



Good Food, Good Life

Corporate Governance Report 2017
Compensation Report 2017
Financial Statements 2017



Contents

1	Corporate Governance Report 2017
3	Group structure and shareholders
4	Capital structure
6	Board of Directors
17	Executive Board
22	Compensation, shareholdings and loans
22	Shareholders' participation
24	Change of control and defence measures
24	Auditors
25	Information policy
27	General Organisation of Nestlé S.A.
<hr/>	
29	Compensation Report 2017
47	Statutory Auditor's Report to the General Meeting
<hr/>	
49	Articles of Association of Nestlé S.A.
<hr/>	
59	Financial Statements 2017
<hr/>	
61	Consolidated Financial Statements of the Nestlé Group 2017
63	Principal exchange rates
64	Consolidated income statement for the year ended 31 December 2017
65	Consolidated statement of comprehensive income for the year ended 31 December 2017
66	Consolidated balance sheet as at 31 December 2017
68	Consolidated cash flow statement for the year ended 31 December 2017
69	Consolidated statement of changes in equity for the year ended 31 December 2017
71	Notes
144	Statutory Auditor's Report – Report on the Audit of the Consolidated Financial Statements
150	Financial information – 5 year review
152	Companies of the Nestlé Group, joint arrangements and associates
<hr/>	
175	151st Financial Statements of Nestlé S.A.
177	Income statement for the year ended 31 December 2017
178	Balance sheet as at 31 December 2017
179	Notes to the annual accounts
188	Proposed appropriation of profit
190	Statutory Auditor's Report – Report on the Audit of the Financial Statements

Corporate Governance Report 2017

Situation at 31 December 2017

3	1. Group structure and shareholders	22	5. Compensation, shareholdings and loans
	1.1 Group structure		
	1.2 Significant shareholders		
	1.3 Cross-shareholdings		
4	2. Capital structure	22	6. Shareholders' participation
	2.1 Capital		6.1 Voting rights restrictions and representation
	2.2 Conditional capital		6.2 Quorums required by the Articles of Association
	2.3 Changes in capital		6.3 Convocation of the General Meeting of shareholders
	2.4 Shares and participation certificates		6.4 Inclusion of items on the agenda
	2.5 Dividend-right certificates		6.5 Entries in the share register
	2.6 Limitations on transferability and nominee registrations		
	2.7 Convertible bonds and options		
6	3. Board of Directors ⁽¹⁾	24	7. Change of control and defence measures
	3.1 Members of the Board of Directors		7.1 Duty to make an offer
	3.2 Professional background and other activities and functions		7.2 Clauses on change of control
	3.3 Mandates outside Nestlé		
	3.4 Elections and terms of office		
	3.5 Internal organisational structure	24	8. Auditors
	3.6 Definition of areas of responsibility		8.1 Duration of the mandate and term of office of the lead auditor
	3.7 Information and control instruments vis-à-vis the Executive Board ⁽²⁾		8.2 Auditing fees
			8.3 Additional fees
			8.4 Information instruments pertaining to the external audit
17	4. Executive Board ⁽²⁾	25	9. Information policy
	4.1 Members of the Executive Board		
	4.2 Professional background and other activities and functions	27	General Organisation of Nestlé S.A.
	4.3 Mandates outside Nestlé	29	Compensation Report 2017
	4.4 Management contracts	49	Articles of Association of Nestlé S.A.

(1) The full Board of Directors Regulations and Committee Charters are published on www.nestle.com/investors/corporate-governance/boardcommittees.

(2) The term Executive Committee, as used in the SIX Directive, is replaced by Executive Board throughout this document.

Group structure and shareholders

Preliminary remarks

The Nestlé Corporate Governance Report 2017 follows the SIX Swiss Exchange Directive on Information relating to Corporate Governance. Additional information can be found in the Compensation Report. Nestlé S.A. complies with the recommendations of the Swiss Code of Best Practice for Corporate Governance, as in force at 31 December 2017.

To avoid duplication of information, cross-referencing to other reports is made in some sections, namely the Annual Review 2017, the Financial Statements 2017 that comprise the Consolidated Financial Statements of the Nestlé Group and the Financial Statements of Nestlé S.A., as well as the Articles of Association of Nestlé S.A., whose full text can be consulted in this report (page 49) or on:

www.nestle.com/investors/corporate-governance/articles.

The Consolidated Financial Statements of the Nestlé Group 2017 comply with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with Swiss law. Where necessary, these disclosures have been extended to comply with the requirements of the SIX Swiss Exchange Directive on Financial Reporting.

1. Group structure and shareholders

1.1 Group structure

Please refer to the Annual Review 2017, page 56 for the overview of Directors and Officers.

1.1.1 Description of the issuer's operational group structure

For the general organisation chart of Nestlé S.A., refer to page 27 of this document. The Group's Management structure is represented in the analysis by operating segments (refer to Note 3 of the Consolidated Financial Statements of the Nestlé Group 2017, page 78).

1.1.2 All listed companies belonging to the issuer's group

The registered offices of Nestlé S.A. are in Vevey and Cham (Switzerland). Nestlé S.A. shares are listed on the SIX Swiss Exchange in Switzerland (ISIN code: CH0038863350). At 31 December 2017, the market capitalisation of Nestlé S.A. was CHF 256 223 004 000. For further information see also page 61 of the Annual Review 2017 and visit our website on www.nestle.com/investors.

Please refer to the Consolidated Financial Statements of the Nestlé Group 2017, page 152 for the list of publicly listed companies of the Nestlé Group, with an indication of the company name, registered office, share capital, place of listing, securities' ISIN number, their market capitalisation and the Company's participation.

1.1.3 The non-listed companies belonging to the issuer's group

Please refer to the Consolidated Financial Statements of the Nestlé Group 2017, page 152 for the enumeration of companies of the Nestlé Group, joint arrangements and associates, with an indication of the company name, registered office, share capital and the Company's participation.

1.2 Significant shareholders

BlackRock, Inc., New York, announced on 31 August 2017 holding, directly or indirectly, 4.7% of Nestlé S.A.'s share capital, and The Capital Group Companies, Inc., Los Angeles, announced on 30 October 2017 holding, directly or indirectly, 3.55% of Nestlé S.A.'s share capital. Apart from the foregoing, Nestlé S.A. is not aware of any other shareholder holding, as at 31 December 2017, Nestlé S.A. shares in excess of 3% of the share capital.

During 2017, the Company published on the electronic publication platform of the SIX Swiss Exchange disclosure notifications pertaining to the holding of Nestlé S.A. shares by BlackRock, Inc., New York, which reported holdings of 4.7% on 31 August 2017 as well as The Capital Group Companies, Inc., Los Angeles, which reported holding 3.00% on 28 February 2017, 3.48% on 8 September 2017, and 3.55% on 30 October 2017.

With respect to nominees, Chase Nominees Ltd, London, was a registered Nominee N (refer to point 2.6.3. below) of 284 849 864 shares, i.e. 9.15% of the shares of the Company as at 31 December 2017. At the same date, Citibank N.A., London, as depositary for the shares represented by American Depositary Receipts, was the registered holder of 243 575 492 shares, i.e. 7.83% of the shares of the Company. Also on 31 December 2017, Nortrust Nominees Ltd, London, was a registered Nominee N of 120 856 119 shares of the Company, representing 3.88% of the shares.

1.3 Cross-shareholdings

The Company is not aware of cross-shareholdings exceeding 5% of the capital or voting rights on both sides.

2. Capital structure

2.1 Capital

The ordinary share capital of Nestlé S.A. is CHF 311 216 000. The conditional share capital is CHF 10 000 000. Nestlé S.A. does not have any authorised share capital.

2.2 Conditional capital

The share capital may be increased (without time limitation) in an amount not to exceed CHF 10 000 000 by issuing up to 100 000 000 registered shares with a nominal value of CHF 0.10 each through the exercise of conversion rights and/or option rights granted in connection with the issuance by Nestlé or one of its subsidiaries of newly or already issued convertible debentures, debentures with option rights or other financial market instruments. 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.

For a description of the group of beneficiaries and of the terms and conditions of the issuance of conditional capital, refer to art. 3^{bis} of the Articles of Association of Nestlé S.A. (*)

2.3 Changes in capital

The share capital was reduced twice in the last three financial years as a consequence of a Share Buy-Back Programme of CHF 8 billion, initiated by the Company on 25 August 2014 and completed on 7 December 2015. The resulting cancellations of shares were approved at the 2015 and 2016 Annual General Meetings.

On 16 April 2015, the Annual General Meeting resolved to reduce the share capital by 36 400 000 shares to CHF 318 840 000.

On 7 April 2016, the Annual General Meeting resolved to cancel 76 240 000 shares resulting in a reduction of the share capital to the present CHF 311 216 000.

For the breakdown of capital ("equity") for 2017, 2016 and 2015 see the consolidated statement of changes in equity in the Consolidated Financial Statements of the Nestlé Group 2017, page 69, and 2016, page 65. (www.nestle.com/asset-library/documents/library/documents/financial_statements/2016-financial-statements-en.pdf).

(*) Nestlé S.A.'s Articles of Association can be found on page 49 and on www.nestle.com/investors/corporate-governance/articles

2.4 Shares and participation certificates

Nestlé S.A.'s capital is composed of registered shares only. The number of registered shares with a nominal value of CHF 0.10 each, fully paid up, was 3 112 160 000 at 31 December 2017.

