financial assets – Measurement

Financial assets are initially recognized at fair value plus directly attributable transaction costs. However when a financial asset measured at FVTPL is recognized, the transaction costs are expensed immediately. Subsequent remeasurement of financial assets is determined by their categorization, which is revisited at each reporting date.

Bonds are held in a separate portfolio governed and executed as a prudently managed broad base of quality securities. The two principal objectives of the portfolio are to maximize investment income and provide financial stability, subject to a limited risk tolerance, and to obtain relatively favorable risk adjusted investment returns to achieve long-term growth of surplus. The Group considers that these securities are held within a business model whose objective is achieved both by collecting contractual cash flows and by selling securities. The contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These assets have therefore been classified as financial assets at FVOCI.

Equity securities represent investments that the Group intends to hold for the long term for strategic purposes. The Group generally designates these investments at the date of initial recognition as measured at FVOCI. The accumulated fair value reserve related to these investments is never reclassified to profit or loss.

Commercial paper and time deposits are held by the Group's treasury unit in a separate portfolio in order to provide interest income and mitigate the credit risk exposure of the Group. The Group considers that these investments are held within a business model whose objective is achieved by collecting contractual cash flows. The contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These assets have therefore been classified as measured at amortized cost.

Debt funds and equity funds are managed in a separate portfolio dedicated to self-insurance activities. The shares of funds owned by the Group are puttable shares which do not qualify for equity instruments as per IAS 32. As a consequence, these investment funds are classified as at FVTPL.

### **Financial assets – Impairment**

The Group assesses whether its financial assets carried at amortized cost and FVOCI are impaired on the basis of expected credit losses (ECL). This analysis requires the identification of significant increases in the credit risk of the counterparties. Considering that the majority of the Group's financial assets are trade receivables, the analysis also integrates statistical data reflecting the past experience of losses incurred due to default. See note 7.1 for impairments related to trade receivables.

The Group measures loss allowances for investments in debt securities and time deposits that are determined to have low credit risk at the reporting date at an amount equal to 12 month expected credit losses.

The Group considers a debt security to have low credit risk when its credit rating is "investment grade", i.e. equivalent to BBB- or higher per Standard & Poor's rating scale. To assess whether there is a significant increase in credit risk since initial recognition, the Group considers available reasonable and supportive information such as changes in the credit rating of the counterparty. If there is a significant increase in credit risk the loss allowance is measured at an amount equal to lifetime expected losses.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls due to a credit default event of the counterparty (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognized in OCI, instead of reducing the carrying amount of the asset.

Impairment losses on other financial assets related to treasury activities are presented under Financial expense.

The model and some of the assumptions used in calculating these ECLs are key sources of estimation uncertainty.

**Financial liabilities at amortized cost**

Financial liabilities are initially recognized at fair value, net of transaction costs incurred.

Subsequent to initial measurement, financial liabilities are recognized at amortized cost. The difference between the initial carrying amount of the financial liabilities and their redemption value is recognized in the income statement over the contractual terms using the effective interest rate method. This category includes the following classes of financial liabilities: trade and other payables; commercial paper; bonds; lease liabilities and other financial liabilities.

Financial liabilities at amortized cost are classified as current or non-current depending whether these are due within 12 months after the balance sheet date or beyond.

Financial liabilities are derecognized (in full or partly) when either the Group is discharged from its obligation, they expire, are cancelled or replaced by a new liability with substantially modified terms.

## 12.1 Financial assets and liabilities

### 12.1a By class and by category

In millions of CHF

	2018				2017 *			
Classes	At amortized cost <sup>(a)</sup>	At fair value to income statement	At fair value to Other comprehensive income	Total categories	Loans, receivables and liabilities at amortized cost <sup>(a)</sup>	At fair value to income statement	Available for sale	Total categories
Cash at bank and in hand	2 552	—	—	2 552	2 202	—	—	2 202
Commercial paper	4 777	—	—	4 777	—	—	4 600	4 600
Time deposits	1 426	—	—	1 426	—	—	1 331	1 331
Bonds and debt funds	128	2 084	3	2 215	—	396	3 778	4 174
Equity and equity funds	—	439	50	489	—	428	114	542
Other financial assets	604	805	—	1 409	723	29	995	1 747
<b>Liquid assets <sup>(b)</sup> and non-current financial assets</b>	<b>9 487</b>	<b>3 328</b>	<b>53</b>	<b>12 868</b>	<b>2 925</b>	<b>853</b>	<b>10 818</b>	<b>14 596</b>
Trade and other receivables	11 167	—	—	11 167	12 036	—	—	12 036
Derivative assets <sup>(c)</sup>	—	183	—	183	—	231	—	231
<b>Total financial assets</b>	<b>20 654</b>	<b>3 511</b>	<b>53</b>	<b>24 218</b>	<b>14 961</b>	<b>1 084</b>	<b>10 818</b>	<b>26 863</b>
Trade and other payables	(18 190)	—	—	(18 190)	(21 340)	—	—	(21 340)
Financial debt	(40 394)	—	—	(40 394)	(29 777)	—	—	(29 777)
Derivative liabilities <sup>(c)</sup>	—	(448)	—	(448)	—	(507)	—	(507)
<b>Total financial liabilities</b>	<b>(58 584)</b>	<b>(448)</b>	<b>—</b>	<b>(59 032)</b>	<b>(51 117)</b>	<b>(507)</b>	<b>—</b>	<b>(51 624)</b>
<b>Net financial position</b>	<b>(37 930)</b>	<b>3 063</b>	<b>53</b>	<b>(34 814)</b>	<b>(36 156)</b>	<b>577</b>	<b>10 818</b>	<b>(24 761)</b>
of which at fair value	—	3 063	53	3 116	—	577	10 818	11 395

\* For the impact of the first application of IFRS 9 refer to Note 22.

(a) Carrying amount of these instruments is a reasonable approximation of their fair value. For bonds included in financial debt, see Note 12.1d.

(b) Liquid assets are composed of cash and cash equivalents and short-term investments.

(c) Include derivatives held in hedge relationships and those that are undesignated (categorized as held-for-trading), see Note 12.2d.

### 12.1b Fair value hierarchy of financial instruments

The Group classifies the fair value of its financial instruments in the following hierarchy, based on the inputs used in their valuation:

- Level 1: the fair value of financial instruments quoted in active markets is based on their quoted closing price at the balance sheet date. Examples include exchange-traded commodity derivatives and financial assets such as investments in equity and debt securities.
- Level 2: the fair value of financial instruments that are not traded in an active market is determined by using valuation techniques using observable market data. Such valuation techniques include discounted cash flows, standard valuation models based on market parameters for interest rates, yield curves or foreign exchange rates, dealer quotes for similar instruments and use of comparable arm's length transactions. For example, the fair value of forward exchange contracts, currency swaps and interest rate swaps is determined by discounting estimated future cash flows.
- Level 3: the fair value of financial instruments that are measured on the basis of entity specific valuations using inputs that are not based on observable market data (unobservable inputs). When the fair value of unquoted instruments cannot be measured with sufficient reliability, the Group carries such instruments at cost less impairment, if applicable.

In millions of CHF

	2018	2017
Derivative assets	36	11
Bonds and debt funds <sup>(a)</sup>	1 681	735
Equity and equity funds	211	227
Other financial assets	9	42
Derivative liabilities	(71)	(65)
<b>Prices quoted in active markets (Level 1)</b>	<b>1 866</b>	<b>950</b>
Commercial paper <sup>(b)</sup>	—	4 600
Time deposits <sup>(b)</sup>	—	1 331
Derivative assets	147	220
Bonds and debt funds <sup>(c)</sup>	396	3 417
Equity and equity funds	224	278
Other financial assets	695	783
Derivative liabilities	(377)	(442)
<b>Valuation techniques based on observable market data (Level 2)</b>	<b>1 085</b>	<b>10 187</b>
<b>Valuation techniques based on unobservable input (Level 3) <sup>(a)</sup></b>	<b>165</b>	<b>258</b>
<b>Total financial instruments at fair value</b>	<b>3 116</b>	<b>11 395</b>

(a) Following the first application of IFRS 9, as at January 1, 2018, an amount of CHF 101 million in level 1 and CHF 24 million in level 3 of Bonds and debt funds have been taken out from the financial instruments carried at fair value.

(b) Following the first application of IFRS 9, Commercial paper and Time deposits are now carried at amortized cost.

(c) As at December 31, 2017 the fair value hierarchy included financial assets of CHF 3381 million which were reclassified as assets held for sale and disposed of during the year. This relates mainly to bonds included in level 2.

There have been no significant transfers between the different hierarchy levels in 2018.

**12.1c Changes in liabilities arising from financing activities**

In millions of CHF

	2018	2017
<b>At January 1</b>	<b>(29 962)</b>	<b>(26 807)</b>
Currency retranslations and exchange differences	692	(16)
Changes in fair values	132	128
Changes arising from acquisition and disposal of businesses	(62)	(94)
(Inflows)/outflows on interest derivatives	(159)	(71)
Increase in lease liabilities	(762)	(897)
Inflows from bonds and other non-current financial debt	(9 900)	(6 406)
Outflows from bonds and other non-current financial debt	2 712	3 190
(Inflows)/outflows from current financial debt	(3 520)	1 011
Reclassification to liabilities held for sale	199	—
<b>At December 31</b>	<b>(40 630)</b>	<b>(29 962)</b>
of which current financial debt	(14 694)	(11 211)
of which non-current financial debt	(25 700)	(18 566)
of which derivatives hedging financial debt	(236)	(185)



## 12.1d Bonds

In millions of CHF

Issuer		Face value in millions	Coupon	Effective interest rate	Year of issue/ maturity	Comments	2018	2017
Nestlé S.A., Switzerland	CHF	600	0.75%	0.69%	2018–2028		603	—
	CHF	900	0.25%	0.26%	2018–2024		899	—
Nestlé Holdings, Inc., USA	CHF	250	2.63%	2.66%	2007–2018		—	251
	USD	500	1.25%	1.32%	2012–2018		—	488
	AUD	175	3.75%	3.84%	2013–2018		—	133
	AUD	200	3.88%	4.08%	2013–2018		—	152
	AUD	400	4.13%	4.33%	2013–2018		—	305
	USD	400	1.38%	1.50%	2013–2018		—	390
	USD	500	2.00%	2.17%	2013–2019		492	487
	USD	500	2.25%	2.41%	2013–2019		493	487
	USD	400	2.00%	2.06%	2014–2019		394	390
	USD	650	2.13%	2.27%	2014–2020		640	633
	AUD	250	4.25%	4.43%	2014–2020	(a)	177	196
	AUD	175	3.63%	3.77%	2014–2020	(a)	125	138
	NOK	1 000	2.75%	2.85%	2014–2020	(a)	115	122
	GBP	500	1.75%	1.79%	2015–2020	(b)	628	660
	USD	550	1.88%	2.03%	2016–2021		541	535
	USD	600	1.38%	1.52%	2016–2021		589	583
	GBP	500	1.00%	1.17%	2017–2021	(c)	625	654
	USD	800	2.38%	2.55%	2017–2022		784	775
	USD	650	2.38%	2.50%	2017–2022		639	632
	USD	300	2.25%	2.35%	2017–2022		295	292
	EUR	850	0.88%	0.92%	2017–2025	(c)	956	989
	CHF	550	0.25%	0.24%	2017–2027	(c)	551	551
	CHF	150	0.55%	0.54%	2017–2032	(c)	150	150
	USD	600	3.13%	3.28%	2018–2023		588	—
	USD	1 000	3.10%	3.17%	2018–2021	(d)	984	—
	USD	1 500	3.35%	3.41%	2018–2023	(d)	1 475	—
	USD	900	3.50%	3.59%	2018–2025	(d)	883	—
	USD	1 250	3.63%	3.72%	2018–2028	(d)	1 223	—
	USD	1 250	3.90%	4.01%	2018–2038	(d)	1 213	—
	USD	2 100	4.00%	4.11%	2018–2048	(d)	2 031	—
Subtotal							18 093	9 993

## 12. Financial instruments

In millions of CHF

Issuer		Face value in millions	Coupon	Effective interest rate	Year of issue/ maturity	Comments	2018	2017
<b>Subtotal from previous page</b>							<b>18 093</b>	<b>9 993</b>
Nestlé Finance International Ltd., Luxembourg	EUR	500	1.50%	1.61%	2012–2019		564	583
	EUR	500	1.25%	1.30%	2013–2020		564	583
	EUR	500	2.13%	2.20%	2013–2021		563	582
	EUR	500	0.75%	0.90%	2014–2021		562	581
	EUR	850	1.75%	1.89%	2012–2022		954	986
	GBP	400	2.25%	2.34%	2012–2023	(e)	515	549
	EUR	500	0.75%	0.92%	2015–2023	(f)	570	586
	EUR	500	0.38%	0.54%	2017–2024		559	578
	EUR	750	1.25%	1.32%	2017–2029		840	869
	EUR	750	1.75%	1.83%	2017–2037		836	865
<b>Other bonds</b>							<b>249</b>	<b>254</b>
<b>Total carrying amount (*)</b>							<b>24 869</b>	<b>17 009</b>
of which due within one year							1 943	1 720
of which due after one year							22 926	15 289
<b>Fair value (*) of bonds, based on prices quoted (level 2)</b>							<b>25 119</b>	<b>17 350</b>

(\*) Carrying amount and fair value of bonds exclude accrued interest.

- (a) Subject to an interest rate and/or currency swap that creates a liability at floating rates in the currency of the issuer.
- (b) This bond is composed of:
  - GBP 400 million issued in 2015 and subject to an interest rate and currency swap that creates a liability at fixed rates in the currency of the issuer; and
  - GBP 100 million issued in 2016 and subject to an interest rate and currency swap that creates a liability at floating rates in the currency of the issuer.
- (c) Subject to an interest rate and currency swap that creates a liability at fixed rates in the currency of the issuer.
- (d) Sold in the United States only to qualified institutional buyers and outside the United States to non-US persons.
- (e) Subject to an interest rate swap.
- (f) Out of which EUR 375 million is subject to an interest rate swap.

Several bonds are hedged by currency and/or interest derivatives. The fair value of these derivatives is shown under derivative assets for CHF 41 million (2017: CHF 144 million) and under derivative liabilities for CHF 248 million (2017: CHF 265 million).

## 12.2 Financial risks

In the course of its business, the Group is exposed to a number of financial risks: credit risk, liquidity risk, market risk (including foreign currency risk and interest rate risk, commodity price risk and equity price risk). This note presents the Group's objectives, policies and processes for managing its financial risk and capital.

Financial risk management is an integral part of the way the Group is managed. The Board of Directors determines the financial control principles as well as the principles of financial planning. The Chief Executive Officer organizes, manages and monitors all financial risks, including asset and liability matters.

The Asset and Liability Management Committee (ALMC), chaired by the Chief Financial Officer, is the governing body for the establishment and subsequent execution of the Nestlé Group's Financial Asset and Liability Management Policy. It ensures implementation of strategies and achievement of objectives of the Group's financial asset and liabilities management, which are executed by the Center Treasury, the Regional Treasury Centers and, in specific local circumstances, by the subsidiaries. Approved treasury management guidelines define and classify risks as well as determine, by category of transaction, specific approval, execution and monitoring procedures. The activities of the Centre Treasury and of the Regional Treasury Centers are monitored by an independent Middle Office, which verifies the compliance of the strategies and/or operations with the approved guidelines and decisions taken by the ALMC.

### 12.2a Credit risk

#### Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises on financial assets (liquid, non-current and derivative) and on trade and other receivables.

The Group aims to minimize the credit risk of liquid assets, non-current financial assets and derivative assets through the application of risk management policies. Credit limits are set based on each counterparty's size and risk of default. The methodology used to set the credit limit considers the counterparty's balance sheet, credit ratings, risk ratios and default probabilities. Counterparties are monitored regularly, taking into consideration the evolution of the above parameters, as well as their share prices and credit default swaps. As a result of this review, changes on credit limits and risk allocation are carried out. The Group avoids the concentration of credit risk on its liquid assets by spreading them over several institutions and sectors.

Trade receivables are subject to credit limits, control and approval procedures in all the subsidiaries. Due to its large geographic base and number of customers, the Group is not exposed to material concentrations of credit risk on its trade receivables (see Note 7.1). Nevertheless, commercial counterparties are constantly monitored following the similar methodology used for financial counterparties.

The maximum exposure to credit risk resulting from financial activities, without considering netting agreements and without taking into account any collateral held or other credit enhancements, is equal to the carrying amount of the Group's financial assets.

### Credit rating of financial assets

This includes liquid assets, non-current financial assets and derivative assets. The source of the credit ratings is Standard & Poor's; if not available, the Group uses other credit rating equivalents. The Group deals mainly with financial institutions located in Switzerland, the European Union and North America.

In millions of CHF

	2018	2017
Investment grade A– and above	9 988	10 552
Investment grade BBB+, BBB and BBB–	1 095	2 047
Non-investment grade (BB+ and below)	805	967
Not rated <sup>(a)</sup>	1 163	1 261
	<b>13 051</b>	<b>14 827</b>

(a) Mainly equity securities and other investments for which no credit rating is available.

### 12.2b Liquidity risk

#### Liquidity risk management

Liquidity risk is the risk that a company may encounter difficulties in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. Such risk may result from inadequate market depth or disruption or refinancing problems. The Group's objective is to manage this risk by limiting exposures in financial instruments that may be affected by liquidity problems and by maintaining sufficient back-up facilities. The Group does not expect any refinancing issues and in October 2018 successfully extended the tenor of both its revolving credit facilities by around one year:

- A new USD 4.4 billion and EUR 2.7 billion revolving credit facility with an initial maturity date of November 2019. The Group has the ability to convert the facility into a one year term loan.
- A USD 3.0 billion and EUR 1.8 billion revolving credit facility with a new maturity date of October 2023.

The facilities serve primarily as a backstop to the Group's short-term debt.

## Contractual maturities of financial liabilities and derivatives (including interest)

In millions of CHF

	In the first year	In the second year	In the third to the fifth year	After the fifth year	Contractual amount	Carrying amount
<b>2018</b>						
<b>Trade and other payables</b>	<b>(17 800)</b>	<b>(58)</b>	<b>(303)</b>	<b>(29)</b>	<b>(18 190)</b>	<b>(18 190)</b>
Commercial paper <sup>(a)</sup>	(9 193)	—	—	—	(9 193)	(9 165)
Bonds <sup>(a)</sup>	(2 510)	(2 771)	(11 099)	(14 293)	(30 673)	(24 869)
Lease liabilities	(788)	(637)	(1 146)	(1 105)	(3 676)	(3 253)
Other financial debt	(3 013)	(109)	(80)	(12)	(3 214)	(3 107)
<b>Total financial debt</b>	<b>(15 504)</b>	<b>(3 517)</b>	<b>(12 325)</b>	<b>(15 410)</b>	<b>(46 756)</b>	<b>(40 394)</b>
<b>Financial liabilities (excluding derivatives)</b>	<b>(33 304)</b>	<b>(3 575)</b>	<b>(12 628)</b>	<b>(15 439)</b>	<b>(64 946)</b>	<b>(58 584)</b>
Non-currency derivative assets	45	6	12	—	63	62
Non-currency derivative liabilities	(83)	(6)	(2)	—	(91)	(90)
Gross amount receivable from currency derivatives	14 448	1 080	667	1 689	17 884	17 765
Gross amount payable from currency derivatives	(14 501)	(1 370)	(812)	(1 835)	(18 518)	(18 002)
<b>Net derivatives</b>	<b>(91)</b>	<b>(290)</b>	<b>(135)</b>	<b>(146)</b>	<b>(662)</b>	<b>(265)</b>
of which derivatives under cash flow hedges <sup>(b)</sup>	(39)	(6)	(2)	—	(47)	(46)
<b>2017</b>						
<b>Trade and other payables</b>	<b>(18 864)</b>	<b>(135)</b>	<b>(115)</b>	<b>(2 226)</b>	<b>(21 340)</b>	<b>(21 340)</b>
Commercial paper <sup>(a)</sup>	(5 727)	—	—	—	(5 727)	(5 716)
Bonds <sup>(a)</sup>	(2 016)	(2 212)	(8 627)	(5 613)	(18 468)	(17 009)
Lease liabilities	(786)	(635)	(1 282)	(1 155)	(3 858)	(3 460)
Other financial debt	(3 132)	(394)	(165)	(10)	(3 701)	(3 592)
<b>Total financial debt</b>	<b>(11 661)</b>	<b>(3 241)</b>	<b>(10 074)</b>	<b>(6 778)</b>	<b>(31 754)</b>	<b>(29 777)</b>
<b>Financial liabilities (excluding derivatives)</b>	<b>(30 525)</b>	<b>(3 376)</b>	<b>(10 189)</b>	<b>(9 004)</b>	<b>(53 094)</b>	<b>(51 117)</b>
Non-currency derivative assets	24	8	10	3	45	44
Non-currency derivative liabilities	(98)	(16)	(11)	—	(125)	(124)
Gross amount receivable from currency derivatives	10 497	46	1 831	1 734	14 108	13 983
Gross amount payable from currency derivatives	(10 655)	(97)	(2 112)	(1 867)	(14 731)	(14 179)
<b>Net derivatives</b>	<b>(232)</b>	<b>(59)</b>	<b>(282)</b>	<b>(130)</b>	<b>(703)</b>	<b>(276)</b>
of which derivatives under cash flow hedges <sup>(b)</sup>	(111)	(16)	(11)	—	(138)	(138)

(a) Commercial paper of CHF 7698 million (2017: CHF 4726 million) and bonds of CHF 720 million (2017: CHF 953 million) have maturities of less than three months.

(b) The periods when the cash flow hedges affect the income statement do not differ significantly from the maturities disclosed above.

## 12.2c Market risk

The Group is exposed to risk from movements in foreign currency exchange rates, interest rates and market prices that affect its assets, liabilities and future transactions.

### Foreign currency risk

The Group is exposed to foreign currency risk from transactions and translation.

Transactional exposures arise from transactions in foreign currency. They are managed within a prudent and systematic hedging policy in accordance with the Group's specific business needs through the use of currency forwards, futures, swaps and options.

Exchange differences recorded in the income statement represented a loss of CHF 54 million in 2018 (2017: loss of CHF 94 million). They are allocated to the appropriate headings of expenses by function.

Translation exposure arises from the consolidation of the financial statements of foreign operations in Swiss Francs, which is, in principle, not hedged.

Value at Risk (VaR) based on historic data for a 250-day period and a confidence level of 95% results in a potential one-day loss for currency risk of less than CHF 10 million in 2018 and 2017.

The Group cannot predict the future movements in exchange rates, therefore the above VaR number neither represents actual losses nor considers the effects of favorable movements in underlying variables. Accordingly, the VaR number may only be considered indicative of future movements to the extent the historic market patterns repeat in the future.

### Interest rate risk

The Group is exposed primarily to fluctuation in USD and EUR interest rates. Interest rate risk on financial debt is managed based on duration and interest management targets set by the ALMC through the use of fixed rate debt and interest rate swaps.

Taking into account the impact of interest derivatives, the proportion of financial debt subject to fixed interest rates for a period longer than one year represents 62% (2017: 62%).

Based on the structure of net debt at year end, an increase of interest rates of 100 basis points would cause an additional expense in Net financing cost of net debt of CHF 42 million (2017: CHF 29 million).

### Price risk

#### Commodity price risk

Commodity price risk arises from transactions on the world commodity markets for securing the supplies of green coffee, cocoa beans and other commodities necessary for the manufacture of some of the Group's products.

The Group's objective is to minimize the impact of commodity price fluctuations and this exposure is hedged in accordance with the Nestlé Group policy on commodity price risk management. The Global Procurement Organization is responsible for managing commodity price risk based on internal directives and centrally determined limits, generally using exchange-traded commodity derivatives. The commodity price risk exposure of future purchases is managed using a combination of derivatives (mainly futures and options) and executory contracts. This activity is monitored by an independent Middle Office. Given the short product business cycle of the Group, the majority of the anticipated future raw material transactions outstanding at the balance sheet date are expected to occur in the next year.

#### Equity price risk

The Group is exposed to equity price risk on investments. To manage the price risk arising from these investments, the Group diversifies its portfolios in accordance with the Guidelines set by the Board of Directors.

## 12.2d Derivative assets and liabilities and hedge accounting

### Derivative financial instruments

The Group's derivatives mainly consist of currency forwards, options and swaps; commodity futures and options; interest rate forwards, futures, options and swaps. Derivatives are mainly used to manage exposures to foreign exchange, interest rate and commodity price risk as described in section 12.2c Market risk.

Derivatives are initially recognized at fair value. They are subsequently remeasured at fair value on a regular basis and at each reporting date as a minimum, with all their gains and losses, realized and unrealized, recognized in the income statement unless they are in a qualifying hedging relationship.

### Hedge accounting

The Group designates and documents the use of certain derivatives and other financial assets or financial liabilities as hedging instruments against changes in fair values of recognized assets and liabilities (fair value hedges) and highly probable forecast transactions (cash flow hedges). The effectiveness of such hedges is assessed at inception and verified at regular intervals and at least on a quarterly basis to ensure that an economic relationship exists between the hedged item and hedging instrument.

The Group excludes from the designation of the hedging relationship the hedging cost element. Subsequently, this cost element impacts the income statement at the same time as the underlying hedged item.

For the designation of hedging relationships on commodities, the Group applies the component hedging model when the hedged item is separately identifiable and measurable in the contract to purchase the materials.

### Fair value hedges

The Group uses fair value hedges to mitigate foreign currency and interest rate risks of its recognized assets and liabilities, being mostly financial debt.

Changes in fair values of hedging instruments designated as fair value hedges and the adjustments for the risks being hedged in the carrying amounts of the underlying transactions are recognized in the income statement.

### Cash flow hedges

The Group uses cash flow hedges to mitigate a particular risk associated with a recognized asset or liability or highly probable forecast transactions, such as anticipated future export sales, purchases of equipment, and goods, as well as the variability of expected interest payments and receipts.

The effective part of the changes in fair value of hedging instruments is recognized in other comprehensive income, while any ineffective part is recognized immediately in the income statement. Ineffectiveness for hedges of foreign currency and commodity price risk may result from changes in the timing of the forecast transactions than was originally foreseen. When the hedged item results in the recognition of a non-financial asset or liability, including acquired businesses, the gains or losses previously recognized in other comprehensive income are included in the measurement of the cost of the asset or of the liability. Otherwise the gains or losses previously recognized in other comprehensive income are recognized in the income statement at the same time as the hedged transaction.

**Undesignated derivatives**

Derivatives which are not designated in a hedging relationship are classified as undesignated derivatives. They are acquired in the frame of approved risk management policies.

**Derivatives by hedged risks**

In millions of CHF

	2018			2017		
	Contractual or notional amounts	Fair value assets	Fair value liabilities	Contractual or notional amounts	Fair value assets	Fair value liabilities
<b>Fair value hedges <sup>(a)</sup></b>						
Foreign currency and interest rate risk on net financial debt	9 435	56	273	7 631	152	292
<b>Cash flow hedges</b>						
Foreign currency risk on future purchases or sales	7 284	85	78	6 647	62	89
Commodity price risk on future purchases	2 044	37	73	1 488	12	77
Interest rate risk on net financial debt	1 380	—	17	1 368	—	46
<b>Designated in a hedging relationship</b>	<b>20 143</b>	<b>178</b>	<b>441</b>	<b>17 134</b>	<b>226</b>	<b>504</b>
<b>Undesignated derivatives</b>		<b>5</b>	<b>7</b>		<b>5</b>	<b>3</b>
		<b>183</b>	<b>448</b>		<b>231</b>	<b>507</b>
<b>Conditional offsets <sup>(b)</sup></b>						
Derivative assets and liabilities		(34)	(34)		(145)	(145)
Use of cash collateral received or deposited		(21)	(124)		(30)	(210)
<b>Balances after conditional offsets</b>		<b>128</b>	<b>290</b>		<b>56</b>	<b>152</b>

(a) The carrying amount of the hedged item recognized in the statement of financial position is approximately equal to the notional of the hedging instruments.

(b) Represent amounts that would be offset in case of default, insolvency or bankruptcy of counterparties.

A description of the types of hedging instruments by risk category is included in Note 12.2c Market risk.

The majority of hedge relationships are established to ensure a hedge ratio of 1:1.



**Impact on the income statement of fair value hedges**

The majority of fair value hedges are related to financing activities and are presented in Net financing cost.

In millions of CHF

	2018	2017
on hedged items	(145)	377
on hedging instruments	138	(375)

Ineffective portion of gains/(losses) of cash flow hedges and net investment hedges is not significant.

**12.2e Capital risk management**

The Group's capital management is driven by the impact on shareholders of the level of total capital employed. It is the Group's policy to maintain a sound capital base to support the continued development of its business.

The Board of Directors seeks to maintain a prudent balance between different components of the Group's capital. The ALMC monitors the capital structure and the net financial debt by currency (see Note 16.5 for the definition of net financial debt).

The operating cash flow-to-net financial debt ratio highlights the ability of a business to repay its debts. As at December 31, 2018, the ratio was 50.8% (2017: 66.4%). The Group's subsidiaries have complied with local statutory capital requirements as appropriate.

## 13. Taxes

The Group is subject to taxes in different countries all over the world. Taxes and fiscal risks recognized in the Consolidated Financial Statements reflect Group Management's best estimate of the outcome based on the facts known at the balance sheet date in each individual country. These facts may include but are not limited to change in tax laws and interpretation thereof in the various jurisdictions where the Group operates. They may have an impact on the income tax as well as the resulting assets and liabilities. Any differences between tax estimates and final tax assessments are charged to the income statement in the period in which they are incurred, unless anticipated.

Taxes include current and deferred taxes on profit as well as actual or potential withholding taxes on current and expected transfers of income from subsidiaries and tax adjustments relating to prior years. Income tax is recognized in the income statement, except to the extent that it relates to items directly taken to equity or other comprehensive income, in which case it is recognized against equity or other comprehensive income.

Deferred taxes are based on the temporary differences that arise when taxation authorities recognize and measure assets and liabilities with rules that differ from the principles of the Consolidated Financial Statements. They also arise on temporary differences stemming from tax losses carried forward.

Deferred taxes are calculated under the liability method at the rates of tax expected to prevail when the temporary differences reverse subject to such rates being substantially enacted at the balance sheet date. Any changes of the tax rates are recognized in the income statement unless related to items directly recognized against equity or other comprehensive income. Deferred tax liabilities are recognized on all taxable temporary differences excluding non-deductible goodwill. Deferred tax assets are recognized on all deductible temporary differences provided that it is probable that future taxable income will be available.

### 13.1 Taxes recognized in the income statement

In millions of CHF

	2018	2017
<b>Components of taxes</b>		
Current taxes <sup>(a)</sup>	(4 003)	(3 352)
Deferred taxes <sup>(b)</sup>	545	202
Taxes reclassified to other comprehensive income	22	361
Taxes reclassified to equity	(3)	16
<b>Total taxes</b>	<b>(3 439)</b>	<b>(2 773)</b>
<b>Reconciliation of taxes</b>		
Expected tax expense at weighted average applicable tax rate	(2 925)	(3 115)
Tax effect of non-deductible or non-taxable items	(110)	(94)
Prior years' taxes	108	248
Transfers to unrecognized deferred tax assets	(129)	(131)
Transfers from unrecognized deferred tax assets	95	18
Changes in tax rates <sup>(b)</sup>	(6)	792
Withholding taxes levied on transfers of income	(472)	(491)
<b>Total taxes</b>	<b>(3 439)</b>	<b>(2 773)</b>

(a) Current taxes related to prior years include a tax income of CHF 250 million (2017: tax income of CHF 212 million).

(b) In 2017, this item includes a one-time income of CHF 0.8 billion related to deferred tax, arising in the USA, in accordance with the Federal tax reform.

The expected tax expense at weighted average applicable tax rate is the result from applying the domestic statutory tax rates to profits before taxes of each entity in the country it operates. For the Group, the weighted average applicable tax rate varies from one year to the other depending on the relative weight of the profit of each individual entity in the Group's profit as well as the changes in the statutory tax rates.

### 13.2 Reconciliation of deferred taxes by type of temporary differences recognized on the balance sheet

In millions of CHF

	Property, plant and equipment	Goodwill and intangible assets	Employee benefits	Inventories, receivables, payables and provisions	Unused tax losses and unused tax credits	Other	Total
At January 1, 2018	(1 245)	(2 895)	1 482	1 102	380	(213)	(1 389)
Currency retranslations	37	4	(46)	(42)	(34)	(38)	(119)
Deferred tax (expense)/income	(130)	431	(45)	78	103	108	545
Reclassification (to)/from held for sale	—	678	(19)	(127)	(141)	17	408
Modification of the scope of consolidation	(2)	(169)	—	—	8	10	(153)
Other movements	(22)	—	—	—	—	6	(16)
<b>At December 31, 2018</b>	<b>(1 362)</b>	<b>(1 951)</b>	<b>1 372</b>	<b>1 011</b>	<b>316</b>	<b>(110)</b>	<b>(724)</b>
At January 1, 2017	(1 635)	(3 248)	2 049	1 189	340	(271)	(1 576)
Currency retranslations	26	70	(19)	(15)	(10)	6	58
Deferred tax (expense)/income	352	384	(548)	(80)	44	50	202
Modification of the scope of consolidation	12	(101)	—	8	6	2	(73)
<b>At December 31, 2017</b>	<b>(1 245)</b>	<b>(2 895)</b>	<b>1 482</b>	<b>1 102</b>	<b>380</b>	<b>(213)</b>	<b>(1 389)</b>

In millions of CHF

	2018	2017
Reflected in the balance sheet as follows:		
Deferred tax assets	1 816	2 103
Deferred tax liabilities	(2 540)	(3 492)
<b>Net assets/(liabilities)</b>	<b>(724)</b>	<b>(1 389)</b>

### 13.3 Unrecognized deferred taxes

The deductible temporary differences as well as the unused tax losses and tax credits for which no deferred tax assets are recognized expire as follows:

In millions of CHF

	2018	2017
Within one year	69	177
Between one and five years	381	431
More than five years	2 383	2 602
	<b>2 833</b>	<b>3 210</b>

At December 31, 2018, the unrecognized deferred tax assets amount to CHF 579 million (2017: CHF 655 million). In addition, the Group has not recognized deferred tax liabilities in respect of unremitted earnings that are considered indefinitely reinvested in foreign subsidiaries. At December 31, 2018, these earnings amount to CHF 26.3 billion (2017: CHF 25.2 billion). They could be subject to withholding and other taxes on remittance.

## 14. Associates and joint ventures

Associates are companies where the Group has the power to exercise a significant influence but does not exercise control. Significant influence may be obtained when the Group has 20% or more of the voting rights in the investee or has obtained a seat on the Board of Directors or otherwise participates in the policy-making process of the investee.

Joint ventures are contractual arrangements over which the Group exercises joint control with partners and where the parties have rights to the net assets of the arrangement.

Associates and joint ventures are accounted for using the equity method. The interest in the associate or joint venture also includes long-term loans which are in substance extensions of the Group's investment in the associate or joint venture. The net assets and results are adjusted to comply with the Group's accounting policies. The carrying amount of goodwill arising from the acquisition of associates and joint ventures is included in the carrying amount of investments in associates and joint ventures.

In millions of CHF

	2018				2017			
	L'Oréal	Other associates	Joint ventures	Total	L'Oréal	Other associates	Joint ventures	Total
At January 1	8 184	1 198	2 246	11 628	7 453	1 183	2 073	10 709
Currency retranslations	(271)	(32)	(54)	(357)	632	44	125	801
Investments	—	204	46	250	—	148	45	193
Divestments	—	(3)	(978)	(981)	—	(5)	(52)	(57)
Share of results	1 044	(152)	27	919	927	(145)	46	828
Share of other comprehensive income	127	1	(32)	96	(298)	—	110	(188)
Dividends and interest received	(553)	(33)	(117)	(703)	(465)	(27)	(90)	(582)
Other	(72)	—	12	(60)	(65)	—	(11)	(76)
<b>At December 31</b>	<b>8 459</b>	<b>1 183</b>	<b>1 150</b>	<b>10 792</b>	<b>8 184</b>	<b>1 198</b>	<b>2 246</b>	<b>11 628</b>

Investments in joint ventures mainly relate to Froneri (see Note 14.3).

As part of the investment, loans granted by the Group to joint ventures amount to CHF 932 million at December 31, 2018 (2017: CHF 1841 million).

### Income from associates and joint ventures

In millions of CHF

	2018	2017
Share of results	919	828
Loss on disposals	(3)	(4)
	<b>916</b>	<b>824</b>

### 14.1 Associate – L'Oréal

The Group holds 129 881 021 shares in L'Oréal (whose ultimate parent company is domiciled in France), the world leader in cosmetics, representing a 23.2% participation in its equity after elimination of its treasury shares (2017: 129 881 021 shares representing a 23.2% participation).

At December 31, 2018, the market value of the shares held amounts to CHF 29.5 billion (2017: CHF 28.0 billion).

### Summarized financial information of L'Oréal

In billions of CHF

	2018	2017
Total current assets	14.0	12.9
Total non-current assets	29.3	28.4
<b>Total assets</b>	<b>43.3</b>	<b>41.3</b>
Total current liabilities	11.4	10.7
Total non-current liabilities	1.6	1.6
<b>Total liabilities</b>	<b>13.0</b>	<b>12.3</b>
<b>Total equity</b>	<b>30.3</b>	<b>29.0</b>
<b>Total sales</b>	<b>31.1</b>	<b>29.0</b>
Profit from continuing operations	4.5	4.3
Profit from discontinued operations	–	(0.3)
Other comprehensive income	0.5	(1.3)
<b>Total comprehensive income</b>	<b>5.0</b>	<b>2.7</b>

### Reconciliation of the carrying amount

In billions of CHF

	2018	2017
Share held by the Group in the equity of L'Oréal	7.1	6.7
Goodwill and other adjustments	1.4	1.5
<b>Carrying amount of L'Oréal</b>	<b>8.5</b>	<b>8.2</b>

### 14.2 Other associates

The Group holds a number of other associates that are individually not material.

### 14.3 Joint ventures

The Group holds a number of joint ventures operating in the food and beverage sectors. These joint ventures are individually not significant to the Group, the main ones being Froneri and Cereal Partners Worldwide.

A list of the principal joint ventures and associates is provided in the section Companies of the Nestlé Group, joint arrangements and associates.