According to art. 11 par. 1 of the Articles of Association, each share recorded in the share register as a share with voting rights confers the right to one vote to its holder. See also point 2.6.1 below.

Shareholders have the right to receive dividends. There are no participation certificates.

2.5 Dividend-right certificates

There are no dividend-right certificates.

2.6 Limitations on transferability and nominee registrations

2.6.1 Limitations on transferability along with an indication of group clauses in the Articles of Association and rules for granting exceptions

According to art. 5 par. 5 of the 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 their shares through nominees pursuant to that article. Legal entities that are linked to one another through capital, voting rights, management or in any other manner, as well as all natural persons or legal entities achieving an understanding or forming a syndicate or otherwise acting in concert to circumvent the regulations concerning the limitation on registration or the nominees, shall be counted as one person or nominee (art. 5 par. 7 of the Articles of Association). The limitation on registration also applies to shares acquired or subscribed by the exercise of subscription, option or conversion rights (art. 5 par. 10 of the Articles of Association). See also art. 5 par. 6 and par. 9 of the Articles of Association and point 2.6.3 below.

2.6.2 Reasons for granting exceptions in the year under review
Please refer to points 2.6.3 and 6.1.3 below.

2.6.3 Admissibility of nominee registrations, indication of percent clauses and registration conditions

Pursuant to art. 5 par. 6 and par. 9 of the Articles of Association, the Board of Directors has issued regulations concerning the application of art. 5 of the Articles of Association. The regulations on nominees set forth rules for the entry of nominees as shareholders in the share register.

They allow the registration of:

- Nominees N (“N” as Name of beneficial owner disclosed): where trading and safekeeping practices make individual registration of beneficial owners difficult or impractical, shareholders may register their holdings through a Nominee N with voting rights, subject to the specific understanding that the identity and holdings of beneficial owners are to be disclosed to the Company, periodically or upon request. Voting rights of Nominees are to be exercised on the basis of voting instructions received from the beneficial owners. For voting purposes, holdings of a Nominee N, or Nominees N acting as an organised group or pursuant to a common agreement, may not exceed 5% of the share capital of the Company. Holdings exceeding the 5% limit (respectively the limit fixed by the Board of Directors, see point 6.1.3 below) are registered without voting rights. The responsibility for disclosure of beneficial owners and their holdings resides with the nominees registered in the share register.
- Nominees A (“A” as Anonymous beneficial owner): registration without voting rights.

In line with its regulations, in order to facilitate trading of the shares on the Stock Exchange, the Board of Directors has authorised certain nominees to exceed the 5% limit to be registered as nominees with voting rights.

2.6.4 Procedure and conditions for cancelling statutory privileges and limitations on transferability
Please refer to point 6.1.3 below.

2.7 Convertible bonds and options

As at 31 December 2017, there are no outstanding convertible bonds or warrants/options issued by Nestlé S.A. or by subsidiaries on Nestlé S.A. shares. The only options issued by Nestlé S.A. are employee options allocated under the Nestlé Management Stock Option Plan (MSOP). Grants under this plan were discontinued in 2013.

Board of Directors

3. Board of Directors

3.1 Members of the Board of Directors (*)

Nestlé's Board of Directors is highly structured to ensure a high degree of diversity by age, education/qualifications, professional background, present activity, sector expertise, special skills (classification), nationality and geography. This is reflected in Nestlé's skills and diversity grid disclosed here.

	Name	Year of birth	Education/Qualifications ^(a)	Professional background
1	Paul Bulcke	1954	Economics and Business Administration	Chairman, Nestlé S.A.
2	Ulf Mark Schneider	1965	Economics, Business Administration and Finance & Accounting	CEO, Nestlé S.A.
3	Andreas Koopmann ^(c)	1951	Mechanical Engineering and Business Administration	Former CEO, Bobst
4	Henri de Castries ^(d)	1954	HEC, Law and École Nationale d'Administration (ENA)	Former Chairman and CEO, AXA French Ministry, Government
5	Beat W. Hess	1949	Law, Swiss Attorney-at-law	Lawyer Former Legal Director, Shell
6	Renato Fassbind	1955	Economics, Business Administration and Finance & Accounting	Former CFO, ABB and Credit Suisse Former CEO, Diethelm Keller Group
7	Steven G. Hoch	1954	International Relations and Economics	Founder, Highmount Capital (now Brown Advisory LLC)
8	Naina Lal Kidwai	1957	Economics and Business Administration	Vice Chairperson & Head Investment, Morgan Stanley Former Country Head and Group General Manager HSBC, India
9	Jean-Pierre Roth	1946	Economics, Political Science and Finance	Former Chairman of the Governing Board, Swiss National Bank
10	Ann M. Veneman	1949	Juris Doctorate	Former Secretary, USDA Former Executive Director, UNICEF
11	Eva Cheng	1952	Business Administration and History	Former Amway China Chairwoman and EVP, Amway Corporation
12	Ruth K. Oniang'o	1946	Food Science and Human Nutrition	Professor of Nutrition, Tufts University Former Member of Parliament, Kenya
13	Patrick Aebischer	1954	Medicine and Neuroscience	President Emeritus, Swiss Federal Institute of Technology Lausanne (EPFL)
14	Ursula M. Burns	1958	Mechanical Engineering	Chairman, Xerox Corporation

(*) Peter Brabeck-Letmathe left the Board of Directors on 6 April 2017 and was designated Chairman Emeritus.

(a) For more complete information on qualifications: please refer to section 3.2 and the individual CVs on www.nestle.com/investors/corporate-governance/management/boardofdirectors

(b) All Board members are elected annually in accordance with Swiss Corporate law and Nestlé S.A.'s Articles of Association.

(c) Vice Chairman

(d) Lead Independent Director. The Lead Independent Director assumes the role of a prime intermediary between the Board and the Chairman. He may convene and he regularly chairs Board meetings and "in camera" sessions where the Chairman is not present or conflicted.

Present functions/mandates (listed companies)	Sector	Classification	Nationality	First Election	Expires ^(b)
Chairman, Nestlé S.A. Roche Ltd. L'Oréal S.A.	Food & Beverages	FMCG/CEO	Belgian/Swiss	10 April 2008	2018
CEO, Nestle S.A.	Food & Beverages	CEO	German/US	06 April 2017	2018
Chairman, Georg Fischer AG Credit Suisse Group	Manufacturing/Industry	Industrialist	Swiss	03 April 2003	2018
HSBC Holdings plc	Insurance & Finance	Insurance/CEO	French	19 April 2012	2018
Chairman, LafargeHolcim Ltd. Vice Chairman, Sonova Holding AG	Legal	Legal	Swiss	10 April 2008	2018
Vice Chairman, Swiss Re AG Kühne + Nagel International SA	Finance	Financial Management/ CFO	Swiss	16 April 2015	2018
Partner, Brown Advisory LLC	Finance	Investment	Swiss/US	06 April 2006	2018
Chairperson, Max Financial Services Ltd CIPLA Ltd	Investment, Corporate & Institutional Banking	Banking	Indian	06 April 2006	2018
Swatch Group	Central Bank	Political/ Macroeconomics	Swiss	15 April 2010	2018
Alexion Pharmaceuticals, Inc.	Government/NGOs	Government/NGOs	US	14 April 2011	2018
Trinity Limited Haier Electronics Group Co. Ltd. Amcor Ltd.	Cosmetics & Nutrition	FMCG	Chinese	11 April 2013	2018
Trustee, CABI International and various mandates	Nutrition	Scientist	Kenyan	16 April 2015	2018
Lonza Group AG	Science	Scientist	Swiss	16 April 2015	2018
American Express Corporation Exxon Mobil Corporation	Technology	Information Systems/ CEO	US	06 April 2017	2018

3.1.1 Management tasks of the members of the Board of Directors

With the exception of Ulf Mark Schneider, all members of the Board of Directors are non-executive members. Paul Bulcke is active Chairman and has certain responsibilities for the direction and control of the Group including Nestlé Health Science S.A., Nestlé Skin Health S.A. and Nestlé's engagement with L'Oréal.

3.1.2 Information on non-executive members of the Board of Directors

With the exception of Paul Bulcke, all non-executive members of the Board of Directors are independent, were not previously members of the Nestlé management and have no important business connections with Nestlé.

Pursuant to Nestlé's Board Regulations, a Director shall be considered independent, if he is not and has not been employed as an executive officer at the Company or any of its principal subsidiaries or as employee or affiliate of the Group's external auditor for the past three years and does not maintain, in the sole determination of the Board, a material direct or indirect business relationship with the Company or any of its subsidiaries. Directors with immediate family members who would not qualify as independent shall not be considered independent, subject to a three-year cooling-off period.

Nestlé's succession planning process is highly structured and managed by the Board's Nomination and Sustainability Committee with the support of outside consultants when necessary (Egon Zehnder in 2017).

Subject to specific exceptions granted by the Board, members are subject to twelve-year term limits. According to Nestlé's Board Regulations ⁽¹⁾, an age limit of 72 years applies. This allows for continuous refreshment and long-term succession planning according to Nestlé's skills and diversity grid.

3.1.3 Cross-involvement None.

3.2 Professional background and other activities and functions (*)

Paul Bulcke Chairman

Paul Bulcke began his career in 1977 as a financial analyst for Scott Graphics International in Belgium before moving to the Nestlé Group in 1979 as a marketing trainee. From 1980 to 1996, he held various responsibilities in Nestlé Peru, Nestlé Ecuador and Nestlé Chile before moving back to Europe as Managing Director of Nestlé Portugal, Nestlé Czech and Slovak Republic, and Nestlé Germany. In 2004, he was appointed Executive Vice President, responsible for Zone Americas. In April 2008, Paul Bulcke was elected member of the Board of Directors of Nestlé S.A. and the Board appointed him Chief Executive Officer (CEO).