## 15. Earnings per share

	2018	2017
<b>Basic earnings per share</b> (in CHF)	3.36	2.31
Net profit (in millions of CHF)	10 135	7 156
Weighted average number of shares outstanding (in millions of units)	3 014	3 092
<b>Diluted earnings per share</b> (in CHF)	3.36	2.31
Net profit, net of effects of dilutive potential ordinary shares (in millions of CHF)	10 135	7 156
Weighted average number of shares outstanding, net of effects of dilutive potential ordinary shares (in millions of units)	3 019	3 098
<b>Reconciliation of weighted average number of shares outstanding</b> (in millions of units)		
Weighted average number of shares outstanding used to calculate basic earnings per share	3 014	3 092
Adjustment for share-based payment schemes, where dilutive	5	6
Weighted average number of shares outstanding used to calculate diluted earnings per share	3 019	3 098

## 16. Cash flow statement

### 16.1 Operating profit

In millions of CHF

	2018	2017
Profit for the year	10 468	7 511
Income from associates and joint ventures	(916)	(824)
Taxes	3 439	2 773
Financial income	(247)	(152)
Financial expense	1 008	848
	<b>13 752</b>	<b>10 156</b>

### 16.2 Non-cash items of income and expense

In millions of CHF

	2018	2017
Depreciation of property, plant and equipment	3 604	3 560
Impairment of property, plant and equipment	500	391
Impairment of goodwill	592	3 033
Amortization of intangible assets	320	374
Impairment of intangible assets	156	158
Net result on disposal of businesses	(686)	132
Net result on disposal of assets	53	28
Non-cash items in financial assets and liabilities	(42)	(380)
Equity compensation plans	140	146
Other	(14)	20
	<b>4 623</b>	<b>7 462</b>

### 16.3 Decrease/(increase) in working capital

In millions of CHF

	2018	2017
Inventories	(450)	(839)
Trade and other receivables	(547)	(52)
Prepayments and accrued income	132	(55)
Trade and other payables	1 043	522
Accruals and deferred income	294	180
	<b>472</b>	<b>(244)</b>



## 16.4 Variation of other operating assets and liabilities

In millions of CHF

	2018	2017
Variation of employee benefits assets and liabilities	(430)	(71)
Variation of provisions	127	220
Other	266	212
	<b>(37)</b>	<b>361</b>

## 16.5 Reconciliation of free cash flow and net financial debt

In millions of CHF

	2018	2017
Operating cash flow	15 398	14 199
Capital expenditure	(3 869)	(3 938)
Expenditure on intangible assets	(601)	(769)
Other investing activities	(163)	(134)
<b>Free cash flow</b>	<b>10 765</b>	<b>9 358</b>
Acquisition of businesses	(9 512)	(696)
Financial liabilities and short-term investments acquired in business combinations	(67)	(94)
Disposal of businesses	4 310	140
Financial liabilities and short-term investments transferred on disposal of businesses	5	—
Acquisition (net of disposal) of non-controlling interests	(528)	(526)
Investments (net of divestments) in associates and joint ventures	728	(140)
Dividend paid to shareholders of the parent	(7 124)	(7 126)
Dividends paid to non-controlling interests	(319)	(342)
Purchase (net of sale) of treasury shares	(6 854)	(3 295)
Increase in lease liabilities	(762)	(897)
Currency retranslations and exchange differences	389	(285)
Other movements	8	45
<b>(Increase)/decrease of net financial debt</b>	<b>(8 961)</b>	<b>(3 858)</b>
Net financial debt at beginning of year	(21 369)	(17 511)
<b>Net financial debt at end of year</b>	<b>(30 330)</b>	<b>(21 369)</b>
of which		
Current financial debt	(14 694)	(11 211)
Non-current financial debt	(25 700)	(18 566)
Cash and cash equivalents	4 500	7 938
Short-term investments	5 801	655
Derivatives <sup>(a)</sup>	(237)	(185)

(a) Related to Net debt and included in Derivative assets and Derivative liabilities balances of the Consolidated balance sheet.

### 16.6 Cash and cash equivalents at end of year

Cash and cash equivalents include cash at bank and in hand and other short-term highly liquid investments with maturities of three months or less from the initial recognition.

In millions of CHF

	2018	2017
Cash at bank and in hand	2 552	2 202
Time deposits	1 408	1 330
Commercial paper	540	4 406
<b>Cash and cash equivalents as per balance sheet</b>	<b>4 500</b>	<b>7 938</b>
Cash and cash equivalents classified as held for sale	140	—
<b>Cash and cash equivalents as per cash flow statement</b>	<b>4 640</b>	<b>7 938</b>

## 17. Equity

### 17.1 Share capital issued

The ordinary share capital of Nestlé S.A. issued and fully paid is composed of 3 063 000 000 registered shares with a nominal value of CHF 0.10 each (2017: 3 112 160 000 registered shares). Each share confers the right to one vote. No shareholder may be registered with the right to vote for shares which it holds, directly or indirectly, in excess of 5% of the share capital. Shareholders have the right to receive dividends.

In 2018, the share capital changed as a consequence of the Share Buy-Back Program launched in July 2017. The cancellation of shares was approved at the Annual General Meeting of April 12, 2018. The share capital was reduced by 49 160 000 shares from CHF 311 million to CHF 306 million.

Started in July 2017, a Share Buy-Back Program of up to CHF 20 billion to be completed by the end of June 2020 was still on going at the date of issuance of the Consolidated Financial Statements. It is subject to market conditions and strategic opportunities.

### 17.2 Conditional share capital

The conditional capital of Nestlé S.A. amounts to CHF 10 million as in the preceding year. It confers the right to increase the ordinary share capital, through the exercise of conversion or option rights granted in connection with convertible debentures or debentures with option rights or other financial market instruments, by the issue of a maximum of 100 000 000 registered shares with a nominal value of CHF 0.10 each. Thus, the Board of Directors has at its disposal a flexible instrument enabling it, if necessary, to finance the activities of the Company through convertible debentures.

### 17.3 Treasury shares

Number of shares in millions of units

	2018	2017
<b>Purpose of holding</b>		
Trading	—	4.2
Share Buy-Back Program	78.7	41.6
Long-Term Incentive Plans	9.8	8.8
	<b>88.5</b>	<b>54.6</b>

At December 31, 2018, the treasury shares held by the Group represent 2.9% of the share capital (2017: 1.8%). Their market value amounts to CHF 7064 million (2017: CHF 4576 million).

### 17.4 Number of shares outstanding

Number of shares in millions of units

	Shares issued	Treasury shares	Outstanding shares
At January 1, 2018	3 112.2	(54.6)	3 057.6
Purchase of treasury shares	—	(86.3)	(86.3)
Treasury shares delivered in respect of options exercised	—	1.2	1.2
Treasury shares delivered in respect of equity compensation plans	—	2.0	2.0
Treasury shares cancelled	(49.2)	49.2	—
<b>At December 31, 2018</b>	<b>3 063.0</b>	<b>(88.5)</b>	<b>2 974.5</b>
At January 1, 2017	3 112.2	(14.2)	3 098.0
Purchase of treasury shares	—	(43.6)	(43.6)
Treasury shares delivered in respect of options exercised	—	0.9	0.9
Treasury shares delivered in respect of equity compensation plans	—	2.3	2.3
<b>At December, 31 2017</b>	<b>3 112.2</b>	<b>(54.6)</b>	<b>3 057.6</b>

### 17.5 Translation reserve and other reserves

The translation reserve and the other reserves represent the cumulative amount attributable to shareholders of the parent of items that may be reclassified subsequently to the income statement.

The translation reserve comprises the cumulative gains and losses arising from translating the financial statements of foreign operations that use functional currencies other than Swiss Francs. It also includes the changes in the fair value of hedging instruments used for net investments in foreign operations.

The other reserves mainly comprise our share in the items that may be reclassified subsequently to the income statement by the associates and joint ventures (reserves equity accounted for).

The other reserves also comprise the hedging reserve of the subsidiaries. The hedging reserve consists of the effective portion of the gains and losses on hedging instruments related to hedged transactions that have not yet occurred.

### 17.6 Retained earnings

Retained earnings represent the cumulative profits as well as remeasurement of defined benefit plans attributable to shareholders of the parent.

### 17.7 Non-controlling interests

The non-controlling interests comprise the portion of equity of subsidiaries that are not owned, directly or indirectly, by Nestlé S.A. These non-controlling interests are individually not material for the Group.

### 17.8 Other comprehensive income

In millions of CHF

	Translation reserve	Fair value reserves	Hedging reserves	Reserves of associates and joint ventures	Retained earnings	Total equity attributable to shareholders of the parent	Non-controlling interests	Total equity
2018								
Currency retranslations								
– Recognized	(1 092)	(1)	2	3	–	(1 088)	(115)	(1 203)
– Reclassified to income statement	108	–	–	–	–	108	–	108
– Taxes	91	–	–	–	–	91	–	91
	(893)	(1)	2	3	–	(889)	(115)	(1 004)
Fair value changes on debt and equity instruments								
– Recognized	–	(203)	–	–	4	(199)	–	(199)
– Reclassified to income statement	–	153	–	–	–	153	–	153
– Taxes	–	11	–	–	–	11	–	11
	–	(39)	–	–	4	(35)	–	(35)
Fair value changes on cash flow hedges								
– Recognized	–	–	26	–	–	26	6	32
– Reclassified to income statement	–	–	40	–	–	40	(4)	36
– Taxes	–	–	(22)	–	–	(22)	–	(22)
	–	–	44	–	–	44	2	46
Remeasurement of defined benefit plans								
– Recognized	–	–	–	–	703	703	(3)	700
– Taxes	–	–	–	–	(101)	(101)	1	(100)
	–	–	–	–	602	602	(2)	600
Share of other comprehensive income of associates and joint ventures								
– Recognized	–	–	–	(32)	117	85	–	85
– Reclassified to income statement	–	–	–	11	–	11	–	11
	–	–	–	(21)	117	96	–	96
<b>Other comprehensive income for the year</b>	<b>(893)</b>	<b>(40)</b>	<b>46</b>	<b>(18)</b>	<b>723</b>	<b>(182)</b>	<b>(115)</b>	<b>(297)</b>

## 17. Equity

In millions of CHF

2017

	Translation reserve	Fair value reserves	Hedging reserves	Reserves of associates and joint ventures	Retained earnings	Total equity attributable to shareholders of the parent	Non-controlling interests	Total equity
Currency retranslations								
– Recognized	(729)	–	(1)	95	–	(635)	(18)	(653)
– Reclassified to income statement	–	–	–	–	–	–	–	–
– Taxes	92	–	–	–	–	92	–	92
	(637)	–	(1)	95	–	(543)	(18)	(561)
Fair value changes on available-for-sale financial instruments								
– Recognized	–	135	–	–	–	135	–	135
– Reclassified to income statement	–	(136)	–	–	–	(136)	–	(136)
– Taxes	–	(9)	–	–	–	(9)	–	(9)
	–	(10)	–	–	–	(10)	–	(10)
Fair value changes on cash flow hedges								
– Recognized	–	–	(225)	–	–	(225)	(5)	(230)
– Reclassified to income statement	–	–	166	–	–	166	3	169
– Taxes	–	–	6	–	–	6	–	6
	–	–	(53)	–	–	(53)	(2)	(55)
Remeasurement of defined benefit plans								
– Recognized	–	–	–	–	1 524	1 524	(11)	1 513
– Taxes	–	–	–	–	(454)	(454)	4	(450)
	–	–	–	–	1 070	1 070	(7)	1 063
Share of other comprehensive income of associates and joint ventures								
– Recognized	–	–	–	(240)	52	(188)	–	(188)
– Reclassified to income statement	–	–	–	–	–	–	–	–
	–	–	–	(240)	52	(188)	–	(188)
<b>Other comprehensive income for the year</b>	<b>(637)</b>	<b>(10)</b>	<b>(54)</b>	<b>(145)</b>	<b>1 122</b>	<b>276</b>	<b>(27)</b>	<b>249</b>

### 17.9 Reconciliation of the other reserves

In millions of CHF

	Fair value reserves	Hedging reserves	Reserves of associates and joint ventures	Total
At January 1, 2018	36	(69)	1 022	989
First application of IFRS 9	4	(4)	(1 170)	(1 170)
Other comprehensive income for the year	(40)	46	(18)	(12)
Other movements	—	10	—	10
<b>At December 31, 2018</b>	<b>—</b>	<b>(17)</b>	<b>(166)</b>	<b>(183)</b>
At January 1, 2017	46	(15)	1 167	1 198
Other comprehensive income for the year	(10)	(54)	(145)	(209)
<b>At December 31, 2017</b>	<b>36</b>	<b>(69)</b>	<b>1 022</b>	<b>989</b>

### 17.10 Dividend

In accordance with Swiss law, the dividend is treated as an appropriation of profit in the year in which it is ratified at the Annual General Meeting and subsequently paid.

The dividend related to 2017 was paid on April 18, 2018, in accordance with the decision taken at the Annual General Meeting on April 12, 2018. Shareholders approved the proposed dividend of CHF 2.35 per share, resulting in a total dividend of CHF 7124 million.

Dividend payable is not accounted for until it has been ratified at the Annual General Meeting. At the Annual General Meeting on April 11, 2019, a dividend of CHF 2.45 per share will be proposed, resulting in an estimated total dividend of CHF 7311 million. For further details, refer to the Financial Statements of Nestlé S.A.

The Consolidated Financial Statements for the year ended December 31, 2018, do not reflect this proposed distribution, which will be treated as an appropriation of profit in the year ending December 31, 2019.

## 18. Transactions with related parties

### 18.1 Compensation of the Board of Directors and the Executive Board

#### Board of Directors

Members of the Board of Directors receive an annual compensation that varies with the Board and the Committee responsibilities as follows:

- Board members: CHF 280 000;
  - members of the Chairman's and Corporate Governance Committee: additional CHF 200 000 (Chair CHF 300 000);
  - members of the Compensation Committee as well as members of the Nomination and Sustainability Committee: additional CHF 70 000 (Chair CHF 150 000); and
  - members of the Audit Committee: additional CHF 100 000 (Chair CHF 150 000).
- The Chairman and the CEO Committee fees are included in their total compensation.

Half of the compensation is paid through the granting of Nestlé S.A. shares at the ex-dividend closing price. These shares are subject to a three-year blocking period.

With the exception of the Chairman and the CEO, members of the Board of Directors also receive an annual expense allowance of CHF 15 000 each. This allowance covers travel and hotel accommodation in Switzerland, as well as sundry out-of-pocket expenses. For Board members from outside Europe, the Company reimburses additionally their airline tickets. When the Board meets outside of Switzerland, all expenses are borne and paid directly by the Company.

The Chairman is entitled to cash compensation, as well as Nestlé S.A. shares which are blocked for three years.

In millions of CHF

	2018	2017
Chairman's compensation	4	5
Other Board members		
Remuneration – cash	3	3
Shares	2	2
<b>Total <sup>(a)</sup></b>	<b>9</b>	<b>10</b>

(a) For the detailed disclosures regarding the remunerations of the Board of Directors that are required by Swiss law, refer to the Compensation report of Nestlé S.A. with the audited sections highlighted with a blue bar.



### Executive Board

The total annual remuneration of the members of the Executive Board comprises a salary, a bonus (based on the individual's performance and the achievement of the Group's objectives), equity compensation and other benefits. Members of the Executive Board can choose to receive part or all of their bonus in Nestlé S.A. shares at the average closing price of the last ten trading days of January of the year of the payment of the bonus. The CEO has to take a minimum of 50% in shares. These shares are subject to a three-year blocking period.

In millions of CHF		
	2018	2017
Remuneration – cash	15	15
Bonus – cash	9	8
Bonus – shares	7	5
Equity compensation plans <sup>(a)</sup>	15	14
Pension	4	3
<b>Total <sup>(b)</sup></b>	<b>50</b>	<b>45</b>

(a) Equity compensation plans are equity-settled share-based payment transactions whose cost is recognized over the vesting period as required by IFRS 2.

(b) For the detailed disclosures regarding the remunerations of the Executive Board that are required by Swiss law, refer to the Compensation report of Nestlé S.A. with the audited sections highlighted with a blue bar.

### 18.2 Transactions with associates and joint ventures

The main transactions with associates and joint ventures are:

- royalties received on brand licensing;
- dividends and interest received as well as loans granted (see Note 14);
- research and development commitments (see Note 9); and
- in-licensing and intellectual property purchase (see Note 9).

### 18.3 Other transactions

Nestlé Capital Advisers S.A. (NCA), one of the Group's subsidiaries, is an unregulated investment and actuarial adviser based in Switzerland. As from end of June 2018, NCA stopped servicing Group's Pension Funds and has concentrated on implementing the Pension Strategy for Nestlé. The fees received by NCA in 2018 amounted to CHF 1.7 million (2017: CHF 9 million).

As from May 1, 2018, Robusta Asset Management Ltd (RAML), a 100% subsidiary of NCA, has stopped its operations and entered into a liquidation process. No fee income was generated by RAML during 2018.

For information regarding the Group's pension plans, which are considered as related parties, please refer to Note 10 Employee benefits.

Furthermore, throughout 2018, no director of the Group had a personal interest in any transaction of significance for the business of the Group.

## 19. Guarantees

At December 31, 2018 and December 31, 2017, the Group has no significant guarantees given to third parties.

## 20. Effects of hyperinflation

The Group considers that Argentina became a hyperinflationary economy on July 1, 2018, when the cumulative three-year increase in the Consumer Price Index exceeded 100%. Consequentially, the Group has applied for the first time IAS 29 Financial Reporting in Hyperinflationary Economies to its subsidiaries in Argentina as from January 1, 2018. This resulted in a reduction of the 12-month sales by CHF 46 million, and a loss of CHF 12 million due to the loss in purchasing power of the net monetary position which was recognized in Other operating expenses. An initial impact of CHF 73 million due to the restatement of the non-monetary assets and liabilities with the price index at the beginning of the period was recorded in equity.

Venezuela continues to be considered a hyperinflationary economy. The impact of the adjustment on the 2018 Group Consolidated Financial Statements was not significant.

## 21. Events after the balance sheet date

The values of assets and liabilities at the balance sheet date are adjusted if there is evidence that subsequent adjusting events warrant a modification of these values. These adjustments are made up to the date of approval of the Consolidated Financial Statements by the Board of Directors.

At February 13, 2019, the date of approval for issue of the Consolidated Financial Statements by the Board of Directors, the Group has no subsequent events which either warrant a modification of the value of its assets and liabilities or any additional disclosure.

## 22. Restatements of 2017 comparatives and first application of IFRS 9

As described in Note 1 Accounting policies, comparative figures have been restated following the application of IFRS 15, IFRS 16, IFRIC 23 as well as some other changes in presentation and in accounting policies. Impacts on the income statement, statement of comprehensive income, cash flow statement and balance sheet are presented thereafter.

**Consolidated income statement for the year ended December 31, 2017**

In millions of CHF

	January– December 2017 as originally published	IFRS 15	IFRS 16	Other	January– December 2017 restated
<b>Sales</b>	<b>89 791</b>	<b>(169)</b>	<b>–</b>	<b>(32)</b>	<b>89 590</b>
Other revenue	330	2	–	–	332
Cost of goods sold	(44 923)	1	9	(658)	(45 571)
Distribution expenses	(8 205)	159	44	(21)	(8 023)
Marketing and administration expenses	(20 540)	6	28	688	(19 818)
Research and development costs	(1 724)	–	1	(16)	(1 739)
Other trading income	111	–	1	–	112
Other trading expenses	(1 607)	–	1	–	(1 606)
<b>Trading operating profit</b>	<b>13 233</b>	<b>(1)</b>	<b>84</b>	<b>(39)</b>	<b>13 277</b>
Other operating income	379	–	–	–	379
Other operating expenses	(3 500)	–	–	–	(3 500)
<b>Operating profit</b>	<b>10 112</b>	<b>(1)</b>	<b>84</b>	<b>(39)</b>	<b>10 156</b>
Financial income	152	–	–	–	152
Financial expense	(771)	–	(77)	–	(848)
<b>Profit before taxes, associates and joint ventures</b>	<b>9 493</b>	<b>(1)</b>	<b>7</b>	<b>(39)</b>	<b>9 460</b>
Taxes	(2 779)	(24)	(9)	39	(2 773)
Income from associates and joint ventures	824	–	–	–	824
<b>Profit for the year</b>	<b>7 538</b>	<b>(25)</b>	<b>(2)</b>	<b>–</b>	<b>7 511</b>
of which attributable to non-controlling interests	355	–	–	–	355
of which attributable to shareholders of the parent (Net profit)	7 183	(25)	(2)	–	7 156
<b>As percentages of sales</b>					
Trading operating profit	14.7%	+3 bps	+9 bps	–4 bps	14.8%
Profit for the year attributable to shareholders of the parent (Net profit)	8.0%	–1 bps	0 bps	0 bps	8.0%
<b>Earnings per share (in CHF)</b>					
Basic earnings per share	2.32	(0.01)	–	–	2.31
Diluted earnings per share	2.32	(0.01)	–	–	2.31

**Consolidated statement of comprehensive income for the year ended December 31, 2017**

In millions of CHF

	January– December 2017 as originally published	IFRS 15	IFRS 16	Other	January– December 2017 restated
<b>Profit for the year recognized in the income statement</b>	<b>7 538</b>	<b>(25)</b>	<b>(2)</b>	<b>–</b>	<b>7 511</b>
Currency retranslations, net of taxes	(558)	(2)	(1)	–	(561)
Fair value adjustments on available-for-sale financial instruments, net of taxes	(10)	–	–	–	(10)
Fair value adjustments on cash flow hedges, net of taxes	(55)	–	–	–	(55)
Share of other comprehensive income of associates and joint ventures	(240)	–	–	–	(240)
Items that are or may be reclassified subsequently to the income statement	(863)	(2)	(1)	–	(866)
Remeasurement of defined benefit plans, net of taxes	1 063	–	–	–	1 063
Share of other comprehensive income of associates and joint ventures	52	–	–	–	52
Items that will never be reclassified to the income statement	1 115	–	–	–	1 115
<b>Other comprehensive income for the year</b>	<b>252</b>	<b>(2)</b>	<b>(1)</b>	<b>–</b>	<b>249</b>
<b>Total comprehensive income for the year</b>	<b>7 790</b>	<b>(27)</b>	<b>(3)</b>	<b>–</b>	<b>7 760</b>
of which attributable to non-controlling interests	328	–	–	–	328
of which attributable to shareholders of the parent	7 462	(27)	(3)	–	7 432

**Consolidated cash flow statement for the year ended December 31, 2017**

In millions of CHF

	January– December 2017 as originally published	IFRS 15	IFRS 16	Other	January– December 2017 restated
<b>Operating activities</b>					
Operating profit	10 112	(1)	84	(39)	10 156
Depreciation and amortization	3 227	–	707	–	3 934
Impairment	3 557	–	25	–	3 582
Net result on disposal of businesses	132	–	–	–	132
Other non-cash items of income and expense	(185)	–	(1)	–	(186)
<b>Cash flow before changes in operating assets and liabilities</b>	<b>16 843</b>	<b>(1)</b>	<b>815</b>	<b>(39)</b>	<b>17 618</b>
Decrease/(increase) in working capital	(243)	1	(3)	1	(244)
Variation of other operating assets and liabilities	393	–	(32)	–	361
<b>Cash generated from operations</b>	<b>16 993</b>	<b>–</b>	<b>780</b>	<b>(38)</b>	<b>17 735</b>
<b>Net cash flows from treasury activities</b>	<b>(423)</b>	<b>–</b>	<b>(75)</b>	<b>8</b>	<b>(490)</b>
Taxes paid	(3 666)	–	–	38	(3 628)
Dividends and interest from associates and joint ventures	582	–	–	–	582
<b>Operating cash flow</b>	<b>13 486</b>	<b>–</b>	<b>705</b>	<b>8</b>	<b>14 199</b>
<b>Investing activities</b>					
Capital expenditure	(3 934)	–	(4)	–	(3 938)
Expenditure on intangible assets	(769)	–	–	–	(769)
Acquisition of businesses	(696)	–	–	–	(696)
Disposal of businesses	140	–	–	–	140
Investments (net of divestments) in associates and joint ventures	(140)	–	–	–	(140)
Inflows/(outflows) from treasury investments	593	–	–	(6)	587
Other investing activities	(134)	–	–	–	(134)
<b>Investing cash flow</b>	<b>(4 940)</b>	<b>–</b>	<b>(4)</b>	<b>(6)</b>	<b>(4 950)</b>

**Consolidated cash flow statement for the year ended December 31, 2017 (continued)**

In millions of CHF

	January– December 2017 as originally published	IFRS 15	IFRS 16	Other	January– December 2017 restated
<b>Financing activities</b>					
Dividend paid to shareholders of the parent	(7 126)	–	–	–	(7 126)
Dividends paid to non-controlling interests	(342)	–	–	–	(342)
Acquisition (net of disposal) of non-controlling interests	(526)	–	–	–	(526)
Purchase (net of sale) of treasury shares	(3 295)	–	–	–	(3 295)
Inflows from bonds and other non-current financial debt	6 406	–	–	–	6 406
Outflows from bonds and other non-current financial debt	(2 489)	–	(701)	–	(3 190)
Inflows/(outflows) from current financial debt	(1 009)	–	–	(2)	(1 011)
<b>Financing cash flow</b>	<b>(8 381)</b>	<b>–</b>	<b>(701)</b>	<b>(2)</b>	<b>(9 084)</b>
Currency retranslations	(217)	–	–	–	(217)
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>(52)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(52)</b>
Cash and cash equivalents at beginning of year	7 990	–	–	–	7 990
<b>Cash and cash equivalents at end of year</b>	<b>7 938</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>7 938</b>

**Consolidated balance sheet as at December 31, 2017**

In millions of CHF

	December 31, 2017, as originally published	IFRS 15	IFRS 16	Other	December 31, 2017, restated
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	7 938	–	–	–	7 938
Short-term investments	655	–	–	–	655
Inventories	9 061	203	–	(87)	9 177
Trade and other receivables	12 422	(388)	–	2	12 036
Prepayments and accrued income	607	–	(34)	–	573
Derivative assets	231	–	–	–	231
Current income tax assets	919	–	–	(2)	917
Assets held for sale	357	–	–	–	357
<b>Total current assets</b>	<b>32 190</b>	<b>(185)</b>	<b>(34)</b>	<b>(87)</b>	<b>31 884</b>
<b>Non-current assets</b>					
Property, plant and equipment	27 775	–	3 002	–	30 777
Goodwill	29 748	–	(2)	–	29 746
Intangible assets	20 615	–	–	–	20 615
Investments in associates and joint ventures	11 628	–	–	–	11 628
Financial assets	6 003	–	–	–	6 003
Employee benefits assets	392	–	–	–	392
Current income tax assets	62	–	–	–	62
Deferred tax assets	1 967	71	39	26	2 103
<b>Total non-current assets</b>	<b>98 190</b>	<b>71</b>	<b>3 039</b>	<b>26</b>	<b>101 326</b>
<b>Total assets</b>	<b>130 380</b>	<b>(114)</b>	<b>3 005</b>	<b>(61)</b>	<b>133 210</b>

**Consolidated balance sheet as at December 31, 2017 (continued)**

In millions of CHF

	December 31, 2017, as originally published	IFRS 15	IFRS 16	Other	December 31, 2017, restated
<b>Liabilities and equity</b>					
<b>Current liabilities</b>					
Financial debt	10 536	–	675	–	11 211
Trade and other payables	18 872	6	(14)	–	18 864
Accruals and deferred income	4 094	210	(5)	–	4 299
Provisions	863	–	(6)	(38)	819
Derivative liabilities	507	–	–	–	507
Current income tax liabilities	1 170	–	–	1 307	2 477
Liabilities directly associated with assets held for sale	12	–	–	–	12
<b>Total current liabilities</b>	<b>36 054</b>	<b>216</b>	<b>650</b>	<b>1 269</b>	<b>38 189</b>
<b>Non-current liabilities</b>					
Financial debt	15 932	–	2 634	–	18 566
Employee benefits liabilities	7 111	–	–	–	7 111
Provisions	2 445	–	(29)	(1 269)	1 147
Deferred tax liabilities	3 559	(35)	(32)	–	3 492
Other payables	2 502	–	(26)	–	2 476
<b>Total non-current liabilities</b>	<b>31 549</b>	<b>(35)</b>	<b>2 547</b>	<b>(1 269)</b>	<b>32 792</b>
<b>Total liabilities</b>	<b>67 603</b>	<b>181</b>	<b>3 197</b>	<b>–</b>	<b>70 981</b>
<b>Equity</b>					
Share capital	311	–	–	–	311
Treasury shares	(4 537)	–	–	–	(4 537)
Translation reserve	(19 433)	(2)	(1)	–	(19 436)
Other reserves	989	–	–	–	989
Retained earnings	84 174	(293)	(191)	(61)	83 629
<b>Total equity attributable to shareholders of the parent</b>	<b>61 504</b>	<b>(295)</b>	<b>(192)</b>	<b>(61)</b>	<b>60 956</b>
Non-controlling interests	1 273	–	–	–	1 273
<b>Total equity</b>	<b>62 777</b>	<b>(295)</b>	<b>(192)</b>	<b>(61)</b>	<b>62 229</b>
<b>Total liabilities and equity</b>	<b>130 380</b>	<b>(114)</b>	<b>3 005</b>	<b>(61)</b>	<b>133 210</b>



**Consolidated balance sheet as at January 1, 2017**

In millions of CHF

	January 1, 2017, as originally published	IFRS 15	IFRS 16	Other	January 1, 2017, restated
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	7 990	–	–	–	7 990
Short-term investments	1 306	–	–	–	1 306
Inventories	8 401	206	–	(87)	8 520
Trade and other receivables	12 411	(392)	–	3	12 022
Prepayments and accrued income	573	–	(38)	–	535
Derivative assets	550	–	–	–	550
Current income tax assets	786	–	–	(3)	783
Assets held for sale	25	–	–	–	25
<b>Total current assets</b>	<b>32 042</b>	<b>(186)</b>	<b>(38)</b>	<b>(87)</b>	<b>31 731</b>
<b>Non-current assets</b>					
Property, plant and equipment	27 554	–	2 743	–	30 297
Goodwill	33 007	–	–	–	33 007
Intangible assets	20 397	–	–	–	20 397
Investments in associates and joint ventures	10 709	–	–	–	10 709
Financial assets	5 719	–	–	–	5 719
Employee benefits assets	310	–	–	–	310
Current income tax assets	114	–	–	–	114
Deferred tax assets	2 049	81	34	26	2 190
<b>Total non-current assets</b>	<b>99 859</b>	<b>81</b>	<b>2 777</b>	<b>26</b>	<b>102 743</b>
<b>Total assets</b>	<b>131 901</b>	<b>(105)</b>	<b>2 739</b>	<b>(61)</b>	<b>134 474</b>

**Consolidated balance sheet as at January 1, 2017 (continued)**

In millions of CHF

	January 1, 2017, as originally published	IFRS 15	IFRS 16	Other	January 1, 2017, restated
<b>Liabilities and equity</b>					
<b>Current liabilities</b>					
Financial debt	12 118	–	659	–	12 777
Trade and other payables	18 629	6	(16)	–	18 619
Accruals and deferred income	3 855	215	(4)	–	4 066
Provisions	620	–	(8)	(21)	591
Derivative liabilities	1 068	–	–	–	1 068
Current income tax liabilities	1 221	–	–	1 528	2 749
Liabilities directly associated with assets held for sale	6	–	–	–	6
<b>Total current liabilities</b>	<b>37 517</b>	<b>221</b>	<b>631</b>	<b>1 507</b>	<b>39 876</b>
<b>Non-current liabilities</b>					
Financial debt	11 091	–	2 361	–	13 452
Employee benefits liabilities	8 420	–	–	–	8 420
Provisions	2 640	–	(5)	(1 507)	1 128
Deferred tax liabilities	3 865	(58)	(41)	–	3 766
Other payables	2 387	–	(18)	–	2 369
<b>Total non-current liabilities</b>	<b>28 403</b>	<b>(58)</b>	<b>2 297</b>	<b>(1 507)</b>	<b>29 135</b>
<b>Total liabilities</b>	<b>65 920</b>	<b>163</b>	<b>2 928</b>	<b>–</b>	<b>69 011</b>
<b>Equity</b>					
Share capital	311	–	–	–	311
Treasury shares	(990)	–	–	–	(990)
Translation reserve	(18 799)	–	–	–	(18 799)
Other reserves	1 198	–	–	–	1 198
Retained earnings	82 870	(268)	(189)	(61)	82 352
<b>Total equity attributable to shareholders of the parent</b>	<b>64 590</b>	<b>(268)</b>	<b>(189)</b>	<b>(61)</b>	<b>64 072</b>
Non-controlling interests	1 391	–	–	–	1 391
<b>Total equity</b>	<b>65 981</b>	<b>(268)</b>	<b>(189)</b>	<b>(61)</b>	<b>65 463</b>
<b>Total liabilities and equity</b>	<b>131 901</b>	<b>(105)</b>	<b>2 739</b>	<b>(61)</b>	<b>134 474</b>

As described in Note 1 Accounting policies, IFRS 9 has been applied for the first time as at January 1, 2018. The following table explains the changes in measurement and category under IFRS 9 for each class of Group's financial assets and the impact on net financial position as at January 1, 2018.

In millions of CHF

	December 31, 2017, restated				January 1, 2018, after first application of IFRS 9			
Classes	Loans, receivables and liabilities at amortized cost	At fair value to income statement	Available for sale	Total categories	At amortized cost	At fair value to income statement	At fair value to Other comprehensive income	Total categories
Cash at bank and in hand	2 202	—	—	2 202	2 202	—	—	2 202
Commercial paper	—	—	4 600	4 600	4 601	—	—	4 601
Time deposits	—	—	1 331	1 331	1 331	—	—	1 331
Bonds and debt funds	—	396	3 778	4 174	119	834	3 215	4 168
Equity and equity funds	—	428	114	542	—	475	67	542
Other financial assets	723	29	995	1 747	723	1 024	—	1 747
Liquid assets <sup>(a)</sup> and non-current financial assets	2 925	853	10 818	14 596	8 976	2 333	3 282	14 591
Trade and other receivables	12 036	—	—	12 036	12 021	—	—	12 021
Derivative assets <sup>(b)</sup>	—	231	—	231	—	231	—	231
<b>Total financial assets</b>	<b>14 961</b>	<b>1 084</b>	<b>10 818</b>	<b>26 863</b>	<b>20 997</b>	<b>2 564</b>	<b>3 282</b>	<b>26 843</b>
Trade and other payables	(21 340)	—	—	(21 340)	(21 340)	—	—	(21 340)
Financial debt	(29 777)	—	—	(29 777)	(29 777)	—	—	(29 777)
Derivative liabilities <sup>(b)</sup>	—	(507)	—	(507)	—	(507)	—	(507)
<b>Total financial liabilities</b>	<b>(51 117)</b>	<b>(507)</b>	<b>—</b>	<b>(51 624)</b>	<b>(51 117)</b>	<b>(507)</b>	<b>—</b>	<b>(51 624)</b>
<b>Net financial position</b>	<b>(36 156)</b>	<b>577</b>	<b>10 818</b>	<b>(24 761)</b>	<b>(30 120)</b>	<b>2 057</b>	<b>3 282</b>	<b>(24 781)</b>
of which at fair value	—	577	10 818	11 395	—	2 057	3 282	5 339

(a) Liquid assets are composed of cash and cash equivalents as well as short-term investments.

(b) Include derivatives held in hedge relationships and those that are undesignated (categorized as held-for-trading).

Amounts highlighted with a grey background are those impacted by the first application of IFRS 9.



# Statutory Auditor's Report

To the General Meeting of Nestlé S.A., Cham & Vevey

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the consolidated financial statements of Nestlé S.A. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2018, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 66 to 159) give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

### Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters



**Revenue recognition**



**Carrying value of goodwill and indefinite life intangible assets**



**Income taxes**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



## Revenue recognition

### Key Audit Matter

Revenue from the sale of goods is recognized at the moment when control has been transferred to the buyer; and is measured net of pricing allowances, other trade discounts, and price promotions to customers (collectively 'trade spend').

The judgments required by management to estimate trade spend accruals are complex due to the diverse range of contractual agreements and commercial terms across the Group's markets.

There is a risk that revenue may be overstated because of fraud, resulting from the pressure local management may feel to achieve performance targets. Revenue is also an important element of how the Group measures its performance, upon which management are incentivized.

The Group focuses on revenue as a key performance measure, which could create an incentive for revenue to be recognized before control has been transferred.

### Our response

We considered the appropriateness of the Group's revenue recognition accounting policies, including the recognition and classification criteria for trade spend.

Due to the high reliance of revenue recognition on IT, we evaluated the integrity of the general IT control environment and tested the operating effectiveness of key IT application controls. We performed detailed testing over the completeness and accuracy of the underlying customer master data, by assessing mandatory fields and critical segregation of duties.

Additionally we identified transactions that deviated from the standard process for further investigation and validated the existence and accuracy of this population. We also tested the operating effectiveness of controls over the calculation and monitoring of trade spend.

Furthermore, we performed a monthly trend analysis of revenue by market by considering both internal and external benchmarks, overlaying our understanding of each market, to compare the reported results with our expectation.

We also considered the accuracy of the Group's description of the accounting policy related to revenue, and whether revenue is adequately disclosed throughout the consolidated financial statements.

For further information on revenue recognition refer to the following:

- Note 1, "Accounting policies"
- Note 3, "Analyses by segment"



## Carrying value of goodwill and indefinite life intangible assets

### Key Audit Matter

The Group has goodwill of CHF 31,702 million and indefinite life intangible assets of CHF 16,872 million as at December 31, 2018, which are required to be tested for impairment at least on an annual basis. The recoverability of these assets is dependent on achieving sufficient level of future net cash flows.

Management apply judgment in allocating these assets to individual cash generating units ('CGUs') as well as in assessing the future performance and prospects of each CGU and determining the appropriate discount rates.

### Our response

We evaluated the accuracy of impairment tests applied to significant amounts of goodwill and indefinite life intangible assets, the appropriateness of the assumptions used, and the methodology used by management to prepare its cash flow forecasts. We also tested the design, implementation and operating effectiveness of controls over the preparation of impairment tests.

For a sample of CGUs, identified based on quantitative and qualitative factors, we assessed the historical accuracy of the plans and forecasts by comparing the forecasts used in the prior year model to the actual performance in the current year. We

compared these against the latest plans and forecasts approved by management.

We then challenged the robustness of the key assumptions used to determine the recoverable amount, including identification of the CGU, forecast cash flows, long term growth rates and the discount rate based on our understanding of the commercial prospects of the related assets. In addition, we identified and analysed changes in assumptions from prior periods, made an assessment of the appropriateness of assumptions, and performed a comparison of assumptions with publicly available data.

For further information on the carrying value of goodwill and indefinite life intangible assets refer to the following:

- Note 1, “Accounting policies”
- Note 9, “Goodwill and intangible assets”



## Income taxes

### Key Audit Matter

The Group operates across multiple tax jurisdictions around the world, and is thus regularly subject to tax challenges and audits by local tax authorities on various matters including intragroup financing, pricing and royalty arrangements, different business models and other transaction-related matters.