As of 31 December 2016, Paul Bulcke relinquished his function as CEO remaining member of the Board of Directors. At the Annual General Meeting of Shareholders in April 2017, Paul Bulcke was elected Chairman of the Board of Directors of Nestlé S.A.

As a Nestlé S.A. representative, he serves as Vice Chairman on the Board of L'Oréal S.A., France.

Paul Bulcke is also a Board member of Roche Holding Ltd, Switzerland.

In addition, he serves as Co-Chairman of the 2030 Water Resources Group (WRG) and is a member of the Board of Trustees of Avenir Suisse, Switzerland, the European Round Table of Industrialists (ERT), Belgium, the IMD Foundation Board as well as of the International Business Council of the World Economic Forum (WEF) and the J.P. Morgan International Council.

Ulf Mark Schneider CEO

Mark Schneider started his career in 1989 with Haniel Group in Germany, where he held several senior executive positions. In 2001, he joined Fresenius Medical Care as Chief Financial Officer. He became CEO of Fresenius Group in 2003, a function he relinquished in 2016. As from January 2017, Mark Schneider was appointed Chief Executive Officer (CEO) of Nestlé S.A. At the Annual General Meeting



(*) Mandates and functions are listed in the following order: (1) mandates in listed companies, (2) mandates in non-listed companies, (3) mandates held at the request of Nestlé or companies controlled by it, (4) mandates held in associations, charitable organisations, foundations, trusts and employee welfare foundations.

(1) Nestlé S.A.'s Board Regulations can be found on www.nestle.com/investors/corporate-governance/boardcommittees

of Shareholders in April 2017, Mark Schneider was elected member of the Board of Directors of Nestlé S.A.

As a representative of Nestlé, Mark Schneider serves as Co-Chairman of the Board of Directors of Cereal Partners Worldwide S.A., Switzerland.

Furthermore, he is a member of the Board of the Consumer Goods Forum.

Andreas Koopmann **Vice Chairman**

Andreas Koopmann began his career in 1979 as Assistant to the Chairman and CEO of Bruno Piatti AG, Switzerland, and from 1980 to 1982 was Assistant to the Group Executive at Motor Columbus AG, Holding, Switzerland.



From 1982, he was at Bobst Group, starting as Vice President of Engineering and Manufacturing in Roseland, New Jersey, USA. In 1989, he returned to Switzerland, holding a number of senior positions in the company, including member of the Group Executive Committee in charge of Manufacturing. He was a member of the Board of Directors for Bobst Group from 1998 to 2002 and was appointed CEO in 1995, a position he held until May 2009. From 2010 to 2012, Andreas Koopmann was Chairman of Alstom (Suisse) S.A. and Country President.

Presently, he serves as Chairman of Georg Fischer AG, as a Board member of Credit Suisse Group, the CSD Group, as well as of Sonceboz SA. Andreas Koopmann is also a member of the Board of Directors of economiesuisse.

Henri de Castries **Lead Independent Director**

Henri de Castries started his career in the French Finance Ministry Inspection Office, auditing government agencies from 1980 to 1984. In 1984, he joined the French Treasury Department.



As of 1989, he joined AXA Corporate Finance Division. Two years later, he was appointed Senior Executive Vice President for the Group's asset management, financial and real-estate business. Henri de Castries was Chairman of the AXA Management Board from May 2000 to April 2010. Since April 2010, following a modification of the corporate governance structure, he was Chairman and CEO of AXA, functions he relinquished in 2016.

In March 2016, Henri de Castries joined the Board of HSBC Holdings plc.

Beat W. Hess

Beat Hess started his career in 1977 at BBC Brown Boveri Ltd in Baden as Legal Counsel where he was promoted to General Counsel in 1986. From 1988 to 2003, he was Senior Group Officer, General Counsel and Secretary for ABB Ltd in Zurich. From 2003 until his retirement in January 2011, Beat Hess was Group Legal Director and a member of the Group Executive Committee of Royal Dutch Shell plc, The Hague, The Netherlands.



Beat Hess is Chairman of LafargeHolcim Ltd and Vice Chairman of Sonova Holding AG, Switzerland. He is also a member of the Curatorium of The Hague Academy of International Law.

Renato Fassbind

Renato Fassbind started his career in 1982 as Managing Director of Kunz Consulting AG. From 1984 until 1990 he was Auditor and ultimately Head of Internal Audit at F. Hoffmann-La Roche AG.



Renato Fassbind then joined ABB Ltd and served between 1990 and 1997 as Head of Corporate Staff Audit, and then as Chief Financial Officer and member of the Executive Board from 1997 to 2002. Subsequently, he joined Diethelm Keller Holding AG as Chief Executive Officer from 2002 to 2004. He joined Credit Suisse Group AG as Chief Financial Officer and member of the Executive Board from 2004 until 2010.

Currently Renato Fassbind serves as Vice Chairman of the Board of Directors of Swiss Re AG, is the Chairman of its Audit Committee and member of its Compensation Committee. Furthermore, Renato Fassbind sits on the Board of Kühne + Nagel International AG and is a member of its Audit Committee.

Steven G. Hoch

Steven G. Hoch started his career in 1978 at the Chemical Bank in New York and Zurich, where he held a series of positions in commercial banking, principally advising multinational companies. Steven G. Hoch was Senior Vice President at Bessemer Trust Company, N.A., New York, from 1990 to 1994, and a member of the Executive Committee at Pell Rudman Trust Company, Boston, from 1994 to 2002. Since 2002, he served as a founder and CEO of Highmount Capital LLC, a US-based investment management and fiduciary firm. In 2015, Highmount joined Brown Advisory LLC, where he serves as a Partner and a member of the International Advisory Board.



Steven G. Hoch is Chairman Emeritus of the American Swiss Foundation and serves as Chairman of the Corporation Board of the Woods Hole Oceanographic Institution, USA. He served two terms as a member of the National Board of the Smithsonian Institution, USA, and is an Advisory Board member of the Smithsonian Tropical Research Institute, Panama.

Naina Lal Kidwai

Naina Lal Kidwai started her career in 1982 and until 1994 was at ANZ Grindlays Bank Plc. From 1994 to 2002, she was Vice Chairman and Head of Investment Banking at Morgan Stanley India before moving to HSBC, where she was Chairman of the HSBC Group of Companies in India and on the Board of HSBC Asia Pacific, until her retirement in December 2015. She was elected President of the Federation of Indian Chambers of Commerce & Industry (FICCI) for 2013.



Naina Lal Kidwai is Chairman of Max Financial Services Ltd and a non-Executive Board member of Cipla Ltd., Larsen&Toubro Ltd., India, Essar Oil Ltd. and Altico India Pvt Ltd. She serves the BRICS Business Council and South Asia Advisory Board of the Harvard Business School, where she is also a Global Advisor. Other engagements include the Advisory Boards of Oxford University India Center and the US India Innovation Forum Steering Committee. Her interests in the environment include being Chair of the Sustainability Council & Energy Mission at FICCI, Chair of the India Sanitation Coalition, Board member of Shakti Sustainable Energy Foundation and a commissioner for the global commission on the Economy and Climate.

Naina Lal Kidwai was given the Padma Shri Award by the Indian government in 2007 for her contribution to trade and industry and has been recognised in India and abroad with awards and rankings in lists of top women in business.

Jean-Pierre Roth

Jean-Pierre Roth spent his whole career at the Swiss National Bank, which he joined in 1979. After various senior positions, he was appointed a member of the Governing Board in 1996 before becoming its Chairman in 2001 until 2009. From 2001, he was a member of, and since 2006 the Chairman of the Board of Directors of the Bank of International Settlements until his retirement in 2009. Jean-Pierre Roth also served as Swiss Governor of the International Monetary Fund from 2001 until 2009 and as a Swiss representative on the Financial Stability Board from 2007 until 2009.



As of 2010, Jean-Pierre Roth has been a member of the Board of Swatch Group. Between 2010 and 2016, he was a member of the Board of Swiss Re and, until April 2017, Chairman of the Cantonal Bank of Geneva.

In May 2014, he joined the Board MKS (Switzerland) SA, and in July 2017 he became Vice Chairman of Arab Bank (Switzerland) Ltd. Furthermore, Jean-Pierre Roth is a member of the Advisory Board of the University of Geneva, the Feris Endowment Fund IHEI, Geneva, the Foundation Board and Programme Committee of Avenir Suisse, Switzerland, and the Foundation of the Swiss Pontifical Guard, Vatican City.

Ann M. Veneman

An attorney by training, Ann M. Veneman was Secretary of the United States Department of Agriculture (USDA) from 2001 to 2005. She then served a five-year term as the Executive Director of the United Nations Children's Fund. Earlier in her career she practiced law and was in various positions in the USDA. She also served four years as the Secretary of the California Department of Food and Agriculture. She is currently a member of the Boards of Alexion Pharmaceuticals Inc., the Global Health Innovative Technology Fund, JUST Capital and Clinton Health Access Initiative. She is on a number of advisory boards including BRAC, TerraVesco, and The Chicago Council Global Agriculture Development. She is



a member of the Council on Foreign Relations and the Trilateral Commission.

In 2009, she was named to Forbes The World's 100 Most Powerful Women list, and she has been the recipient of numerous awards and honours throughout her career.

Ann M. Veneman also serves as member of the Nestlé CSV Council.

Eva Cheng

Eva Cheng joined Amway Corporation – a US-based global consumer product company – in 1977 as an Executive Assistant in Hong Kong and moved to become Corporate Executive Vice President in 2005 responsible for Greater China and Southeast Asia Region, a position she held until her retirement in 2011. Eva Cheng is most well known for leading Amway's entry into China in 1991. She also held Amway China's Chairperson and CEO position since market launch until her retreat in 2011.



In 2008 and 2009, Eva Cheng was twice named to Forbes The World's 100 Most Powerful Women list. She had also received numerous awards and honours for her business leadership and community service.

Presently, Eva Cheng serves on the Boards of Trinity Limited, Haier Electronics Group Co. Ltd. in Hong Kong, China, and Amcor Ltd., Australia. She is also the Executive Director of the Our Hong Kong Foundation, a member of the Executive Committee of the All-China Women's Federation, a Director of China Children and Teenagers Foundation and a Permanent Honorary Director of the Chinese General Chamber of Commerce in Hong Kong.

Ruth K. Oniang'o

Ruth K. Oniang'o was formerly Professor of Food Science and Nutrition at Jomo Kenyatta University of Agriculture and Technology, Nairobi, Kenya, and is adjunct Professor of Nutrition at Tufts University, USA. She is also Founder and Executive Director of the Rural Outreach Program Kenya, as well as Founder and Editor-in-Chief of the African Journal of Food, Agriculture, Nutrition and Development (AJFAND).



She has steered the development of nutrition policies across Africa and advocated for healthy diets globally. She has special focus on maternal and child nutrition.

Ruth K. Oniang'o is a former Member of Parliament in Kenya and she works in rural developments focused on women smallholder farmers, and the youth.

Furthermore, she chairs the Boards of the Sasakawa Africa Association (SAA) and the Sasakawa Africa Fund for Extension Education (SAFE). Other engagements include being a Board member of the USTADI Foundation, Kenya, and a Trustee of the Board of CABI Centre for Agriculture and Biosciences International.

Ruth K. Oniang'o also serves as a member of the Nestlé CSV Council. Furthermore, she has earned a distinguished service medal from the Government of Kenya.

She is the 2017 recipient of the Africa Food Prize.

Patrick Aebischer

Patrick Aebischer was trained as an MD and neuroscientist at the University of Geneva and the University of Fribourg, Switzerland.

He is a Professor in neurosciences and Director of the Neurodegenerative Disease Research Laboratory at the Brain Mind Institute EPFL.

From 1984 to 1992, he worked at Brown University, USA, as Research Scientist, Assistant and then Associate Professor of Medical Sciences. In 1992, he returned to Switzerland as a Professor and Director of Surgical Research Division and Gene Therapy Center at the University Hospital of Lausanne (CHUV). From 2000 to end 2016, Patrick Aebischer is the President of the Swiss Federal Institute of Technology Lausanne (EPFL). Furthermore, Patrick Aebischer is founder of three start-ups: CytoTherapeutics Inc. (1989), Modex Therapeutics Inc. (1996) and Amazentis SA (2007).

Currently, he serves as Board member of Lonza Group Ltd, and Logitech International S.A. and is Chairman of the Advisory Board of Novartis Bioventures AG. Furthermore, Patrick Aebischer is a member of the Foundation Boards of the Verbier Festival and the Montreux Jazz Festival, Switzerland.



Ursula M. Burns

Ursula M. Burns joined Xerox in 1980 and advanced through engineering and manufacturing functions to leadership positions in manufacturing, operations and product development. From 2009 to 2016, Ursula M. Burns was Chief Executive Officer (CEO) of Xerox.



Since 2010, she is the Chairman of the Board of Xerox Corporation, USA. She also serves on the Boards of American Express Company, Exxon Mobil Corporation, Veon Ltd., USA, and Datto, Inc., USA.

Furthermore, Ursula M. Burns also provides leadership counsel to various community, educational and non-profit organisations including the Massachusetts Institute of Technology, NAF (National Academy Foundation), the Mayo Clinic and the Ford Foundation as well as the New York Ballet and the Cornell Tech Board of Overseers and The High Line.

Ursula M. Burns is a member of the National Academy of Engineering and the American Academy of Arts and Sciences.

3.3 Mandates outside Nestlé

Pursuant to art. 21^{sexies} of the Articles of Association, no member of the Board of Directors may hold more than 4 additional mandates in listed companies and 5 additional mandates in non-listed companies.

The following mandates are not subject to these limitations:

- a) mandates in companies which are controlled by Nestlé;
- b) mandates which a member of the Board of Directors holds at the request of Nestlé or companies controlled by it. No member of the Board of Directors shall hold more than 10 such mandates; and
- c) mandates in associations, charitable organisations, foundations, trusts and employee welfare foundations. No member of the Board of Directors shall hold more than 10 such mandates.

Mandates shall mean mandates in the supreme governing body of a legal entity which is required to be registered in the commercial register or a comparable foreign register. Mandates in different legal entities which are under joint control are deemed one mandate.

The Board of Directors has promulgated regulations that determine additional restrictions.

All members of the Board of Directors comply with the provisions set out in art. 21^{sexies}.

3.4 Elections and terms of office

Pursuant to art. 6 par. 2 of the Articles of Association, the General Meeting has the competence to elect and remove the members of the Board of Directors.

The Chairman of the Board of Directors, the members of the Board of Directors and the members of the Compensation Committee are elected individually by the General Meeting for a term of office until completion of the next Annual General Meeting (art. 15 of the Articles of Association).

Members of the Board of Directors whose term of office has expired are immediately eligible for re-election.

The Board of Directors elects one or two Vice Chairmen and the members of the Committees other than the Compensation Committee.

The term of office of a Board member shall expire no later than at the Annual General Meeting following the member's 72nd birthday.

Rules in the Articles of Association are compliant with the statutory legal provisions with regard to the appointment of the Chairman, the members of the Compensation Committee and the independent proxy.

For the principles of the selection procedure, see points 3.1.2 above and 3.5.2 below.

For the time of first election and term of office, see point 3.1 above.

3.5 Internal organisational structure

3.5.1 Allocation of tasks within the Board of Directors

	Chairman's and Corporate Governance Committee	Compensation Committee	Nomination and Sustainability Committee	Audit Committee
Paul Bulcke Chairman	• (Chair)		•	
Ulf Mark Schneider CEO (Administrateur délégué)	•			
Andreas Koopmann Vice Chairman	•	•		
Henri de Castries Lead Independent Director	•		• (Chair)	•
Beat W. Hess	•	• (Chair)		
Renato Fassbind	•			• (Chair)
Steven G. Hoch			•	
Nāina Lal Kidwai				•
Jean-Pierre Roth		•		
Ann M. Veneman			•	
Eva Cheng				•
Ruth K. Oniang'o				
Patrick Aebischer		•		
Ursula M. Burns				

3.5.2 Tasks and area of responsibility for each

Committee of the Board of Directors ⁽¹⁾

The powers and responsibilities of each Committee are established in the applicable Committee Charter, which is approved by the Board. Each Committee is entitled to engage outside counsel.

The **Chairman's and Corporate Governance Committee** consists of the Chairman, the Vice Chairman, the Lead Independent Director, the CEO (Administrateur délégué) and any other member elected by the Board. It liaises between the Chairman and the full Board of Directors in order to act as a consultant body to the Chairman and to expedite whenever necessary the handling of the Company's business. The Committee regularly reviews the corporate governance of the Company and prepares recommendations for the Board. It also advises on certain finance-related matters including the Company's financing and financial management and periodically reviews its asset and liability management.

While the Committee has limited authority as per the Board Regulations, it may in exceptional and urgent matters deal with business matters which might arise between Board meetings. In all cases it keeps the Board fully apprised. It reviews the Board's annual work plan.

The **Compensation Committee** consists of the Vice Chairman and a minimum of two other non-executive members of the Board. All members are independent (art. 19^{bis} par. 1 of the Articles of Association). The members of the Compensation Committee are elected individually by the General Meeting for a term of office until completion of the next Annual General Meeting. Members of the Compensation Committee whose term of office has expired are immediately eligible for re-election. The Compensation Committee determines the system and principles for remuneration of the members of the Board of Directors and submits them to the Board for approval. It oversees and discusses the remuneration principles for Nestlé S.A. and the Nestlé Group. It prepares the proposals of the Board to be submitted for approval by the General Meeting in relation to

(1) For complete information please refer to the Board Regulations and Committee Charters on www.nestle.com/investors/corporate-governance/boardcommittees

the compensation of the Board of Directors and the Executive Board. In addition, it proposes the remuneration of the Chairman and the CEO, and approves the individual remuneration of the members of the Executive Board. It reports on its decisions to the Board and keeps the Board updated on the overall remuneration policy of the Nestlé Group. It reviews the annual Compensation Report.