Where the amount of tax liabilities or assets is uncertain, the Group recognizes management's best estimate of the most likely outcome based on the facts known in the relevant jurisdiction.

### Our response

We evaluated management's judgment of tax risks, estimates of tax exposures and contingencies by involving our local country tax specialists and testing the design, implementation and operating effectiveness of related controls. Third party opinions, past and current experience with the tax authorities in the respective jurisdiction and our tax specialists' own expertise were used to assess the appropriateness of management's best estimate of the most likely outcome of each uncertain tax position.

Our audit approach included additional reviews performed at Group level to consider the Group's uncertain tax positions viewed from a worldwide perspective - in particular for transfer prices, intragroup financing and payments in relation to centralized business models where multiple jurisdictions and tax authorities are involved. We drew on our own tax expertise and knowledge gained with other similar groups to conclude on management's best estimate of the outcome on the Group's worldwide uncertain tax positions as they relate to more than one jurisdiction.

For further information on income taxes refer to the following:

- Note 1, “Accounting policies”
- Note 13, “Taxes”

## **Other Information in the Annual Report**

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the Company, the compensation report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibility of the Board of Directors for the Consolidated Financial Statements**

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the

related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

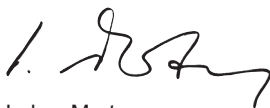
In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG SA



Scott Cormack  
Licensed Audit Expert  
Auditor in Charge



Lukas Marty  
Licensed Audit Expert

Geneva, February 13, 2019

KPMG SA, 111 Rue de Lyon, P.O. Box 347, CH-1211 Geneva 13

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# Financial information – 5 year review

In millions of CHF (except for data per share and employees)

	2018	2017 *
<b>Results</b>		
Sales	91 439	89 590
Underlying Trading operating profit <sup>(a)</sup>	15 521	14 771
as % of sales	17.0%	16.5%
Trading operating profit <sup>(a)</sup>	13 789	13 277
as % of sales	15.1%	14.8%
Taxes	3 439	2 773
Profit for the year attributable to shareholders of the parent (Net profit)	10 135	7 156
as % of sales	11.1%	8.0%
Total amount of dividend	7 311 <sup>(c)</sup>	7 124
Depreciation of property, plant and equipment <sup>(d)</sup>	3 604	3 560
<b>Balance sheet and Cash flow statement</b>		
Current assets	41 003	31 884
Non-current assets	96 012	101 326
Total assets	137 015	133 210
Current liabilities	43 030	38 189
Non-current liabilities	35 582	32 792
Equity attributable to shareholders of the parent	57 363	60 956
Non-controlling interests	1 040	1 273
Net financial debt <sup>(a)</sup>	30 330	21 369
Ratio of net financial debt to equity (gearing)	52.9%	35.1%
Operating cash flow	15 398	14 199
as % of net financial debt	50.8%	66.4%
Free cash flow <sup>(a)</sup>	10 765	9 358
Capital additions <sup>(d)</sup>	14 711	6 569
as % of sales	16.1%	7.3%
<b>Data per share</b>		
Weighted average number of shares outstanding (in millions of units)	3 014	3 092
Basic earnings per share	3.36	2.31
Underlying earnings per share <sup>(a)</sup>	4.02	3.55
Dividend	2.45 <sup>(c)</sup>	2.35
Pay-out ratio based on basic earnings per share	72.9% <sup>(c)</sup>	101.7%
Stock prices (high)	86.50	86.40
Stock prices (low)	72.92	71.45
Yield <sup>(b)</sup>	2.8/3.4 <sup>(c)</sup>	2.7/3.3
<b>Market capitalization</b>	<b>237 363</b>	<b>256 223</b>
<b>Number of employees (in thousands)</b>	<b>308</b>	<b>323</b>

\* 2017 restated figures include modifications as described in Note 1 Accounting policies and related impacts in Note 22.

(a) Certain financial performance measures, that are not defined by IFRS, are used by management to assess the financial and operational performance of the Group. The "Alternative Performance Measures" document published under <https://www.nestle.com/investors/publications> provides the definition of these non-IFRS financial performance measures.

(b) Calculated on the basis of the dividend for the year concerned, which is paid in the following year, and on high/low stock prices.

(c) As proposed by the Board of Directors of Nestlé S.A.

(d) Including right-of-use assets - leased since 2017.

2016	2015	2014	
			<b>Results</b>
89 469	88 785	91 612	Sales
14 307	14 032	14 816	Underlying Trading operating profit <sup>(a)</sup>
16.0%	15.8%	16.2%	as % of sales
13 693	13 382	14 019	Trading operating profit <sup>(a)</sup>
15.3%	15.1%	15.3%	as % of sales
4 413	3 305	3 367	Taxes
8 531	9 066	14 456	Profit for the year attributable to shareholders of the parent (Net profit)
9.5%	10.2%	15.8%	as % of sales
7 126	6 937	6 950	Total amount of dividend
2 795	2 861	2 782	Depreciation of property, plant and equipment <sup>(d)</sup>
			<b>Balance sheet and Cash flow statement</b>
32 042	29 434	33 961	Current assets
99 859	94 558	99 489	Non-current assets
131 901	123 992	133 450	Total assets
37 517	33 321	32 895	Current liabilities
28 403	26 685	28 671	Non-current liabilities
64 590	62 338	70 130	Equity attributable to shareholders of the parent
1 391	1 648	1 754	Non-controlling interests
13 913	15 425	12 325	Net financial debt <sup>(a)</sup>
21.5%	24.7%	17.6%	Ratio of net financial debt to equity (gearing)
15 582	14 302	14 700	Operating cash flow
112.0%	92.7%	119.3%	as % of net financial debt
10 108	9 945	14 137	Free cash flow <sup>(a)</sup>
5 462	4 883	14 263	Capital additions <sup>(d)</sup>
6.1%	5.5%	15.6%	as % of sales
			<b>Data per share</b>
3 091	3 129	3 188	Weighted average number of shares outstanding (in millions of units)
2.76	2.90	4.54	Basic earnings per share
3.40	3.31	3.44	Underlying earnings per share <sup>(a)</sup>
2.30	2.25	2.20	Dividend
83.3%	77.6%	48.5%	Pay-out ratio based on basic earnings per share
80.05	77.00	73.30	Stock prices (high)
67.00	64.55	63.85	Stock prices (low)
2.9/3.4	2.9/3.5	3.0/3.4	Yield <sup>(b)</sup>
<b>226 310</b>	<b>229 947</b>	<b>231 136</b>	<b>Market capitalization</b>
<b>328</b>	<b>335</b>	<b>339</b>	<b>Number of employees (in thousands)</b>

# Companies of the Nestlé Group, joint arrangements and associates

In the context of the SIX Swiss Exchange Directive on Information relating to Corporate Governance, the disclosure criteria of the principal affiliated companies are as follows:

- operating companies are disclosed if their sales exceed CHF 10 million or equivalent;
- financial companies are disclosed if either their equity exceeds CHF 10 million or equivalent and/or the total balance sheet is higher than CHF 50 million or equivalent;
- joint ventures and associates are disclosed if the share held by the Group in their profit exceeds CHF 10 million or equivalent and/or the Group's investment in them exceeds CHF 50 million or equivalent

Entities directly held by Nestlé S.A. that are below the disclosure criteria are listed with a °.

All companies listed below are fully consolidated except for:

- 1) Joint ventures accounted for using the equity method;
- 2) Joint operations accounted for in proportion to the Nestlé contractual specified share (usually 50%);
- 3) Associates accounted for using the equity method.

Countries within the continents are listed according to the alphabetical order of the country names.

Percentage of capital shareholding corresponds to voting powers unless stated otherwise.

△ Companies listed on the stock exchange

◊ Sub-holding, financial and property companies

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Europe</b>					
<b>Austria</b>					
Galderma Austria GmbH	Linz		100%	EUR	35 000
Nespresso Österreich GmbH & Co. OHG	Wien		100%	EUR	35 000
Nestlé Österreich GmbH	Wien	34.4%	100%	EUR	7 270 000
<b>Azerbaijan</b>					
Nestlé Azerbaijan LLC	Baku	100%	100%	USD	200 000
<b>Belarus</b>					
LLC Nestlé Bel	° Minsk	100%	100%	BYN	410 000
<b>Belgium</b>					
Centre de Coordination Nestlé S.A.	◊ Bruxelles	91.5%	100%	EUR	2 310 084 443
Nespresso Belgique S.A.	Bruxelles	100%	100%	EUR	550 000
Nestlé Belgilux S.A.	Bruxelles	56.9%	100%	EUR	64 924 438
Nestlé Catering Services N.V.	Bruxelles		100%	EUR	14 035 500
Nestlé Waters Benelux S.A.	Etalle		100%	EUR	5 601 257
<b>Bosnia and Herzegovina</b>					
Nestlé Adriatic BH d.o.o.	Sarajevo	100%	100%	BAM	2 151

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Bulgaria</b>					
Nestlé Bulgaria A.D.	Sofia	100%	100%	BGN	10 234 933
<b>Croatia</b>					
Nestlé Adriatic d.o.o.	Zagreb	100%	100%	HRK	14 685 500
<b>Czech Republic</b>					
Mucos Pharma CZ, s.r.o.	Pruhonice		100%	CZK	160 000
Nestlé Cesko s.r.o.	Praha	100%	100%	CZK	300 000 000
Tivall CZ, s.r.o.	Krupka		100%	CZK	400 000 000
<b>Denmark</b>					
Nestlé Danmark A/S	Copenhagen	100%	100%	DKK	44 000 000
Nestlé Professional Food A/S	Faxe		100%	DKK	12 000 000
Glycom A/S	<sup>3)</sup> Copenhagen	36.3%	36.3%	DKK	1 508 925
<b>Finland</b>					
Puljonki Oy	Juuka		100%	EUR	85 000
Suomen Nestlé Oy	Espoo	100%	100%	EUR	6 000 000
<b>France</b>					
Centres de Recherche et Développement Nestlé S.A.S.	Noisiel		100%	EUR	3 138 230
Galderma International S.A.S.	Courbevoie		100%	EUR	940 020
Galderma Research and Development SNC	Biot		100%	EUR	30 322 851
Herta S.A.S.	Noisiel		100%	EUR	12 908 610
Laboratoires Galderma S.A.S.	Alby-sur-Chéran		100%	EUR	14 015 454
Nespresso France S.A.S.	Paris		100%	EUR	1 360 000
Nestlé Entreprises S.A.S.	<sup>0</sup> Noisiel		100%	EUR	739 559 392
Nestlé France S.A.S.	Noisiel		100%	EUR	130 925 520
Nestlé France M.G. S.A.S.	Noisiel		100%	EUR	50 000
Nestlé Health Science France S.A.S.	Noisiel		100%	EUR	57 943 072
Nestlé Purina PetCare France S.A.S.	Noisiel		100%	EUR	21 091 872
Nestlé Waters S.A.S.	<sup>0</sup> Issy-les-Moulineaux		100%	EUR	254 825 042
Nestlé Waters France S.A.S.	<sup>0</sup> Issy-les-Moulineaux		100%	EUR	44 856 149
Nestlé Waters Management & Technology S.A.S.	Issy-les-Moulineaux		100%	EUR	38 113
Nestlé Waters Marketing & Distribution S.A.S.	Issy-les-Moulineaux		100%	EUR	26 740 940
Nestlé Waters Services S.A.S.	Issy-les-Moulineaux		100%	EUR	1 356 796
Nestlé Waters Supply Est S.A.S.	Issy-les-Moulineaux		100%	EUR	17 539 660
Nestlé Waters Supply Sud S.A.S.	Issy-les-Moulineaux		100%	EUR	7 309 106
Société des Produits Alimentaires de Caudry S.A.S.	Noisiel		100%	EUR	8 670 319
Société Immobilière de Noisiel S.A.	<sup>0</sup> Noisiel		100%	EUR	22 753 550
Société Industrielle de Transformation de Produits Agricoles S.A.S.	Noisiel		100%	EUR	9 718 000
Wamiz S.A.S.	<sup>o</sup> Paris	67%	67%	EUR	31 182

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>France (continued)</b>						
Cereal Partners France SNC	1)	Noisiel		50%	EUR	3 000 000
L'Oréal S.A. <sup>(a)</sup>	Δ3)	Paris	23.2%	23.2%	EUR	112 079 330
<i>Listed on the Paris stock exchange, market capitalization EUR 112.7 billion, quotation code (ISIN) FR0000120321</i>						
Lactalis Nestlé Produits Frais S.A.S.	3)	Laval	40%	40%	EUR	69 208 832
<b>Georgia</b>						
Nestlé Georgia LLC	°	Tbilisi	100%	100%	CHF	700 000
<b>Germany</b>						
Bübchen-Werk Ewald Hermes Pharmazeutische Fabrik GmbH		Soest		100%	EUR	25 565
Galderma Laboratorium GmbH		Düsseldorf		100%	EUR	800 000
Mucos Pharma GmbH & Co. KG		Berlin		100%	EUR	127 823
Nestlé Deutschland AG		Frankfurt am Main		100%	EUR	214 266 628
Nestlé Product Technology Centre Lebensmittelforschung GmbH		Freiburg i. Br.		100%	EUR	52 000
Nestlé Unternehmungen Deutschland GmbH	◊	Frankfurt am Main		100%	EUR	60 000 000
Nestlé Waters Deutschland GmbH		Frankfurt am Main		100%	EUR	10 566 000
Terra Canis GmbH		München		80%	EUR	60 336
C.P.D. Cereal Partners Deutschland GmbH & Co. OHG	1)	Frankfurt am Main		50%	EUR	511 292
Trinks GmbH	3)	Braunschweig		25%	EUR	2 360 000
Trinks Süd GmbH	3)	München		25%	EUR	260 000
<b>Greece</b>						
Nespresso Hellas S.A.		Maroussi	100%	100%	EUR	500 000
Nestlé Hellas S.A.		Maroussi	100%	100%	EUR	5 269 765
C.P.W. Hellas Breakfast Cereals S.A.	1)	Maroussi		50%	EUR	201 070
<b>Hungary</b>						
Nestlé Hungária Kft.		Budapest	100%	100%	HUF	6 000 000 000
Cereal Partners Hungária Kft.	1)	Budapest		50%	HUF	22 000 000
<b>Italy</b>						
Galderma Italia S.p.A.		Milano		100%	EUR	612 000
Nespresso Italiana S.p.A.		Assago		100%	EUR	250 000
Nestlé Italiana S.p.A.		Assago	100%	100%	EUR	25 582 492
Sanpellegrino S.p.A.		San Pellegrino Terme		100%	EUR	58 742 145
<b>Kazakhstan</b>						
Nestlé Food Kazakhstan LLP		Almaty	100%	100%	KZT	91 900

<sup>(a)</sup> Voting powers amount to 23.2%

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Lithuania</b>					
UAB „Nestlé Baltics“	Vilnius	100%	100%	EUR	31 856
<b>Luxembourg</b>					
Compagnie Financière du Haut-Rhin S.A.	◊ Luxembourg		100%	EUR	105 200 000
Nespresso Luxembourg Sàrl	Luxembourg	100%	100%	EUR	12 525
Nestlé Finance International Ltd	◊ Luxembourg	100%	100%	EUR	440 000
Nestlé Treasury International S.A.	◊ Luxembourg	100%	100%	EUR	1 000 000
NTC-Europe S.A.	◊ Luxembourg	100%	100%	EUR	3 565 000
<b>Macedonia</b>					
Nestlé Adriatik Makedonija d.o.o.e.l.	Skopje-Karpos	100%	100%	MKD	31 065 780
<b>Malta</b>					
Nestlé Malta Ltd	Lija	99.9%	100%	EUR	116 470
<b>Moldova</b>					
LLC Nestlé	° Chisinau	100%	100%	USD	1 000
<b>Netherlands</b>					
Atrium Cooperatief U.A.	° Almere	100%	100%	EUR	—
East Springs International N.V.	◊ Amsterdam		100%	EUR	25 370 000
Galderma BeNeLux B.V.	Rotterdam	100%	100%	EUR	18 002
MCO Health B.V.	Almere		100%	EUR	418 000
Nespresso Nederland B.V.	Amsterdam		100%	EUR	680 670
Nestlé Nederland B.V.	Amsterdam	100%	100%	EUR	11 346 000
<b>Norway</b>					
A/S Nestlé Norge	Bærum		100%	NOK	81 250 000
<b>Poland</b>					
Galderma Polska Z o.o.	Warszawa		100%	PLN	93 000
Nestlé Polska S.A.	Warszawa	100%	100%	PLN	48 378 300
Cereal Partners Poland Torun-Pacific Sp. Z o.o.	<sup>1)</sup> Torun	50%	50%	PLN	14 572 838
<b>Portugal</b>					
Nestlé Business Services Lisbon, S.A.	° Oeiras	100%	100%	EUR	50 000
Nestlé Portugal, Unipessoal, Lda.	Oeiras		100%	EUR	30 000 000
Cereal Associados Portugal A.E.I.E.	<sup>1)</sup> Oeiras		50%	EUR	99 760
<b>Republic of Ireland</b>					
Nestlé (Ireland) Ltd	Dublin		100%	EUR	1 270
Wyeth Nutritionals Ireland Ltd	Askeaton		100%	USD	10 000 000
WyNutri Ltd	Dublin		100%	USD	1

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Republic of Serbia</b>					
Nestlé Adriatic S d.o.o., Beograd-Surcin	Beograd-Surcin	100%	100%	RSD	12 222 327 814
<b>Romania</b>					
Nestlé Romania S.R.L.	Bucharest	100%	100%	RON	132 906 800
<b>Russia</b>					
LLC Atrium Innovations Rus	Moscow		100%	RUB	6 000 000
Nestlé Kuban LLC	Timashevsk	67.4%	100%	RUB	21 041 793
Nestlé Rossiya LLC	Moscow	84.1%	100%	RUB	880 154 115
ooo Galderma LLC	Moscow		100%	RUB	25 000 000
Cereal Partners Rus, LLC	<sup>1)</sup> Moscow	35%	50%	RUB	39 730 860
<b>Slovak Republic</b>					
Nestlé Slovensko s.r.o.	Prievidza	100%	100%	EUR	13 277 568
<b>Slovenia</b>					
Nestlé Adriatic Trgovina d.o.o.	<sup>o</sup> Ljubljana	100%	100%	EUR	8 763
<b>Spain</b>					
Laboratorios Galderma, S.A.	Madrid		100%	EUR	432 480
Nestlé España S.A.	Esplugues de Llobregat (Barcelona)	100%	100%	EUR	100 000 000
Nestlé Global Services Spain, S.L.	<sup>o</sup> Esplugues de Llobregat (Barcelona)	100%	100%	EUR	3 000
Nestlé Purina PetCare España S.A.	Castellbisbal (Barcelona)		100%	EUR	12 000 000
Productos del Café S.A.	Reus (Tarragona)		100%	EUR	6 600 000
Cereal Partners España A.E.I.E.	<sup>1)</sup> Esplugues de Llobregat (Barcelona)		50%	EUR	120 202
<b>Sweden</b>					
Galderma Nordic AB	Uppsala		100%	SEK	100 000
Nestlé Sverige AB	Helsingborg		100%	SEK	20 000 000
Q-Med AB	Uppsala		100%	SEK	24 845 500
<b>Switzerland</b>					
DPA (Holding) S.A.	<sup>o</sup> Vevey	100%	100%	CHF	100 000
Entreprises Maggi S.A.	<sup>o</sup> Cham	100%	100%	CHF	100 000
Galderma S.A.	Cham		100%	CHF	178 100
Galderma Pharma S.A.	<sup>o</sup> Lausanne		100%	CHF	48 900 000
Intercona Re AG	<sup>o</sup> Châtel-St-Denis		100%	CHF	35 000 000
Nespresso IS Services S.A.	<sup>o</sup> Lausanne	100%	100%	CHF	100 000
Nestec S.A.	Vevey	100%	100%	CHF	5 000 000



Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Switzerland (continued)</b>					
Nestlé Capital Advisers S.A.	° Vevey	100%	100%	CHF	400 000
Nestlé Finance S.A.	◊ Cham		100%	CHF	30 000 000
Nestlé Health Science S.A.	° Epalinges	100%	100%	CHF	100 000
Nestlé International Travel Retail S.A.	Vevey	100%	100%	CHF	3 514 000
Nestlé Nespresso S.A.	Lausanne	100%	100%	CHF	2 000 000
Nestlé Operational Services Worldwide S.A.	Bussigny-près-Lausanne	100%	100%	CHF	100 000
Nestlé Skin Health S.A.	° Lausanne	100%	100%	CHF	100 000
Nestlé Ventures S.A.	° Vevey	100%	100%	CHF	250 000
Nestlé Waters (Suisse) S.A.	Henniez		100%	CHF	5 000 000
Nestrad S.A.	La Tour-de-Peilz	100%	100%	CHF	6 500 000
Nutrition-Wellness Venture AG	◊ Vevey	100%	100%	CHF	100 000
Provestor AG	◊° Cham	100%	100%	CHF	2 000 000
Société des Produits Nestlé S.A.	Vevey	100%	100%	CHF	34 750 000
Sofinol S.A.	Manno		100%	CHF	3 000 000
Somafa S.A.	◊° Cham	100%	100%	CHF	400 000
Spirig Pharma AG	Egerkingen		100%	CHF	600 000
Terrafertil Gold Switzerland Sàrl	◊° Zug	60%	60%	CHF	40 000
The Proactiv Company Sàrl	Lausanne		75%	CHF	20 000
Vetropa S.A.	◊° Fribourg	100%	100%	CHF	2 500 000
CPW Operations Sàrl	1) Prilly	50%	50%	CHF	20 000
CPW S.A.	°1) Prilly	50%	50%	CHF	10 000 000
Microbiome Diagnostics Partners S.A.	°1) Epalinges	50%	50%	CHF	100 000
Eckes-Granini (Suisse) S.A.	2) Henniez		49%	CHF	2 000 000
<b>Turkey</b>					
Erikli Su ve Mesrubat Sanayi ve Ticaret A.S.	Bursa		100%	TRY	20 700 000
Nestlé Türkiye Gıda Sanayi A.S.	Istanbul	99.9%	99.9%	TRY	35 000 000
Cereal Partners Gıda Ticaret Limited Sirketi	1) Istanbul		50%	TRY	28 080 000
<b>Ukraine</b>					
LLC Nestlé Ukraine	Kyiv	100%	100%	USD	150 000
JSC Lviv Confectionery Factory „Svitoch“	Lviv	100%	100%	UAH	88 111 060
PRJSC Volynholding	Torchyn	90.5%	100%	UAH	100 000
<b>United Kingdom</b>					
Galderma (UK) Ltd	Watford	100%	100%	GBP	1 500 000
Nespresso UK Ltd	Gatwick		100%	GBP	275 000
Nestec York Ltd	Gatwick		100%	GBP	500 000
Nestlé Holdings (UK) PLC	◊ Gatwick		100%	GBP	77 940 000
Nestlé Purina PetCare (UK) Ltd	Gatwick		100%	GBP	44 000 000
Nestlé UK Ltd	Gatwick		100%	GBP	129 972 342
Nestlé Waters UK Ltd	Gatwick		100%	GBP	640
Osem UK Ltd	London		100%	GBP	2 000

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>United Kingdom (continued)</b>						
Princes Gate Water Ltd		Pembrokeshire		90%	GBP	199 630
Proactiv Skin Health Ltd		London		75%	GBP	101
Tailsco Ltd		° London	82.9%	82.9%	GBP	16
Vitaflo (International) Ltd		Liverpool		100%	GBP	625 379
Cereal Partners UK	1)	Herts		50%	GBP	—
Froneri Ltd <sup>(b)</sup>	1)	Northallerton	22%	44.5%	EUR	14 304
Phagenesis Ltd	°3)	Manchester	29.2%	29.2%	GBP	16 146

<sup>(b)</sup> Excluding non voting preference shares. Voting powers amount to 50%

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Africa</b>					
<b>Algeria</b>					
Nestlé Algérie SpA	Alger	<0.1%	49%	DZD	650 000 000
Nestlé Industrie Algérie SpA	° Alger	49%	49%	DZD	1 100 000 000
Nestlé Waters Algérie SpA	Blida		49%	DZD	377 606 250
<b>Angola</b>					
Nestlé Angola Lda	Luanda	100%	100%	AOA	1 791 870 000
<b>Burkina Faso</b>					
Nestlé Burkina Faso S.A.	Ouagadougou		100%	XOF	50 000 000
<b>Cameroon</b>					
Nestlé Cameroun S.A.	Douala	100%	100%	XAF	4 323 960 000
<b>Côte d'Ivoire</b>					
Nestlé Côte d'Ivoire S.A.	△ Abidjan	79.6%	86.5%	XOF	5 517 600 000
<i>Listed on the Abidjan stock exchange, market capitalization XOF 22.3 billion, quotation code (ISIN) CI0009240728</i>					
<b>Egypt</b>					
Caravan Marketing Company S.A.E.	Giza	100%	100%	EGP	33 000 000
Nestlé Egypt S.A.E.	Giza	100%	100%	EGP	80 722 000
Nestlé Waters Egypt S.A.E.	Cairo		63.8%	EGP	90 140 000
<b>Ethiopia</b>					
Nestlé Waters Ethiopia Share Company	Addis Ababa		51%	ETB	223 450 770
<b>Gabon</b>					
Nestlé Gabon, S.A.	Libreville	90%	90%	XAF	344 000 000
<b>Ghana</b>					
Nestlé Central and West Africa Ltd	Accra	100%	100%	GHS	95 796 000
Nestlé Ghana Ltd	Accra	76%	76%	GHS	20 100 000
<b>Kenya</b>					
Nestlé Equatorial African Region Ltd	Nairobi	100%	100%	KES	132 000 000
Nestlé Kenya Ltd	Nairobi	100%	100%	KES	226 100 400
<b>Mauritius</b>					
Nestlé's Products (Mauritius) Ltd	Port Louis	100%	100%	MUR	2 475 687 502
<b>Morocco</b>					
Nestlé Maghreb S.A.	° Casablanca	100%	100%	MAD	300 000
Nestlé Maroc S.A.	El Jadida	94.5%	94.5%	MAD	156 933 000

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Mozambique</b>					
Nestlé Moçambique Lda	° Maputo	100%	100%	MZN	3 131 711 700
<b>Nigeria</b>					
Nestlé Nigeria Plc	Δ Ilupeju	66.2%	66.2%	NGN	396 328 126
<i>Listed on the Nigerian Stock Exchange, market capitalization NGN 1177.0 billion, quotation code (ISIN) NGNESTLE0006</i>					
<b>Senegal</b>					
Nestlé Sénégal S.A.	Dakar	100%	100%	XOF	1 620 000 000
<b>South Africa</b>					
Galderma Laboratories South Africa (Pty) Ltd	Bryanston		100%	ZAR	375 000
Nestlé (South Africa) (Pty) Ltd	Johannesburg	100%	100%	ZAR	759 735 000
Clover Waters Proprietary Limited	<sup>3)</sup> Johannesburg		30%	ZAR	56 021 890
<b>Tunisia</b>					
Nestlé Tunisie S.A.	° Tunis	99.5%	99.5%	TND	8 438 280
Nestlé Tunisie Distribution S.A.	Tunis	<0.1%	99.5%	TND	100 000
<b>Zambia</b>					
Nestlé Zambia Trading Ltd	Lusaka	99.8%	100%	ZMW	2 317 500
<b>Zimbabwe</b>					
Nestlé Zimbabwe (Private) Ltd	Harare	100%	100%	USD	2 100 000

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Americas</b>					
<b>Argentina</b>					
Eco de Los Andes S.A.	Buenos Aires		50.9%	ARS	92 524 285
Galderma Argentina S.A.	Buenos Aires		100%	ARS	9 900 000
Nestlé Argentina S.A.	Buenos Aires	100%	100%	ARS	233 316 000
<b>Bolivia</b>					
Industrias Alimentícias Fagal S.R.L.	Santa Cruz	98.5%	100%	BOB	175 556 000
Nestlé Bolivia S.A.	Santa Cruz	99%	100%	BOB	191 900
<b>Brazil</b>					
Chocolates Garoto S.A.	Vila Velha		100%	BRL	264 766 192
Dairy Partners Americas Manufacturing Brasil Ltda	São Paulo		100%	BRL	39 468 974
Galderma Brasil Ltda	São Paulo		100%	BRL	299 741 602
Nestlé Brasil Ltda	São Paulo	100%	100%	BRL	452 985 643
Nestlé Nordeste Alimentos e Bebidas Ltda	Feira de Santana		100%	BRL	259 547 969
Nestlé Sudeste Alimentos e Bebidas Ltda	São Paulo		100%	BRL	109 317 818
Nestlé Sul – Alimentos e Bebidas Ltda	Carazinho		100%	BRL	73 049 736
Nestlé Waters Brasil – Bebidas e Alimentos Ltda	° São Paulo	100%	100%	BRL	87 248 341
Ralston Purina do Brasil Ltda	° Ribeirão Preto	100%	100%	BRL	17 976 826
SOCOPAL – Sociedade Comercial de Corretagem de Seguros e de Participações Ltda	° São Paulo	100%	100%	BRL	2 155 600
CPW Brasil Ltda	1) Caçapava		50%	BRL	7 885 520
Dairy Partners Americas Brasil Ltda	3) São Paulo	49%	49%	BRL	300 806 368
Dairy Partners Americas Nordeste – Produtos Alimentícios Ltda	3) Garanhuns		49%	BRL	100 000
<b>Canada</b>					
Atrium Innovations Inc.	Westmount (Québec)	99.6%	99.6%	CAD	488 907 443
G. Production Canada Inc.	Baie D’Urfé (Québec)		100%	CAD	5 100 000
Galderma Canada Inc.	Saint John (New Brunswick)		100%	CAD	1 000 000
Nestlé Canada Inc.	Toronto (Ontario)	65.7%	100%	CAD	47 165 540
Nestlé Capital Canada Ltd	° Toronto (Ontario)		100%	CAD	1 010
<b>Cayman Islands</b>					
Hsu Fu Chi International Limited	° Grand Cayman	60%	60%	SGD	7 950 000
<b>Chile</b>					
Galderma Chile Laboratorios Ltda	Santiago de Chile		100%	CLP	12 330 000
Nespresso Chile S.A.	Santiago de Chile		99.7%	CLP	1 000 000
Nestlé Chile S.A.	Santiago de Chile	99.7%	99.7%	CLP	11 832 926 000
Cereales CPW Chile Ltda	1) Santiago de Chile		50%	CLP	3 026 156 114
Aguas CCU – Nestlé Chile S.A.	3) Santiago de Chile		49.8%	CLP	49 799 375 321

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Colombia</b>					
Comestibles La Rosa S.A.	Bogotá	52.4%	100%	COP	126 397 400
Dairy Partners Americas Manufacturing Colombia Ltda	Bogotá	99.8%	100%	COP	200 000 000
Galderma de Colombia S.A.	Bogotá		100%	COP	2 250 000 000
Nestlé de Colombia S.A.	Bogotá	100%	100%	COP	1 291 305 400
Nestlé Purina PetCare de Colombia S.A.	Bogotá	<0.1%	100%	COP	17 030 000 000
<b>Costa Rica</b>					
Compañía Nestlé Costa Rica S.A.	Heredia	100%	100%	CRC	18 000 000
<b>Cuba</b>					
Coralac S.A.	La Habana		60%	USD	6 350 000
Los Portales S.A.	La Habana		50%	USD	24 110 000
Nescor, S.A.	° Artemisa	50.9%	50.9%	USD	32 200 000
<b>Dominican Republic</b>					
Nestlé Dominicana S.A.	Santo Domingo	98.7%	99.9%	DOP	1 657 445 000
Silsa Dominicana S.A.	Santo Domingo		99.9%	USD	50 000
<b>Ecuador</b>					
Ecuajugos S.A.	Quito	100%	100%	USD	521 583
Industrial Surindu S.A.	Quito	<0.1%	100%	USD	3 000 000
Nestlé Ecuador S.A.	Quito	100%	100%	USD	1 776 760
Terrafertil S.A.	Tabacundo		60%	USD	525 800
<b>El Salvador</b>					
Nestlé El Salvador, S.A. de C.V.	San Salvador	100%	100%	USD	4 457 200
<b>Guatemala</b>					
Compañía de Servicios de Distribucion, S.A.	° Guatemala City	100%	100%	GTQ	50 000
Genoveva, S.A.	° Guatemala City	100%	100%	GTQ	4 598 400
Industrias Consolidadas de Occidente, S.A.	° Chimaltenango	100%	100%	GTQ	300 000
Malher Export S.A.	° Guatemala City	100%	100%	GTQ	5 000
Malher, S.A.	Guatemala City	100%	100%	GTQ	100 000 000
Nestlé Guatemala S.A.	Guatemala City	35%	100%	GTQ	23 460 600
SERESA, Contratación de Servicios Empresariales, S.A.	Guatemala City	100%	100%	GTQ	25 000
TESOCORP, S.A.	° Guatemala City	100%	100%	GTQ	5 000
<b>Honduras</b>					
Malher de Honduras, S.A. de C.V.	° Tegucigalpa	83.2%	100%	HNL	25 000
Nestlé Hondureña S.A.	Tegucigalpa	95%	100%	PAB	200 000

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Jamaica</b>					
Nestlé Jamaica Ltd	Kingston	100%	100%	JMD	49 200 000
<b>Mexico</b>					
Galderma México, S.A. de C.V.	México, D.F.		100%	MXN	2 385 000
Malhemex, S.A. de C.V.	° México, D.F.	100%	100%	MXN	50 000
Manantiales La Asunción, S.A.P.I. de C.V. <sup>(c)</sup>	México, D.F.		40%	MXN	1 035 827 492
Marcas Nestlé, S.A. de C.V.	México, D.F.	<0.1%	100%	MXN	500 050 000
Nescalín, S.A. de C.V.	◊ México, D.F.	100%	100%	MXN	445 826 740
Nespresso México, S.A. de C.V.	México, D.F.	<0.1%	100%	MXN	10 050 000
Nestlé Holding México, S.A. de C.V.	◊° México, D.F.	100%	100%	MXN	50 000
Nestlé México, S.A. de C.V.	México, D.F.	<0.1%	100%	MXN	607 532 730
Nestlé Servicios Corporativos, S.A. de C.V.	México, D.F.	<0.1%	100%	MXN	170 100 000
Nestlé Servicios Industriales, S.A. de C.V.	México, D.F.		100%	MXN	1 050 000
Productos Gerber, S.A. de C.V.	Queretaro		100%	MXN	5 252 440
Ralston Purina México, S.A. de C.V.	México, D.F.	<0.1%	100%	MXN	9 257 112
Terraferil México S.A.P.I. de C.V.	Tultitlán		60%	MXN	11 485 560
Waters Partners Services México, S.A.P.I. de C.V. <sup>(c)</sup>	México, D.F.		40%	MXN	620 000
CPW México, S. de R.L. de C.V.	1) México, D.F.		50%	MXN	708 138 000
<b>Nicaragua</b>					
Compañía Centroamericana de Productos Lácteos, S.A.	Managua	66.1%	92.6%	NIO	10 294 900
Nestlé Nicaragua, S.A.	Managua	95%	100%	USD	150 000
<b>Panama</b>					
Nestlé Centroamérica, S.A.	Panamá City	100%	100%	USD	1 000 000
Nestlé Panamá, S.A.	Panamá City	100%	100%	PAB	17 500 000
Unilac, Inc.	◊ Panamá City	100%	100%	USD	750 000
<b>Paraguay</b>					
Nestlé Business Services Latam S.A.	° Asunción	99.9%	100%	PYG	100 000 000
Nestlé Paraguay S.A.	Asunción	100%	100%	PYG	100 000 000
<b>Peru</b>					
Nestlé Marcas Perú, S.A.C.	Lima	50%	100%	PEN	5 536 832
Nestlé Perú, S.A.	Lima	99.5%	99.5%	PEN	88 964 263
<b>Puerto Rico</b>					
Nestlé Puerto Rico, Inc.	San Juan	100%	100%	USD	500 000
Payco Foods Corporation	Bayamon		100%	USD	890 000

<sup>(c)</sup> Voting powers amount to 51%

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Trinidad and Tobago</b>					
Nestlé Caribbean, Inc.	Valsayn	95%	100%	USD	100 000
Nestlé Trinidad and Tobago Ltd	Valsayn	100%	100%	TTD	35 540 000
<b>United States</b>					
BBC New Holdings, LLC	◊ Wilmington (Delaware)		68.1%	USD	0
Blue Bottle Coffee, Inc.	Wilmington (Delaware)		68.1%	USD	0
Chameleon Cold Brew, LLC	Wilmington (Delaware)		100%	USD	0
Checkerboard Holding Company, Inc.	◊ Wilmington (Delaware)		100%	USD	1 001
Dreyer's Grand Ice Cream Holdings, Inc.	◊ Wilmington (Delaware)		100%	USD	10
Foundry Foods, Inc.	Wilmington (Delaware)		100%	USD	1
Galderma Research and Development, LLC	Wilmington (Delaware)		100%	USD	2 050 000
Garden of Life LLC	Wilmington (Delaware)		100%	USD	—
Gerber Products Company	Fremont (Michigan)		100%	USD	1 000
HVL LLC	Wilmington (Delaware)		100%	USD	—
Lieberman Productions LLC	Sacramento (California)		75%	USD	—
Lifelong Nutrition Inc.	Wilmington (Delaware)		50%	USD	1 200
Malher, Inc.	Stafford (Texas)		100%	USD	1 000
Merrick Pet Care, Inc.	Dallas (Texas)		100%	USD	1 000 000
Merrick Pet Care Holdings Corporation	◊ Wilmington (Delaware)		100%	USD	100
Nespresso USA, Inc.	Wilmington (Delaware)		100%	USD	1 000
Nestlé Capital Corporation	◊ Wilmington (Delaware)		100%	USD	1 000 000
Nestlé Dreyer's Ice Cream Company	Wilmington (Delaware)		100%	USD	1
Nestlé Health Science US Holdings, Inc.	◊ Wilmington (Delaware)		100%	USD	1
Nestlé HealthCare Nutrition, Inc.	Wilmington (Delaware)		100%	USD	50 000
Nestlé Holdings, Inc.	◊ Wilmington (Delaware)		100%	USD	100 000
Nestlé Insurance Holdings, Inc.	◊ Wilmington (Delaware)		100%	USD	10
Nestlé Nutrition R&D Centers, Inc.	Wilmington (Delaware)		100%	USD	10 000
Nestlé Prepared Foods Company	Philadelphia (Pennsylvania)		100%	USD	476 760
Nestlé Purina PetCare Company	St. Louis (Missouri)		100%	USD	1 000
Nestlé Purina PetCare Global Resources, Inc.	Wilmington (Delaware)		100%	USD	1 000
Nestlé R&D Center, Inc.	Wilmington (Delaware)		100%	USD	10 000
Nestlé Regional GLOBE Office North America, Inc.	Wilmington (Delaware)		100%	USD	1 000
Nestlé Transportation Company	Wilmington (Delaware)		100%	USD	100
Nestlé US Holdco, Inc.	◊ Wilmington (Delaware)		100%	USD	1
Nestlé USA, Inc.	Wilmington (Delaware)		100%	USD	1 000
Nestlé Waters North America Holdings, Inc.	◊ Wilmington (Delaware)		100%	USD	10 000 000
Nestlé Waters North America, Inc.	Wilmington (Delaware)		100%	USD	10 700 000
NiMCo US, Inc.	◊ Wilmington (Delaware)		100%	USD	10
NSH Services Inc.	Fort Worth (Texas)		100%	USD	981
Prometheus Laboratories Inc.	San Diego (California)		100%	USD	100
Pure Encapsulations, LLC	Wilmington (Delaware)		100%	USD	—



Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>United States (continued)</b>						
Red Maple Insurance Company	◊	Williston (Vermont)		100%	USD	1 200 000
Seroyal USA, LLC		Wilmington (Delaware)		100%	USD	—
Sweet Earth Inc.		Wilmington (Delaware)		100%	USD	0
The Häagen-Dazs Shoppe Company, Inc.		West Trenton (New Jersey)		100%	USD	0
The Proactiv Company LLC		Wilmington (Delaware)		75%	USD	—
The Stouffer Corporation	◊	Cleveland (Ohio)		100%	USD	0
TSC Holdings, Inc.	◊	Wilmington (Delaware)		100%	USD	100 000
Vitality Foodservice, Inc.		Dover (Delaware)		100%	USD	1 240
Waggin' Train LLC		Wilmington (Delaware)		100%	USD	—
Zuke's LLC		Wilmington (Delaware)		100%	USD	0
Aimmune Therapeutics, Inc.	3)	Wilmington (Delaware)		18.9%	USD	6 189
Axcella Health Inc.	3)	Wilmington (Delaware)		8.6%	USD	43 396
Cerecin Inc.	3)	Wilmington (Delaware)		32.1%	USD	68 251
Seres Therapeutics, Inc.	3)	Cambridge (Massachusetts)		16.9%	USD	40 856
<b>Uruguay</b>						
Nestlé del Uruguay S.A.		Montevideo	100%	100%	UYU	9 495 189
<b>Venezuela</b>						
Nestlé Cadipró, S.A.		Caracas		100%	VES	506
Nestlé Venezuela, S.A.		Caracas	100%	100%	VES	5

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Asia</b>					
<b>Afghanistan</b>					
Nestlé Afghanistan Ltd	Kabul	100%	100%	USD	1 000 000
<b>Bahrain</b>					
Nestlé Bahrain Trading WLL	Manama	49%	49%	BHD	200 000
Al Manhal Water Factory (Bahrain) WLL	Manama		63%	BHD	300 000
<b>Bangladesh</b>					
Nestlé Bangladesh Limited	Dhaka	100%	100%	BDT	100 000 000
<b>Greater China Region</b>					
Anhui Yinlu Foods Co., Limited	Chuzhou	100%	100%	CNY	303 990 000
Atrium Innovations (HK) Limited	Hong Kong	100%	100%	HKD	1
Chengdu Yinlu Foods Co., Limited	Chengdu	100%	100%	CNY	215 800 000
Dongguan Hsu Chi Food Co., Limited	Dongguan		60%	HKD	700 000 000
Galderma Hong Kong Limited	Hong Kong		100%	HKD	10 000
Galderma Trading (Shanghai) Co., Limited	Shanghai		100%	EUR	400 000
Guangzhou Refrigerated Foods Limited	Guangzhou	95.5%	95.5%	CNY	390 000 000
Henan Hsu Fu Chi Foods Co., Limited	Zhumadian		60%	CNY	224 000 000
Hsu Fu Chi International Holdings Limited	Hong Kong		60%	USD	100 000
Hubei Yinlu Foods Co., Limited	Hanchuan	100%	100%	CNY	353 000 000
Nestlé (China) Limited	Beijing	100%	100%	CNY	250 000 000
Nestlé Dongguan Limited	Dongguan	100%	100%	CNY	536 000 000
Nestlé Health Science (China) Limited	Taizhou City		100%	USD	32 640 000
Nestlé Hong Kong Limited	Hong Kong	100%	100%	HKD	250 000 000
Nestlé Nespresso Beijing Limited	Beijing	100%	100%	CNY	7 000 000
Nestlé Purina PetCare Tianjin Limited	Tianjin	100%	100%	CNY	40 000 000
Nestlé Qingdao Limited	Laixi	100%	100%	CNY	930 000 000
Nestlé R&D (China) Limited	Beijing		100%	CNY	40 000 000
Nestlé Shanghai Limited	Shanghai	95%	95%	CNY	200 000 000
Nestlé Shuangcheng Limited	Shuangcheng	97%	97%	CNY	435 000 000
Nestlé Sources Shanghai Limited	Shanghai	100%	100%	CNY	1 149 700 000
Nestlé Sources Tianjin Limited	Tianjin	95%	95%	CNY	204 000 000
Nestlé Taiwan Limited	Taipei	100%	100%	TWD	100 000 000
Nestlé Tianjin Limited	Tianjin	100%	100%	CNY	785 000 000
Q-Med International Trading (Shanghai) Limited	Shanghai		100%	USD	600 000
Shandong Yinlu Foods Co., Limited	Jinan	100%	100%	CNY	146 880 000
Shanghai Nestlé Product Services Limited	Shanghai		100%	CNY	83 000 000
Shanghai Totole First Food Limited	Shanghai	100%	100%	CNY	72 000 000
Shanghai Totole Food Limited	Shanghai	100%	100%	USD	7 800 000
Sichuan Haoji Food Co., Limited	Puge	80%	80%	CNY	80 000 000
Suzhou Hexing Food Co., Limited	Suzhou	100%	100%	CNY	40 000 000

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Greater China Region (continued)</b>					
Wyeth (Hong Kong) Holding Co., Limited	◊ Hong Kong	100%	100%	HKD	3 554 107 000
Wyeth (Shanghai) Trading Co., Limited	Shanghai		100%	USD	1 000 000
Wyeth Nutritional (China) Co., Limited	Suzhou		100%	CNY	900 000 000
Xiamen Yinlu Foods Group Co., Limited	Xiamen	100%	100%	CNY	496 590 000
Yunnan Dashan Drinks Co., Limited	Kunming	100%	100%	CNY	35 000 000
<b>India</b>					
Nestlé India Ltd	△ New Delhi	34.3%	62.8%	INR	964 157 160
<i>Listed on the Bombay Stock Exchange, market capitalization INR 1069.0 billion, quotation code (ISIN) INE239A01016</i>					
Nestlé R&D Centre India Private Ltd	° New Delhi	100%	100%	INR	2 101 380 000
Nestlé Skin Health India Private Ltd	Mumbai		100%	INR	24 156 000
Purina Petcare India Private Ltd	° New Delhi	97%	100%	INR	20 000 000
SMA Nutrition India Private Limited	° New Delhi	97%	100%	INR	22 000 000
<b>Indonesia</b>					
P.T. Nestlé Indonesia	Jakarta	90.2%	90.2%	IDR	152 753 440 000
P.T. Nestlé Trading Indonesia	° Jakarta	1%	90.3%	IDR	60 000 000 000
P.T. Wyeth Nutrition Sduaenam	Jakarta		90%	IDR	2 000 000 000
<b>Iran</b>					
Nestlé Parsian (Private Joint Stock Company)	Tehran	60%	60%	IRR	1 000 000 000
Nestlé Iran (Private Joint Stock Company)	Tehran	95.9%	95.9%	IRR	358 538 000 000
Nestlé Waters Iranian	Tehran		100%	IRR	35 300 000 000
<b>Israel</b>					
Assamim Gift Parcels Ltd	Shoam		73.8%	ILS	103
Beit Hashita – Asis Limited Partnership	Kibbutz Beit Hashita		100%	ILS	11 771 000
Materna Industries Limited Partnership	Kibbutz Maabarot		100%	ILS	10 000
Migdanot Habait Ltd	Shoam		100%	ILS	4 014
Nespresso Israel Ltd	Tel Aviv	100%	100%	ILS	1 000
Noga Ice Cream Limited Partnership	Shoam		100%	ILS	1 000
OSEM Food Industries Ltd	Shoam		100%	ILS	176
OSEM Group Commerce Limited Partnership	Shoam		100%	ILS	100
OSEM Investments Ltd	Shoam	100%	100%	ILS	110 644 443
Tivall Food Industries Ltd	Kiryat Gat		100%	ILS	41 861 167
<b>Japan</b>					
Blue Bottle Coffee Japan, G.K.	Tokyo		68.1%	JPY	10 000 000
Galderma K.K.	Tokyo		100%	JPY	10 000 000
Nestlé Japan Ltd	Kobe	100%	100%	JPY	10 000 000 000
Nestlé Nespresso K.K.	Kobe		100%	JPY	10 000 000
Nestlé Skin Health Y.K.	Tokyo		75%	JPY	3 000 000
The Proactiv Company K.K.	Tokyo		75%	JPY	10 000 000

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Jordan</b>					
Ghadeer Mineral Water Co. WLL	Amman		75%	JOD	1 785 000
Nestlé Jordan Trading Company Ltd	Amman	50%	77.8%	JOD	410 000
<b>Kuwait</b>					
Nestlé Kuwait General Trading Company WLL	Safat	49%	49%	KWD	300 000
<b>Lebanon</b>					
Société des Eaux Minérales Libanaises S.A.L.	Hazmieh		100%	LBP	1 610 000 000
Société pour l'Exportation des Produits Nestlé S.A.	Baabda	100%	100%	CHF	1 750 000
SOHAT Distribution S.A.L.	Hazmieh		100%	LBP	160 000 000
<b>Malaysia</b>					
Nestlé (Malaysia) Bhd.	<sup>Δ</sup> Petaling Jaya	72.6%	72.6%	MYR	267 500 000
<i>Listed on the Kuala Lumpur stock exchange, market capitalization MYR 34.6 billion, quotation code (ISIN) MYL470700005</i>					
Nestlé Asean (Malaysia) Sdn. Bhd.	Petaling Jaya		72.6%	MYR	42 000 000
Nestlé Manufacturing (Malaysia) Sdn. Bhd.	Petaling Jaya		72.6%	MYR	132 500 000
Nestlé Products Sdn. Bhd.	Petaling Jaya		72.6%	MYR	28 500 000
Nestlé Regional Service Centre (Malaysia) Sdn. Bhd.	<sup>°</sup> Petaling Jaya	100%	100%	MYR	1 000 000
Purina PetCare (Malaysia) Sdn. Bhd.	Petaling Jaya	100%	100%	MYR	1 100 000
Wyeth Nutrition (Malaysia) Sdn. Bhd.	Petaling Jaya		100%	MYR	1 969 505
Cereal Partners (Malaysia) Sdn. Bhd.	<sup>1)</sup> Petaling Jaya	50%	50%	MYR	2 500 000
<b>Myanmar</b>					
Nestlé Myanmar Limited	<sup>°</sup> Yangon	96%	96%	USD	6 246 070
<b>Oman</b>					
Nestlé Oman Trading LLC	Muscat	49%	49%	OMR	300 000
<b>Pakistan</b>					
Nestlé Pakistan Ltd	<sup>Δ</sup> Lahore	59%	59%	PKR	453 495 840
<i>Listed on the Pakistan Stock Exchange, market capitalization PKR 408.1 billion, quotation code (ISIN) PK0025101012</i>					
<b>Palestinian Territories</b>					
Nestlé Trading Private Limited Company	Bethlehem	97.5%	97.5%	JOD	200 000
<b>Philippines</b>					
Galderma Philippines, Inc.	Manila		100%	PHP	12 500 000
Nestlé Business Services AOA, Inc.	Bulacan	100%	100%	PHP	70 000 000
Nestlé Philippines, Inc.	Cabuyao	55%	100%	PHP	2 300 927 400
Penpro, Inc. <sup>(d)</sup>	<sup>◊</sup> Makati City		88.5%	PHP	630 000 000
Wyeth Philippines, Inc.	Makati City	100%	100%	PHP	610 418 100
CPW Philippines, Inc.	<sup>1)</sup> Makati City	50%	50%	PHP	7 500 000

<sup>(d)</sup> Voting powers amount to 40%

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Qatar</b>					
Al Manhal Water Factory Co. Ltd WLL	Doha		51%	QAR	5 500 000
Nestlé Qatar Trading LLC	Doha	49%	49%	QAR	1 680 000
<b>Republic of Korea</b>					
Galderma Korea Ltd	Seoul		100%	KRW	500 000 000
Nestlé Korea Yuhan Chaegim Hoesa	Seoul	100%	100%	KRW	15 594 500 000
Pulmuone Waters Co., Ltd	Gyeonggi-Do		51%	KRW	6 778 760 000
LOTTE-Nestlé (Korea) Co., Ltd	<sup>°1)</sup> Cheongju	50%	50%	KRW	52 783 120 000
<b>Saudi Arabia</b>					
Al Anhar Water Factory Co. Ltd	Jeddah		64%	SAR	7 500 000
Al Manhal Water Factory Co. Ltd	Riyadh		64%	SAR	7 000 000
Nestlé Saudi Arabia LLC	Jeddah		75%	SAR	27 000 000
Nestlé Water Factory Co. Ltd	Riyadh		64%	SAR	15 000 000
Pure Water Factory Co. Ltd	Madinah		64%	SAR	5 000 000
SHAS Company for Water Services Ltd	Riyadh		64%	SAR	13 500 000
Springs Water Factory Co. Ltd	Dammam		64%	SAR	5 000 000
<b>Singapore</b>					
Galderma Singapore Private Ltd	Singapore		100%	SGD	1 387 000
Nestlé R&D Center (Pte) Ltd	Singapore		100%	SGD	20 000 000
Nestlé Singapore (Pte) Ltd	Singapore	100%	100%	SGD	1 000 000
Nestlé TC Asia Pacific Pte Ltd	<sup>°</sup> Singapore	100%	100%	JPY	10 000 000 000
				SGD	2
Wyeth Nutritionals (Singapore) Pte Ltd	Singapore	100%	100%	SGD	2 059 971 715
<b>Sri Lanka</b>					
Nestlé Lanka PLC	<sup>△</sup> Colombo	90.8%	90.8%	LKR	537 254 630
<i>Listed on the Colombo stock exchange, market capitalization LKR 91.3 billion, quotation code (ISIN) LK0128N00005</i>					
<b>Syria</b>					
Nestlé Syria S.A.	Damascus	99.9%	99.9%	SYP	800 000 000
<b>Thailand</b>					
Arun Saeng Ltd	<sup>°</sup> Bangkok	100%	100%	THB	250 000
Galderma (Thailand) Ltd	Bangkok		100%	THB	100 000 000
Nestlé (Thai) Ltd	Bangkok	100%	100%	THB	880 000 000
Nestlé Trading (Thailand) Ltd	<sup>°</sup> Bangkok	100%	100%	THB	3 000 000
Perrier Vittel (Thailand) Ltd	Bangkok		100%	THB	235 000 000
Quality Coffee Products Ltd	Bangkok	49%	50%	THB	500 000 000

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>United Arab Emirates</b>						
Nestlé Dubai Manufacturing LLC		Dubai	49%	49%	AED	300 000
Nestlé Middle East FZE		Dubai	100%	100%	AED	3 000 000
Nestlé Middle East Manufacturing LLC		° Dubai	49%	49%	AED	300 000
Nestlé Middle East Marketing FZE		Dubai		100%	AED	1 000 000
Nestlé Treasury Centre-Middle East & Africa Ltd		◊ Dubai	100%	100%	USD	2 997 343 684
Nestlé UAE LLC		Dubai	49%	49%	AED	2 000 000
Nestlé Waters Factory H&O LLC		Dubai		48%	AED	22 300 000
CP Middle East FZCO	1)	Dubai	50%	50%	AED	600 000
<b>Uzbekistan</b>						
Nestle Food MChJ		° Namangan	53.9%	100%	UZS	46 227 969
Nestle Uzbekistan MChJ		Namangan	96.4%	100%	USD	38 715 463
<b>Vietnam</b>						
La Vie Limited Liability Company		Long An		65%	USD	2 663 400
Nestlé Vietnam Ltd		Bien Hoa	100%	100%	KVND	1 261 151 498

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Oceania</b>					
<b>Australia</b>					
Galderma Australia Pty Ltd	Belrose		100%	AUD	2 500 300
Nestlé Australia Ltd	Sydney	100%	100%	AUD	274 000 000
Cereal Partners Australia Pty Ltd	<sup>1)</sup> Sydney		50%	AUD	107 800 000
<b>Fiji</b>					
Nestlé (Fiji) Ltd	Lami	33%	100%	FJD	3 000 000
<b>French Polynesia</b>					
Nestlé Polynésie S.A.S.	Papeete	100%	100%	XPF	5 000 000
<b>New Caledonia</b>					
Nestlé Nouvelle-Calédonie S.A.S.	Nouméa	100%	100%	XPF	64 000 000
<b>New Zealand</b>					
Nestlé New Zealand Limited	Auckland	100%	100%	NZD	300 000
CPW New Zealand	<sup>1)</sup> Auckland		50%	NZD	—
<b>Papua New Guinea</b>					
Nestlé (PNG) Ltd	Lae	100%	100%	PGK	11 850 000

## Technical assistance, research and development units

All scientific research and technological development is undertaken in a number of dedicated centres, specialized as follows:

Technical Assistance	TA
Development centres	D
Research centres	R
Research & Development centres	R&D
Product Technology centres	PTC

The Technical Assistance centre is Nestec Ltd, a technical, scientific, commercial and business assistance company. The units of Nestec Ltd, specialized in all areas of the business, supply permanent know-how and assistance to operating companies in the Group within the framework of licence and equivalent contracts. Nestec Ltd is also responsible for all scientific research and technological development, which it undertakes itself or through affiliated companies.