The **Nomination and Sustainability Committee** consists of a Chairperson, who is an independent and non-executive member of the Board, preferably the Lead Independent Director; the other members are the Chairman of the Board of Directors and a minimum of two independent and non-executive members of the Board. The Nomination and Sustainability Committee oversees the long-term succession planning of the Board, establishes the principles and criteria for the selection of candidates to the Board, performs a regular gap analysis, selects candidates for election or re-election to the Board and prepares a proposal for the Board's decision. The nomination process for the Board of Directors is highly structured and long-term and seeks to ensure a balance of necessary competencies and an appropriate diversity of its members over time. It regularly reviews the Company's skills and diversity grid (see 3.1. above). It ensures an appropriately wide net is cast on key successions. The candidates to the Board must possess the necessary profile, qualifications and experience to discharge their duties. Newly appointed Board members receive an appropriate introduction into the business and affairs of the Company and the Group. If required, the Nomination and Sustainability Committee arranges for further training.

The Nomination and Sustainability Committee reviews, at least annually, the independence of the members of the Board as well as their outside mandates, and prepares the annual self-evaluation of the Board and its Committees. Furthermore, it reviews reports and gives advice on measures which ensure the long-term sustainability of the Company in its economic, social and environmental dimension and monitors the Company's performance against selected external sustainability indexes. It reviews the annual Nestlé in society report and discusses periodically how other material non-financial issues affect the Company's financial performance and how its long-term strategy relates to its ability to create shared value. It reviews as well the Company's shareholder base and other significant stakeholders and their material interests. It meets as frequently as necessary to fulfil its tasks and prepares the relevant in camera sessions of the Board of Directors.

The **Audit Committee** consists of a Chairperson, who is an independent and non-executive member of the Board, and a minimum of two other non-executive members of the Board, excluding the CEO and any former member of the Executive Board. All members shall be independent. At least one member has to have recent and relevant financial expertise, the others must be familiar with the issues of accounting and audit. In discharging its responsibilities, it has unrestricted access to the Company's management, books and records. The Audit Committee supports the Board of Directors in its supervision of financial controls through a direct link to KPMG (external auditors) and the Nestlé Group Audit (corporate internal auditors).

The Audit Committee's main duties include the following:

- to review, and challenge where necessary, the actions and judgements of management, in relation to the Company's year-end financial accounts;
- to make recommendations to the Board of Directors regarding the nomination of external auditors to be appointed by the shareholders;
- to discuss the audit procedures, including the proposed scope and the results of the internal and external audit;
- to keep itself regularly informed on important findings of the audits and of their progress;
- to oversee the quality of the internal and external auditing;
- to present the conclusions on the approval of the Financial Statements to the Board of Directors;
- to review certain reports regarding internal controls, compliance and the Group's annual risk assessment.

The Audit Committee regularly reports to the Board on its findings and proposes appropriate actions. The responsibility for approving the annual Financial Statements remains with the Board of Directors.

Meetings held in 2017	Frequency	Average duration (hours)
Board of Directors of Nestlé S.A.	11 times	3:00
Chairman's and Corporate Governance Committee	10 times	4:00
Compensation Committee	4 times	1:05
Nomination and Sustainability Committee	6 times	1:10
Audit Committee	4 times	2:55

3.5.3 Work methods of the Board of Directors and its Committees

The Board meets as often as necessary, at least quarterly, and on notice by the Chairman or by the person designated by him. In addition, the Board must be convened as soon as a Board member requests the Chairman to call a meeting. All Committees provide a detailed report to the full Board at each meeting in a dedicated Chairman's session. The Board regularly meets for *in camera* sessions (without CEO) and Independent Director meetings (without Chairman and CEO).

The Board reserves at least one day per year to discuss the strategic long-term plan of the Company. In addition, every year the Board visits one operating company for three to five days (in 2017 Nestlé in Germany).

The average attendance at the Board meetings was 98%, one Board member having missed one meeting. All Board members attended all Committee meetings. The Company would individually disclose each member of the Board of Directors with an attendance rate of less than 75%. Board meetings, with the exception of certain Chairman's and *in camera* sessions, are attended by all members of the Executive Board. In addition, selected members of the Executive Board and senior management participate in certain Committee meetings.

The Company performs annual self-evaluations of the Board and its Committees including confidential, anonymous feedback and individual interviews. Findings are appropriately addressed.

3.5.4 Lead Independent Director

The Lead Independent Director assumes the role of a prime intermediary between the Board and the Chairman. He may convene and regularly chairs Board meetings and *in camera* sessions, where the Chairman is not present or conflicted.

3.6 Definition of areas of responsibility

The governing bodies have responsibilities as follows:

3.6.1 Board of Directors ⁽¹⁾

The Board of Directors is the ultimate governing body of the Company. It is responsible for the long-term strategy and the ultimate supervision of the Group. It oversees the Group's economic, social and environmental sustainability. The Board attends to all matters which are not reserved for the Annual General Meeting or another governance body of the Company by law, the Articles of Association or specific regulations issued by the Board of Directors.

Under Nestlé's governance model, the CEO is a full member of the Board of Directors, ensuring full alignment on its critical responsibilities and proper checks and balance between Chairman and CEO.

The Board has the following main duties:

- the ultimate direction of the Company, in particular the conduct, management and supervision of the business of the Company, and the provision of necessary directions;
- the determination of the Company's organisation;
- the determination of accounting and financial control principles, as well as the principles of financial planning;
- the appointment and removal of any Vice Chairman, the Committee members (except the members of the Compensation Committee) and their Chairmen and members of the Executive Board;
- the ultimate supervision of the Chairman and the members of the Executive Board, in particular with respect to their compliance with the law, the Articles of Association, the Board Regulations and instructions given from time to time by the Board;
- the preparation of the Annual Report including the Compensation Report as well as the General Meetings and execution of their resolutions;
- the notification of the court in the event of overindebtedness;

(1) For complete information, please refer to the Board Regulations and Committee Charters on www.nestle.com/investors/corporate-governance/boardcommittees

- h) the discussion and approval of:
- the Group’s long-term strategy and annual investment budget;
 - major financial operations;
 - any significant policy issue dealing with the Company’s or the Group’s general structure or with financial, commercial and industrial policy;
 - Corporate Governance Principles of the Company;
 - the review of and decision on any report submitted to the Board;
 - the Group’s annual risk assessment; and
 - the compensation proposals to the General Meeting.

3.6.2 Executive Board

The Board of Directors delegates to the CEO, with the authorisation to subdelegate, the power to manage the Company’s and the Group’s business, subject to law, the Articles of Association and the Board Regulations.

The CEO chairs the Executive Board and delegates to its members individually the powers necessary for carrying out their responsibilities, within the limits fixed in the Executive Board Regulations.

3.7 Information and control instruments vis-à-vis the Executive Board

The Board of Directors is, on a regular basis, informed on material matters involving the Company’s and the Group’s business. The members of the Executive Board attend the Board of Directors meetings and report on significant projects and events. In addition, regular written reports are provided, including consolidated financial information, capital investment, compliance and strategy progress reports.

The Chairman and the CEO ensure the proper information flow between the Executive Board and the Board of Directors.

The Board of Directors receives regular and ad hoc reports from the Board’s Committees, the Chairman, the CEO as well as from the Executive Board. The minutes of Committee meetings are made available to the full Board. The Board pays a visit to a major market every year, where it meets members of senior management.

Furthermore, the Audit Committee reviews the financial performance and assesses the effectiveness of the internal and external audit processes as well as the internal risk management organisation and processes.

Members of the Executive Board and other senior management attend the Audit Committee meetings, except for certain *in camera* sessions.

Additional information and control instruments include:

- the external auditors, KPMG (auditors of Nestlé S.A. and of the Consolidated Financial Statements of the Nestlé Group), who conduct their audit in compliance with Swiss law and in accordance with Swiss Auditing Standards and International Standards on Auditing.
- the Nestlé Group and Market Audit function, the corporate internal auditors, which has a direct link to the Audit Committee. It comprises a unit of international auditors who travel worldwide, completing audit assignments.
- Group Risk Management provides assistance to all corporate entities with regard to risk management and a top-level risk assessment is performed once a year for all businesses. Group Risk Services provides assistance to all corporate entities with regard to loss prevention, claims handling and insurance. For more information, please refer to page 51 of the Annual Review 2017.
- Group Compliance and other risk- and control-related functions provide additional guidance and oversight. Risk and compliance activities are regularly co-ordinated through the Group Compliance Committee to ensure a holistic, entity-wide approach. For more information, please refer to page 60 of the Annual Review 2017.

Executive Board

4. Executive Board

4.1 Members of the Executive Board (31 December 2017)

Name	Year of birth	Nationality	Education/Current function
Ulf Mark Schneider	1965	German/US	Economics, Business Administration and Finance & Accounting CEO: Nestlé S.A.
Laurent Freixe	1962	French	Business Administration EVP & CEO: Zone Americas
Chris Johnson	1961	US	Economics and Business Administration EVP: Nestlé Business Excellence
Patrice Bula	1956	Swiss	Economics and Business Administration EVP: Strategic Business Units, Marketing, Sales and Nespresso
Wan Ling Martello	1958	US	Business Administration and Accountancy, Postgraduate in Management Information Systems EVP & CEO: Zone Asia, Oceania and Sub-Saharan Africa
Stefan Catsicas	1958	Swiss	Natural Sciences and Postgraduate in Neurosciences EVP: Chief Technology Officer: Innovation, Technology and R&D
Marco Settembri	1959	Italian	Business Administration EVP & CEO: Zone Europe, Middle East and North Africa
François-Xavier Roger	1962	French	Business Administration and Accounting EVP: CFO (includes Finance and Control, Legal, IP, M&A, Tax, Treasury, Investor Relations)
Magdi Bataato	1959	Swiss	Mechanical Engineering and PhD in Thermodynamics EVP: Operations
Peter Vogt	1955	Swiss	Economics and Finance & Accounting Deputy EVP: Human Resources
Heiko Schipper	1969	Dutch	Business Economics Deputy EVP: Nestlé Nutrition
Maurizio Patarnello	1966	Italian	Business Administration Deputy EVP: Nestlé Waters
Grégory Behar	1969	Swiss	Mechanical Engineering and Business Administration CEO: Nestlé Health Science
David P. Frick	1965	Swiss	Law SVP: Corporate Governance, Compliance and Corporate Services

(EVP: Executive Vice President; SVP: Senior Vice President, CEO: Chief Executive Officer)

For complete information, please refer to individual CVs on www.nestle.com/investors/corporate-governance/management/executiveboard

4.2 Professional background and other activities and functions (*)

Ulf Mark Schneider

Please refer to point 3.2 above.

Laurent Freixe

Laurent Freixe joined Nestlé France in 1986 as a sales representative and got increasing responsibilities in the field of sales and marketing. In 1999, he became a member of the Management Committee and was nominated Head of the Nutrition Division. In 2003, Laurent Freixe became Market Head of Nestlé Hungary. In January 2007, he was appointed Market Head of the Iberian Region taking responsibility for Spain and Portugal. From November 2008 to October 2014, Laurent Freixe served as Executive Vice President in charge of Zone Europe.

Effective October 2014, he was appointed Executive Vice President for Zone Americas.

As a representative of Nestlé, he is a member of the Board of Directors of Cereal Partners Worldwide S.A., Switzerland, and of the Regional Board of Directors of the Consumer Goods Forum in Latin America.



Chris Johnson

Chris Johnson started his career with Nestlé in 1983 as a marketing trainee at Carnation Inc. During his first eight years, he took on increasing responsibilities mainly in the commercial area at Nestlé USA and then, from 1991, in Japan. Senior Area Manager for the Asian region of Nestlé Waters in Paris from 1995, he was then transferred to Taiwan in 1998 as Market Head. From 2000, Chris Johnson led the worldwide development and implementation of GLOBE (Global Business Excellence; IS/IT), the Strategic Supply Chain as well as eNestlé. He was appointed Deputy Executive Vice President in April 2001, and later moved back to Japan in 2007 as Market Head. From January 2011 to October 2014, Chris Johnson was Executive Vice President responsible for Zone Americas.

Effective October 2014, he was appointed Executive Vice President of Nestlé S.A. in charge of Nestlé Business Excellence.

Chris Johnson is a Board member of GS1, Belgium and Treasurer of the Swiss-American Chamber of Commerce.



Patrice Bula

Patrice Bula joined Nestlé S.A. in 1980 and was entrusted with various responsibilities in Marketing and Sales in Kenya, Japan and Taiwan before being promoted to Market Head for Taiwan in 1992, Market Head for Czech Republic in 1995, then Head for the South and Eastern Africa Region in 1997. In 2000, he was appointed Head of Chocolate, Confectionery and Biscuits Strategic Business Unit based at Nestlé's International Headquarters in Vevey. In October 2003, Patrice Bula was transferred as Market Head of Nestlé Germany and in August 2007 he took up the role as Market Head for the Greater China Region.

As of May 2011, Patrice Bula was appointed to the Executive Board of Nestlé S.A. as Executive Vice President with responsibility for the Strategic Business Units, Marketing and Sales, and Nespresso.

Patrice Bula serves on the Boards of Schindler Holding Ltd. and Bobst Group SA, both in Switzerland.

As a representative of Nestlé, Patrice Bula serves as Chairman of Blue Bottle Coffee Inc., USA, as a Board member of Beverage Partners Worldwide (Europe) S.A., of Cereal Partners Worldwide S.A., Switzerland, and of Froneri Ltd., UK.

He is a Board member of both Yinlu Food Group Companies and Hsu Fu Chi Group Companies, China.



Wan Ling Martello

Wan Ling Martello joined Nestlé S.A. as Executive Vice President in November 2011 and was the Chief Financial Officer from April 2012 until May 2015. As of May 2015, she was appointed Executive Vice President of Nestlé S.A. in charge of Zone AOA (Asia, Oceania and Sub-Saharan Africa). Wan Ling Martello came to Nestlé S.A. from Walmart Stores Inc., where she was EVP, Global eCommerce in 2010 and 2011. From 2005 to 2009, she was SVP, CFO & Strategy for Walmart International. Prior to Walmart, Wan Ling Martello built her career in the consumer packaged goods industry. She worked at Kraft in increasingly broader finance roles from 1985 to 1995. She was the Corporate Controller at Borden Foods during its turnaround years owned by KKR in 1995 until 1998. Wan Ling Martello was the CFO and then the



(*) Mandates and functions are listed in the following order: (1) mandates in listed companies, (2) mandates in non-listed companies, (3) mandates held at the request of Nestlé or companies controlled by it, (4) mandates held in associations, charitable organisations, foundations, trusts and employee welfare foundations.

President of the U.S. business of NCH, a former subsidiary of AC Nielsen, from 1998 to 2005.

Wan Ling Martello serves on the Board of Alibaba Group Holding Ltd., China, and Uber Technologies Inc., USA.

As a representative of Nestlé, Wan Ling Martello is a member of the Board of Cereal Partners Worldwide S.A., Switzerland, and Blue Bottle Coffee Inc., USA.

Stefan Catsicas

Stefan Catsicas started his career at the pharmaceutical company Glaxo in Geneva, Switzerland, as Head of Neurobiology at the company's Institute of Molecular Biology. He continued his career in academia at the University of Lausanne as Professor and Chairman of the Cell Biology and Morphology Institute, and later as Vice President Research and Professor of Cellular Engineering at the Swiss Federal Institute of Technology (EPFL) in Lausanne, Switzerland.

In 2005, Stefan Catsicas co-founded a private group of biotechnology companies and he returned to academia in 2011 as Provost and Executive Vice President of the King Abdullah University of Science and Technology in Saudi Arabia.

Effective September 2013, Stefan Catsicas was appointed to the Executive Board of Nestlé S.A. as Executive Vice President, Chief Technology Officer, Head of Innovation, Technology, Research and Development.

Furthermore, Stefan Catsicas serves on the Board of Biomedical Research Council of A*STAR, Singapore, as well as on the Board of "Fondation Solar Impulse", Switzerland, the International Board of Governors of the New York Academy of Sciences, USA, and the Economic Advisory Board of Swiss Innovation Park, Switzerland.



Marco Settembri

Marco Settembri joined Nestlé S.A. with Nestlé Italiana in 1987 and was entrusted with various responsibilities, mainly in the PetCare area. He was appointed Managing Director of the Sanpellegrino water business in 2004 and largely contributed to the successful consolidation of the water activities in Italy and to the development of a strong export stream of the emblematic Italian brands. In 2006, he took over the position of Market Head in Italy in addition to his responsibility as Head of



Nestlé Waters Italy. In 2007, Marco Settembri was appointed CEO of Nestlé Purina PetCare Europe.

Effective December 2013, Marco Settembri was appointed to the Executive Board of Nestlé S.A. as Executive Vice President, Head of Nestlé Waters of the Nestlé Group.

As of January 2017, Marco Settembri was appointed Executive Vice President in charge of Zone EMENA (Europe, Middle East and North Africa).

As a representative of Nestlé, he is Board member of Lactalis Nestlé Produits Frais S.A.S, France, and of Cereal Partners Worldwide S.A., Switzerland.

In addition, Marco Settembri is a member of the Boards of FoodDrinkEurope and of the Association des Industries de Marque de l'Union Européenne (AIM) in Belgium.

François-Xavier Roger

François-Xavier Roger joined Nestlé S.A. as Executive Vice President in July 2015 as Chief Financial Officer.

François-Xavier Roger came to Nestlé S.A. from Takeda Pharmaceutical, Tokyo, where he was CFO since 2013. From 2008 to 2013, he was Chief Financial Officer of Millicom based in Luxembourg. As of 2000 to 2008, he worked as Chief Financial Officer for Danone Asia, followed by Head of Finance, Treasury and Tax for the Danone Group based in Paris, France.



Magdi Batato

Magdi Batato is a mechanical engineer and a PHD in Energetics of the human body from the Swiss Federal Institute of Technology Lausanne (EPFL). He spent few years teaching in university and consulting before joining Nestlé S.A. in 1991 in Switzerland as Engineer in Industrial Services, Energy & Environment. His factory and production management experiences took him to Germany, Lebanon and South Africa. In 2004, he was transferred to Malaysia as Executive Director of Production and, in 2009, he moved to Nestlé UK & Ireland as Head of Group Technical. In May 2012, he took up the position of Market Head Pakistan.

Effective October 2015, he was appointed Executive Vice President of Nestlé S.A. in charge of Operations.



Peter Vogt

Peter Vogt joined Nestlé S.A. in 1980 as a trainee in marketing before being appointed in Japan as Product Specialist. He returned to the Swiss market in 1985. Starting 1987, Peter Vogt resumed his international career with a series of assignments in Asia, first as Manager Hong Kong, then as Marketing Division Manager in Malaysia in April 1990 and finally as Market Head Sri Lanka until the end of 1995. In 1996, he returned to Europe to take over the Swiss Frozen Food & Ice Cream business and became Market Head Nordic Region in 2000. From 2002 to 2004, he was in charge of the newly created Nestlé Ice Cream Europe unit. Peter Vogt returned to Asia as Market Head Indonesia in 2005 and was nominated Market Head Malaysia and Singapore in 2009.