The centres involved are listed below:

City of operations					
<b>Switzerland</b>					
Nestec S.A.		Vevey		TA	
Nestlé Institute of Health Sciences		Ecublens		R	
Nestlé Product Technology Centre Beverage		Orbe		PTC	
Nestlé Product Technology Centre Dairy		Konolfingen		PTC	
Nestlé Product Technology Centre Nestlé Nutrition		Konolfingen		PTC	
Nestlé Product Technology Centre Nestlé Professional		Orbe		PTC	
Nestlé Research Centre		Lausanne		R	
Nestlé System Technology Centre		Orbe		R and PTC	
CPW R&D Centre	1)	Orbe		R&D	
<b>Australia</b>					
CPW R&D Centre	1)	Wahgunyah		R&D	
<b>Chile</b>					
Nestlé Development Centre		Santiago de Chile		D	
<b>Côte d'Ivoire</b>					
Nestlé R&D Centre		Abidjan		R&D	
<b>France</b>					
Galderma R&D Centre		Biot		R&D	
Nestlé Development Centre Dairy		Lisieux		D	
Nestlé Product Technology Centre Water		Vittel		PTC	
Nestlé R&D Centre		Aubigny		R&D	
Nestlé R&D Centre		Tours		R&D	
Froneri Development Center Glaces S.A.S.	1)	Beauvais		PTC	



City of operations					
<b>Germany</b>					
Nestlé Product Technology Centre Food		Singen		PTC	
<b>Greater China Region</b>					
Nestlé R&D Centre		Beijing		R&D	
<b>India</b>					
Nestlé Development Centre		Gurgaon		D	
<b>Republic of Ireland</b>					
Nestlé Development Centre		Askeaton		D	
<b>Singapore</b>					
Nestlé Development Centre		Singapore		D	
<b>Sweden</b>					
Galderma R&D Centre		Uppsala		R&D	
<b>United Kingdom</b>					
Nestlé Product Technology Centre Confectionery		York		PTC	
CPW R&D Centre	1)	Staverton		R&D	
<b>United States</b>					
Galderma R&D Centre		Fort Worth (Texas)		R&D	
Nestlé Development Centre		Fremont (Michigan)		D	
Nestlé Development Centre		Marysville (Ohio)		D	
Nestlé Development Centre		Solon (Ohio)		D	
Nestlé Product Technology Centre Health Science		Bridgewater (New Jersey)		PTC	
Nestlé Product Technology Centre Ice Cream		Bakersfield (California)		PTC	
Nestlé Product Technology Centre PetCare		St. Louis (Missouri)		PTC	
Nestlé R&D Centre		San Diego (California)		R&D	
Nestlé R&D Centre		St. Joseph (Missouri)		R&D	



# 152nd Financial Statements of Nestlé S.A.

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# Income statement for the year ended December 31, 2018

In millions of CHF

	Notes	2018	2017
Income from Group companies	2	15 285	12 316
Profit on disposal of assets	3	2 144	155
Other income		110	96
Financial income	4	202	407
<b>Total income</b>		<b>17 741</b>	<b>12 974</b>
Expenses recharged from Group companies	5	(2 543)	(2 514)
Personnel expenses		(146)	(107)
Other expenses		(196)	(155)
Write-downs and amortization	6	(1 847)	(889)
Financial expenses	7	(68)	(93)
Taxes	8	(673)	(631)
<b>Total expenses</b>		<b>(5 473)</b>	<b>(4 389)</b>
<b>Profit for the year</b>		<b>12 268</b>	<b>8 585</b>

# Balance sheet as at December 31, 2018

before appropriations

In millions of CHF

	Notes	2018	2017
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	262	339
Other current receivables	10	942	724
Prepayments and accrued income		65	32
<b>Total current assets</b>		<b>1 269</b>	<b>1 095</b>
<b>Non-current assets</b>			
Financial assets	11	7 857	7 761
Shareholdings	12	28 693	32 006
Property, plant and equipment		1	1
Intangible assets	13	2 518	95
<b>Total non-current assets</b>		<b>39 069</b>	<b>39 863</b>
<b>Total assets</b>		<b>40 338</b>	<b>40 958</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Interest-bearing liabilities	14	2 023	2 734
Other current liabilities	15	2 107	2 162
Accruals and deferred income		12	17
Provisions	16	596	514
<b>Total current liabilities</b>		<b>4 738</b>	<b>5 427</b>
<b>Non-current liabilities</b>			
Interest-bearing liabilities	14	1 635	138
Provisions	16	496	507
<b>Total non-current liabilities</b>		<b>2 131</b>	<b>645</b>
<b>Total liabilities</b>		<b>6 869</b>	<b>6 072</b>
<b>Equity</b>			
Share capital	17/18	306	311
Legal retained earnings			
– General legal reserve	18	1 929	1 924
Voluntary retained earnings			
– Special reserve	18	19 299	23 319
– Profit brought forward	18	6 480	5 111
– Profit for the year	18	12 268	8 585
Treasury shares	18/19	(6 813)	(4 364)
<b>Total equity</b>		<b>33 469</b>	<b>34 886</b>
<b>Total liabilities and equity</b>		<b>40 338</b>	<b>40 958</b>

# Notes to the annual accounts

## 1. Accounting policies

### General

Nestlé S.A. (the Company) is the ultimate holding company of the Nestlé Group, domiciled in Cham and Vevey which comprises subsidiaries, associated companies and joint ventures throughout the world.

The accounts are prepared in accordance with accounting principles required by Swiss law (32nd title of the Swiss Code of Obligations). They are prepared under the historical cost convention and on an accrual basis. Where not prescribed by law, the significant accounting and valuation principles applied are described below.

### Foreign currency translation

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward contract. Non-monetary assets and liabilities are carried at historical rates. Monetary assets and liabilities in foreign currencies are translated at year-end rates. Any resulting exchange differences are included in the respective income statement captions depending upon the nature of the underlying transactions. The aggregate unrealized exchange difference is calculated by reference to original transaction date exchange rates and includes hedging transactions. Where this gives rise to a net loss, it is charged to the income statement whilst a net gain is deferred.

### Hedging

The Company uses forward foreign exchange contracts, options, financial futures and currency swaps to hedge foreign currency flows and positions. Unrealized foreign exchange differences on hedging instruments are matched and accounted for with those on the underlying asset or liability. Long-term loans, in foreign currencies, used to finance investments in shareholdings are generally not hedged.

The Company also uses interest rate swaps to manage interest rate risk. The swaps are accounted for at fair value at each balance sheet date and changes in the market price are recorded in the income statement.

The positive fair values of forward exchange contracts and interest rate swaps are included in prepayments and accrued income. The negative fair values of forward exchange contracts and interest rate swaps are included in accruals and deferred income.

### Income statement

In accordance with Swiss law dividends are treated as an appropriation of profit in the year in which they are ratified at the Annual General Meeting rather than as an appropriation of profit in the year to which they relate.

### Taxes

This caption includes taxes on profit, capital and withholding taxes on transfers from Group companies.

### Shareholdings and financial assets

The carrying value of shareholdings and loans comprises the cost of investment, excluding the incidental costs of acquisition, less any write-downs.

Shareholdings located in countries where the political, economic or monetary situation might be considered to carry a greater than normal level of risk are carried at a nominal value of one franc.

Shareholdings and loans are written down on a conservative basis, taking into account the profitability of the company concerned.

### Property, plant and equipment

The Company owns land and buildings which have been depreciated in the past. Office furniture and equipment are fully depreciated on acquisition.

### Intangible assets

Trademarks and other industrial property rights are written off on acquisition or exceptionally over a longer period, not exceeding their useful lives.

### Provisions

Provisions include present obligations as well as contingencies. A provision for uninsured risks is constituted to cover general risks not insured with third parties, such as consequential loss. Provisions for Swiss taxes are made on the basis of the Company's taxable capital, reserves and profit for the year. A general provision is maintained to cover possible foreign tax liabilities.

## 2. Income from Group companies

This represents dividends and other income from Group companies.

## 3. Profit on disposal of assets

This represents mainly the net gains realized on the sale of financial assets, trademarks and other industrial property rights previously written down. In 2018, the net gain of CHF 1431 million on the sale of the US confectionery business is included.

## 4. Financial income

In millions of CHF

	2018	2017
Income on loans to Group companies	202	407
	202	407

## 5. Expenses recharged from Group companies

Expenses of central service companies recharged to Nestlé S.A.

## 6. Write-downs and amortization

In millions of CHF

	2018	2017
Shareholdings and loans	1 481	735
Trademarks and other industrial property rights	366	154
	1 847	889



## 7. Financial expenses

In millions of CHF

	2018	2017
Expenses related to loans from Group companies	51	6
Other financial expenses	17	87
	<b>68</b>	<b>93</b>

## 8. Taxes

In millions of CHF

	2018	2017
Direct taxes	241	191
Withholding taxes on income from foreign sources	432	440
	<b>673</b>	<b>631</b>

## 9. Cash and cash equivalents

Cash and cash equivalents include deposits with maturities of less than three months.

## 10. Other current receivables

In millions of CHF

	2018	2017
Amounts owed by Group companies (current accounts)	903	693
Other receivables	39	31
	<b>942</b>	<b>724</b>

## 11. Financial assets

In millions of CHF

	2018	2017
Loans to Group companies	7 842	7 752
Other investments	15	9
	<b>7 857</b>	<b>7 761</b>

## 12. Shareholdings

In millions of CHF

	2018	2017
At January 1	32 006	31 175
Net increase/(decrease)	(2 621)	1 527
Write-downs	(692)	(696)
<b>At December 31</b>	<b>28 693</b>	<b>32 006</b>

A list of direct and significant indirect Group companies held by Nestlé S.A. with the percentage of the capital controlled is included in the Consolidated Financial Statements of the Nestlé Group.

## 13. Intangible assets

This amount represents the unamortized balance of the trademarks and other industrial property rights capitalized in relation with the acquisition of Atrium and of the acquired perpetual rights to market, sell and distribute certain Starbucks' consumer and foodservice products globally, except the United States of America.

## 14. Interest-bearing liabilities

Current interest-bearing liabilities are amounts owed to Group companies.

In millions of CHF

Issuer		Face value in millions	Coupon	Effective interest rate	Year of issue/ maturity	2018	2017
Nestlé S.A., Switzerland	CHF	600	0.75%	0.69%	2018–2028	603	–
	CHF	900	0.25%	0.26%	2018–2024	899	–
<b>Total carrying amount</b>						<b>1 502</b>	<b>–</b>

Non-current interest-bearing liabilities concern two bonds issued by Nestlé S.A. on June 28, 2018, and one amount owed to a Group company. As of December 31, 2017, they concern one amount owed to a Group company.

## 15. Other current liabilities

In millions of CHF

	2018	2017
Amounts owed to Group companies	1 897	1 847
Other liabilities	210	315
	<b>2 107</b>	<b>2 162</b>

## 16. Provisions

In millions of CHF

					2018	2017
	Uninsured risks	Exchange risks	Swiss and foreign taxes	Other	Total	Total
At January 1	475	207	203	136	1 021	1 261
Provisions made in the period	—	—	289	82	371	244
Amounts used	—	—	(114)	(62)	(176)	(240)
Unused amounts reversed	—	(73)	(49)	(2)	(124)	(244)
<b>At December 31</b>	<b>475</b>	<b>134</b>	<b>329</b>	<b>154</b>	<b>1 092</b>	<b>1 021</b>
of which expected to be settled within 12 months					596	514

## 17. Share capital

	2018	2017
Number of registered shares of nominal value CHF 0.10 each	3 063 000 000	3 112 160 000
In millions of CHF	306	311

According to article 5 of the Company's Articles of Association, no person or entity shall be registered with voting rights for more than 5% of the share capital as recorded in the commercial register. This limitation on registration also applies to persons who hold some or all of their shares through nominees pursuant to this article. In addition, article 11 provides that no person may exercise, directly or indirectly, voting rights, with respect to own shares or shares represented by proxy, in excess of 5% of the share capital as recorded in the commercial register.

At December 31, 2018, the share register showed 157 457 registered shareholders. If unprocessed applications for registration, the indirect holders of shares under American Depositary Receipts and the beneficial owners of shareholders registered as nominees are also taken into account, the total number of shareholders probably exceeds 250 000. The Company was not aware of any shareholder holding, directly or indirectly, 5% or more of the share capital.

## 18. Changes in equity

In millions of CHF

	Share capital	General legal reserve	Special reserve	Retained earnings	Treasury shares	Total
At January 1, 2018	311	1 924	23 319	13 696	(4 364)	34 886
Cancellation of 49 160 000 shares (ex-Share Buy-Back Program)	(5)	5	(4 112)	—	4 112	—
Profit for the year	—	—	—	12 268	—	12 268
Dividend for 2017	—	—	—	(7 124)	—	(7 124)
Movement of treasury shares	—	—	—	—	(6 561)	(6 561)
Dividend on treasury shares held on the payment date of 2017 dividend	—	—	92	(92)	—	—
<b>At December 31, 2018</b>	<b>306</b>	<b>1 929</b>	<b>19 299</b>	<b>18 748</b>	<b>(6 813)</b>	<b>33 469</b>

## 19. Treasury shares

In millions of CHF

	2018		2017	
	Number	Amount	Number	Amount
Share Buy-Back Program	78 741 659	6 173	41 578 764	3 487
Long-term incentive plans	9 778 854	640	8 789 045	567
For trading purposes	—	—	4 238 445	310
	<b>88 520 513</b>	<b>6 813</b>	<b>54 606 254</b>	<b>4 364</b>

The share capital has been reduced by 49 160 000 shares from CHF 311 million to CHF 306 million through the cancellation of shares purchased as part of the Share Buy-Back Program. The purchase value of those cancelled shares amounts to CHF 4112 million.

During the year 86 322 895 shares were purchased as part of the Share Buy-Back Program for CHF 6799 million.

The Company held 9 778 854 shares to cover long-term incentive plans. During the year 3 248 636 shares were delivered as part of the Nestlé Group remuneration plans for a total value of CHF 237 million. All treasury shares are valued at acquisition cost.

The total of own shares of 88 520 513 held by Nestlé S.A. at December 31, 2018, represents 2.9% of the Nestlé S.A. share capital (54 606 254 own shares held at December 31, 2017, by Nestlé S.A. representing 1.8% of the Nestlé S.A. share capital).

## 20. Contingencies

At December 31, 2018, the total of the guarantees mainly for credit facilities granted to Group companies and commercial paper programs, together with the buy-back agreements relating to notes issued, amounted to a maximum of CHF 51 969 million (2017: CHF 47 771 million).

## 21. Performance Share Units and shares for members of the Board and employees granted during the year

In millions of CHF

	2018		2017	
	Number	Amount	Number	Amount
Performance Share Units granted to Nestlé S.A. employees <sup>(a)</sup>	225 780	14	272 418	15
Share plan for short-term bonus Executive Board <sup>(b)</sup>	54 641	4	112 515	7
Share plan for Board members <sup>(c)</sup>	81 040	5	85 919	5
	<b>361 461</b>	<b>23</b>	<b>470 852</b>	<b>27</b>

(a) Performance Share Units are disclosed at fair value at grant which corresponds to CHF 59.96 in 2018 (2017: CHF 55.96). Includes 180 355 Performance Share Units granted to Executive Board (2017: 193 280).

(b) Shares are valued at the average closing price of the last ten trading days of January, discounted by 16.038% to account for the blocking period of three years.

(c) Shares are valued at the closing price on the ex-dividend date, discounted by 16.038% to account for the blocking period of three years.

## 22. Full-time equivalents

For Nestlé S.A., the annual average number of full-time equivalents for the reporting year, as well as the previous year, did not exceed 250.

## 23. Events after the balance sheet date

There are no subsequent events which either warrant a modification of the value of the assets and liabilities or any additional disclosure.

## 24. Shares and stock options

### Shares and stock options ownership of the non-executive members of the Board of Directors and closely related parties

	2018		2017	
	Number of shares held <sup>(a)</sup>	Number of options held <sup>(b)</sup>	Number of shares held <sup>(a)</sup>	Number of options held <sup>(b)</sup>
Paul Bulcke, Chairman	1 391 207	—	1 263 185	420 000
Henri de Castries, Vice Chairman, Lead Independent Director	23 829	—	18 940	—
Beat W. Hess	45 649	—	41 429	—
Renato Fassbind	27 141	—	22 921	—
Jean-Pierre Roth	13 875	—	14 531	—
Ann M. Veneman	19 305	—	16 961	—
Eva Cheng	15 783	—	12 769	—
Ruth K. Oniang'o	7 619	—	5 743	—
Patrick Aebischer	4 659	—	2 315	—
Ursula M. Burns	4 196	—	1 852	—
Kasper B. Rorsted	1 876	—	—	—
Pablo Isla	1 876	—	—	—
Kimberly A. Ross	2 545	—	—	—
Members who retired from the Board during 2018	—	—	285 762	—
<b>Total as at December 31</b>	<b>1 559 560</b>	<b>—</b>	<b>1 686 408</b>	<b>420 000</b>

(a) Including shares subject to a three-year blocking period.

(b) The ratio is one option for one Nestlé S.A. share.

### Shares and stock options ownership of the members of the Executive Board and closely related parties

	2018		2017	
	Number of shares held <sup>(a)</sup>	Number of options held <sup>(b)</sup>	Number of shares held <sup>(a)</sup>	Number of options held <sup>(b)</sup>
Ulf Mark Schneider, Chief Executive Officer	23 234	—	7 795	—
Laurent Freixe	36 191	—	17 587	—
Chris Johnson	78 362	—	62 376	104 100
Patrice Bula	181 894	—	159 121	101 800
Wan Ling Martello	115 048	80 800	101 507	121 100
Marco Settembri	40 620	—	31 837	—
François-Xavier Roger	29 393	—	14 544	—
Magdi Batato	13 288	—	9 152	—
Stefan Palzer	2 616	—	—	—
Maurizio Patarnello	16 533	—	13 043	—
Grégory Behar	3 611	—	1 188	—
David P. Frick	52 731	—	53 199	—
Members who retired from the Executive Board during 2018	—	—	60 307	—
<b>Total as at December 31</b>	<b>593 521</b>	<b>80 800</b>	<b>531 656</b>	<b>327 000</b>

(a) Including shares subject to a three-year blocking period.

(b) The ratio is one option for one Nestlé S.A. share.

For the detailed disclosures regarding the remunerations of the Board of Directors and the Executive Board that are required by Swiss law, refer to the Compensation report of Nestlé S.A. with the audited sections highlighted with a blue bar.

# Proposed appropriation of profit

In CHF		
	2018	2017
<b>Retained earnings</b>		
Profit brought forward	6 479 867 098	5 111 232 705
Profit for the year	12 267 820 563	8 584 500 298
	<b>18 747 687 661</b>	<b>13 695 733 003</b>
<b>We propose the following appropriation:</b>		
Dividend for 2018, CHF 2.45 per share on 2 984 258 341 shares <sup>(a)</sup> (2017: CHF 2.35 on 3 070 581 236 shares) <sup>(b)</sup>	7 311 432 935	7 215 865 905
	<b>7 311 432 935</b>	<b>7 215 865 905</b>
<b>Profit to be carried forward</b>	<b>11 436 254 726</b>	<b>6 479 867 098</b>

- (a) Depending on the number of shares issued as of the last trading day with entitlement to receive the dividend (April 12, 2019). No dividend is paid on own shares held by the Nestlé Group; the respective amount will be attributed to the special reserve.
- (b) The amount of CHF 92 336 146 representing the dividend on 39 291 977 own shares held at the date of the dividend payment, has been transferred to the special reserve.

Provided that the proposal of the Board of Directors is approved by the Annual General Meeting, the gross dividend will amount to CHF 2.45 per share, representing a net amount of CHF 1.5925 per share after payment of the Swiss withholding tax of 35%. The last trading day with entitlement to receive the dividend is April 12, 2019. The shares will be traded ex-dividend as of April 15, 2019. The net dividend will be payable as from April 17, 2019.

The Board of Directors

Cham and Vevey, February 13, 2019







# Statutory Auditor's Report

To the General Meeting of Nestlé S.A., Cham & Vevey

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Nestlé S.A., which comprise the balance sheet as at December 31, 2018, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 193 to 203) for the year ended December 31, 2018, comply with Swiss law and the Company's Articles of Association.

### Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

### Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the Company's Articles of Association, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the Company's Articles of Association. We recommend that the financial statements submitted to you be approved.

KPMG SA



Scott Cormack  
Licensed Audit Expert  
Auditor in Charge



Lukas Marty  
Licensed Audit Expert

Geneva, February 13, 2019

KPMG SA, 111 Rue de Lyon, P.O. Box 347, CH-1211 Geneva 13

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Notes