As of March 2013, Peter Vogt was appointed to the Executive Board of Nestlé S.A. as Deputy Executive Vice President, Human Resources.



Maurizio Patarnello

Maurizio Patarnello joined Nestlé S.A. in 1993 and held several positions in Finance before moving to Sanpellegrino in 1999. In 2002, he was appointed as Country Business Manager for Lebanon and Jordan, where he led the development of the Nestlé Waters business. In September 2004, he joined the regional management team in Dubai and was promoted Chief Operating Officer and Regional Business Head of Nestlé Waters for Middle East and Africa. In 2007, Maurizio Patarnello took over the additional responsibility for Nestlé Waters Asia. In October 2010, he was promoted to Market Head for Ukraine and Moldova. Maurizio Patarnello took up the position of Market Head for Nestlé Russia and Eurasia Region in October 2012.

Effective January 2017, he was appointed Deputy Executive Vice President of Nestlé S.A. and Head of Nestlé Waters.



Heiko Schipper

Heiko Schipper joined Nestlé S.A. in 1996 as a trainee in marketing before being appointed in Bangladesh as Regional Sales Manager in the course of the same year. He was then, in 1999, transferred to Nestlé Indonesia as Group Product Manager Dairy.

In 2003, he returned to Nestlé's International Headquarters in Vevey, Switzerland, in the position of Marketing Advisor, Dairy SBU. Starting 2005, Heiko Schipper resumed his international career with a series of assignments in Asia. First as Business Executive Manager, Dairy, Philippines, then as Business Executive Manager, Dairy (2007), as Regional Business Head, Infant Nutrition & Dairy (2010), and finally as Managing Director, Nestlé Food & Beverage Division of Nestlé Greater China Region. At the end of 2013, he returned to Nestlé's International Headquarters where he was appointed Global Business Head, Infant Nutrition at Nestlé Nutrition.

As of October 2014, Heiko Schipper was appointed to the Executive Board of Nestlé S.A. as Deputy Executive Vice President, Head of Nestlé Nutrition.



Grégory Behar

Grégory (Greg) Behar joined Nestlé S.A. in 2014 as CEO of Nestlé Health Science. Greg Behar came to Nestlé S.A. from Boehringer Ingelheim Pharmaceuticals Inc., USA, where he was President and CEO since 2011. From 2010 to July 2011, Greg Behar was Corporate Vice President Region NECAR (North European Union, Canada and Australasia) for Boehringer-Ingelheim GmbH and was its Corporate Vice President of the Cardiovascular and Metabolism Franchise from 2009 to 2010. Furthermore, Greg Behar held previous roles at Bula & Fils, Nestlé and Novartis Pharma. As of January 2017, he was appointed to the Executive Board of Nestlé S.A.

He represents Nestlé S.A. on the Boards of various companies in which Nestlé S.A. holds investments, including Nutrition Science Partners, HK, Accera, Inc., USA, Seres Therapeutics, Inc., USA, Aimmune Therapeutics Inc., USA, and Axcella Health Inc., USA.



David P. Frick

David P. Frick began his career at the Meilen District Court in Zurich and as an assistant to the Banking Law Chair at Zurich University Law School.

From 1994, he was an attorney in the International Corporate and Litigation practice groups of Cravath, Swaine & Moore, the New York law firm.

In 1999, he became Group General Counsel and Managing Director of Credit Suisse Group, Zurich, where he was appointed a Member of the Executive Board and served as the company's Head of Legal and Compliance.

David P. Frick joined Nestlé S.A. in 2006 and serves as Senior Vice President, Corporate Governance, Compliance and Corporate Services.

He is a member of the Board of Allianz Suisse, Switzerland.

Furthermore, he is a member of the Board of economiesuisse and chairs its Legal Commission. David P. Frick represents Nestlé at SwissHoldings and serves on the SIX Regulatory Board, ICC Switzerland and the Legal Committee for the Swiss-American Chamber of Commerce.



4.3 Mandates outside Nestlé

Pursuant to art. 21^{sexies} of the Articles of Association, no member of the Executive Board may hold more than 2 additional mandates in listed companies and 4 additional mandates in non-listed companies. Each of these mandates is subject to a specific approval by the Board of Directors.

The following mandates are not subject to these limitations:

- a) mandates in companies which are controlled by Nestlé;
- b) mandates which a member of the Executive Board holds at the request of Nestlé or companies controlled by it. No member of the Executive Board shall hold more than 10 such mandates; and
- c) mandates in associations, charitable organisations, foundations, trusts and employee welfare foundations. No member of the Executive Board shall hold more than 10 such mandates.

Mandates shall mean mandates in the supreme governing body of a legal entity which is required to be registered in the commercial register or a comparable foreign register. Mandates in different legal entities which are under joint control are deemed one mandate.

The Board of Directors has promulgated regulations that determine additional restrictions.

All members of the Executive Board comply with the provisions set out in art. 21^{sexies}.

4.4 Management contracts

There are no management contracts with third parties at Nestlé.

5. Compensation, shareholdings and loans

Please refer to the Compensation Report 2017, page 29.

6. Shareholders' participation

6.1 Voting rights restrictions and representation

6.1.1 Voting rights restrictions and rules on granting exceptions

and

6.1.3 Reasons for granting exceptions in the year under review

Each share registered with the right to vote entitles the holder to one vote at General Meetings ("one share, one vote"). Only persons entered in the share register as shareholders with voting rights may exercise the voting rights or the other rights related thereto (art. 5 par. 2 of the Articles of Association).

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. Legal entities that are linked to one another through capital, voting rights, management or in any other manner, as well as all natural persons or legal entities achieving an understanding or forming a syndicate or otherwise acting in concert to circumvent such a limit shall be counted as one shareholder (art. 11 par. 2 of the Articles of Association; see art. 11 par. 3 of the Articles of Association for exceptions to this voting restriction).

To permit the exercise of voting rights in respect of shares held by nominees, in line with art. 11 par. 4 of the Articles of Association, the Board of Directors may by means of regulations or agreements depart from the limit of 5% of the share capital as recorded in the commercial register (art. 5 par. 6 and par. 9 of the Articles of Association). The Board of Directors has granted exceptions to vote shares which in aggregate are in excess of 5% of the share capital to the following Nominees N: Chase Nominees Ltd, London, and Citibank N.A., London, as depositary for shares represented by American Depositary Receipts (please refer to point 2.6.3).

Pursuant to art. 5 par. 9 and 11 par. 4 of the Articles of Association, the Board of Directors has conferred to Credit Suisse AG and UBS AG as custodians the right to vote shares in excess of 5% on the basis of specific instructions provided by their clients for General Meetings.

6.1.4 Procedure and conditions for abolishing voting rights restrictions in the Articles of Association

A resolution to amend the provisions of the Articles of Association relating to:

- (i) restrictions on the exercise of voting rights and the change or removal of such restrictions, or
- (ii) the limitation on registration or the limitation on voting rights and the change or removal of such limitations requires a majority of two-thirds of the shares represented and the absolute majority of the nominal value represented at the General Meeting (art. 13 of the Articles of Association). See also art. 11 par. 4 of the Articles of Association.

6.1.5 Rules on participation in the General Meeting of shareholders

There are no restrictions to the legal regime set out by Swiss law in the Articles of Association. Shareholders with voting rights may have their shares represented by the proxy of their choice.

6.1.6 Rules on instructions to the independent representative and on the electronic participation in the General Meeting of shareholders

The legal regime set out by Swiss law applies to instructions in written or electronic form to the independent representative for participation in the General Meeting of shareholders. There are no specific provisions relating to these in the Articles of Association.

6.2 Quorums required by the Articles of Association

Please refer to art. 13 of the Articles of Association.

6.3 Convocation of the General Meeting of shareholders

Nestlé S.A. statutory rules (art. 7 to 9 of the Articles of Association) do not differ from applicable legal provisions. An Extraordinary General Meeting requested by one or more shareholders whose combined holdings represent at least 10% of the share capital as recorded in the commercial register must be held as promptly as practicable following such request (art. 8 par. 2 of the Articles of Association).

6.4 Inclusion of items on the agenda

One or more shareholders with voting rights whose combined holdings represent at least 0.15% of the share capital as recorded in the commercial register may request that an item be included in the agenda of the General Meeting by making the request in writing to the Board of Directors at the latest 45 days before the meeting and specifying the agenda items and the proposals made (art. 9 par. 2 and par. 3 of the Articles of Association).

6.5 Entries in the share register

The relevant date to determine the shareholders' right to participate in the General Meeting on the basis of the registrations appearing in the share register is set by the Board of Directors.

Change of control and defence measures

7. Change of control and defence measures

7.1 Duty to make an offer

Nestlé S.A. does not have a provision on opting out or opting up in the Articles of Association.

Thus, the provisions regarding the legally prescribed threshold of 33⅓% of the voting rights for making a public takeover offer set out in art. 135 of the Swiss Financial Market Infrastructure Act are applicable.

7.2 Clauses on change of control

There are no such agreements.

Auditors

8. Auditors

8.1 Duration of the mandate and term of office of the lead auditor

KPMG Klynveld Peat Marwick Goerdeler SA were first appointed on 22 May 1993, and KPMG SA (replacing KPMG Klynveld Peat Marwick Goerdeler SA) were first appointed on 23 April 2009 as auditors of Nestlé S.A.

On 6 April 2017, KPMG SA (hereafter “KPMG”) were appointed as auditors of the Financial Statements of Nestlé S.A. and of the Consolidated Financial Statements of the Nestlé Group for a term of office of one year.

The audit report is signed jointly by two KPMG partners on behalf of KPMG. The first year that Mr Scott Cormack, in his capacity as lead auditor, signed the Financial Statements of Nestlé S.A. and the Consolidated Financial Statements of the Nestlé Group was for the year ending 31 December 2013. The lead auditor is rotated every seven years in accordance with Swiss law.

8.2 Auditing fees

The auditing fees paid to KPMG in their capacity as Group auditors for 2017 amount to CHF 43 million.

8.3 Additional fees

In addition, KPMG provided non-audit services amounting to CHF 11.7 million, including CHF 6.3 million for mergers and disposals services, CHF 2.1 million for IS/IT advisory support, CHF 1.9 million for tax services and CHF 1.4 million for other various non-audit services.

8.4 Information instruments pertaining to the external audit

KPMG presents to the Audit Committee a detailed report on the conduct of the Financial Statements audit, the findings on significant financial accounting and reporting issues together with the findings on the internal control system as well as an overview of issues found during the interim audit.

In 2017, KPMG participated in all four Audit Committee meetings at the end of which they met with the Audit Committee without the Group’s management being present.

Nestlé Group Audit (corporate internal auditors) met four times with the Audit Committee. In addition, the head of internal audit regularly met with the Chairman of the Audit Committee for interim updates.

The Audit Committee reviews annually the appropriateness of retaining KPMG as the auditor of the Nestlé Group and Nestlé S.A., prior to proposing to the Board and to the Annual General Meeting of Nestlé S.A. the election of KPMG as auditors. The Audit Committee assesses the effectiveness of the work of the auditors in accordance with Swiss law, based on their understanding of the Group's business, control, accounting and reporting issues, together with the way in which matters significant at Group level or in the statutory accounts are identified and resolved.

The Audit Committee is also informed on the work of KPMG through regular briefings of its Chairman. Audit fees are ultimately approved by the Audit Committee.

The Group and KPMG have agreed on clear guidelines as to non-audit services which it is appropriate for KPMG to provide. These services include due diligence on mergers, acquisitions and disposals and certain tax and business risk assurance and IS/IT advisory support. These guidelines ensure KPMG's independence in their capacity as auditors to the Group. KPMG monitors its independence throughout the year and confirms its independence to the Audit Committee annually.

9. Information policy

Investor Relations – guiding principles

Nestlé is committed to managing an open and consistent communication policy with shareholders, potential investors and other interested parties. The objective is to ensure that the perception of those parties about the historical record, current performance and future prospects of Nestlé is in line with management's understanding of the actual situation at Nestlé. The guiding principles of this policy are that Nestlé gives equal treatment to shareholders in equal situations, that any price-sensitive information is published in a timely fashion and that the information is provided in a format that is as full, simple, transparent and consistent as possible.

Methodology

Nestlé produces each year a detailed Annual Review, which reviews the business. It also provides detailed audited Financial Statements for the year under review, prepared according to the International Financial Reporting Standards (IFRS). These are complemented by the Half-Yearly Report.

Nestlé publishes its full-year and half-year results, and its first-quarter and nine-months' sales figures; it also publishes press releases at the time of any potentially price-sensitive event, such as significant acquisitions and divestments, joint venture agreements and alliances. Major announcements, such as results of corporate activity, are accompanied by a presentation which is broadcast "live" on the internet and which anyone can choose to access, whether or not that person is a shareholder.

Furthermore, Nestlé has an active investor relations programme, including both group meetings and one-to-one meetings. This includes the Annual General Meeting, as well as presentations at the time of its full-year and half-year results. The Group also has a programme of roadshows, which take place in most financial centres around the world, and hosts themed events for institutional investors and investment analysts at which members of line management give an overview of their particular areas of responsibility. These meetings focus either on recently announced financial results, recent corporate activity or the longer-term strategy of the Group; they are not an occasion for the disclosure of new information which might encourage an investment decision.

Specifically on governance topics, the Company engages into an active dialogue with investors through regular Chairman's roundtables, surveys and bilateral exchanges which are reported to the Chairman's and Corporate Governance Committee or the Board.

The Company utilises the internet (www.nestle.com/investors) to ensure a rapid and equitable distribution of information. Nestlé does not just rely on people visiting the site to be updated on the latest developments within the Group: anyone can sign up on the site to be alerted automatically by Nestlé whenever there is a change to the Investor Relations website; also press releases are distributed to major wire and news services. There are links to non-financial information that may be of interest to investors, including areas such as the environment, sustainability, the Nestlé Corporate Business Principles and the Nestlé Code of Business Conduct. A Corporate calendar of relevant dates is displayed on page 61 of the Annual Review 2017 and available on the Corporate website (www.nestle.com/investors/events).

The Nestlé Investor Relations Department can be contacted, either through the website, or by telephone, fax, e-mail or letter.

Contact

Investor Relations
Nestlé S.A., Avenue Nestlé 55
CH-1800 Vevey (Switzerland)
Tel. +41 (0)21 924 35 09
Fax +41 (0)21 924 48 00
E-mail: ir@nestle.com

General Organisation of Nestlé S.A.

at 31 December 2017

Executive Board

Ulf Mark Schneider
Laurent Freixe
Chris Johnson
Patrice Bula
Wan Ling Martello
Stefan Catsicas
Marco Settembri

François-Xavier Roger
Magdi Batato
Peter Vogt
Heiko Schipper
Maurizio Patarnello
Grégory Behar
David P. Frick



(a) Succeeded by Stefan Palzer in 2018.

(b) Left the Company in 2018.

Compensation Report 2017

Compensation Report 2017

Introduction

The future success of Nestlé is dependent on its ability to attract, motivate and retain the right talented employees. Among the various programmes to support this ambition is a competitive remuneration policy. Nestlé believes in a performance culture as well as good corporate governance and corporate social responsibility.

Therefore, remuneration at Nestlé is based on the following principles:

- pay for performance to support the Company's short-term and long-term objectives;
- compensation aligned with long-term Group strategy and shareholders' interests;
- coherence in our remuneration plans and levels throughout the Company;
- competitiveness versus external market comparisons;
- appropriate balance of fixed and variable remuneration and short-term and long-term rewards.

As in previous years, this Compensation Report shall be submitted to the advisory vote of the shareholders at the Annual General Meeting 2018.

At the 2017 Annual General Meeting, shareholders approved the total compensation budgets for the Board of Directors and the Executive Board with large majorities.

As explained at that time, to ensure complete accountability, the shareholders will this year be able to retrospectively vote on the Compensation Report and payouts in a consultative vote.

For changes to Nestlé's long-term incentive plan, see page 40 below.

Governance

The Board of Directors has the overall responsibility for defining the compensation principles used in the Group. Pursuant to art. 21^{bis} of Nestlé's Articles of Association (*), the total compensation of the Board of Directors and of the Executive Board is subject to approval by the shareholders, upon proposal by the Board of Directors.

As of 31 December 2017, the governance for setting the compensation of the members of the Board of Directors and the Executive Board is defined as follows:

Compensation of	Recommended by	Approved by
Board of Directors as a whole	Board of Directors	Shareholders
Executive Board as a whole	Board of Directors	Shareholders
Chairman of the Board, CEO and Executive Board as a whole	Compensation Committee	Board of Directors ^(a)
Non-executive members of the Board of Directors	Compensation Committee	Board of Directors ^(b)
Members of the Executive Board	CEO together with Chairman	Compensation Committee

(a) Chairman as well as CEO not voting on own compensation, and not participating in the relevant meetings.

(b) Members not voting on own compensation to the extent that Committee fees are concerned.

Compensation Committee (CC)

The CC is governed by the Compensation Committee Charter, see point 3.5.2 in the Corporate Governance section. The Committee consists of the Chairperson who is an independent and non-executive member of the Board, the Vice Chairman of the Board and two other non-executive members of the Board.

The members of the CC have been elected by the shareholders for one year. The Chairperson was appointed by the Board of Directors. On 31 December 2017, the composition of the CC is as follows:

Chairman	Members
Beat W. Hess	Andreas Koopmann
	Jean-Pierre Roth
	Patrick Aebischer

The tasks and areas of responsibility of the CC are described on page 13 of the Corporate Governance Report 2017.

(*) Nestlé S.A.'s Articles of Association can be found on page 49 and on www.nestle.com/investors/corporate-governance/articles

Board of Directors

Principles of compensation for the members of the Board of Directors

Governance

Pursuant to art. 21^{bis} par. 1 of Nestlé's Articles of Association, the General Meeting shall approve annually the proposal of the Board of Directors in relation to the maximum aggregate amount of the compensation of the Board of Directors for the period until the next Annual General Meeting ^(a).

In the event the General Meeting has not approved a proposal of the Board of Directors, the Board of Directors shall determine the respective maximum aggregate amount or maximum partial amounts of compensation provided that:

- a) the Board of Directors takes into account (i) the proposed maximum aggregate amount of compensation; (ii) the decision of the General Meeting and, to the extent known to the Board of Directors, the main reasons for the negative vote; and (iii) Nestlé's compensation principles; and
- b) the Board of Directors submits the amount so determined to approval by the same General Meeting, a subsequent Extraordinary General Meeting or the next Annual General Meeting (art. 21^{bis} par. 2 of the Articles of Association).

The compensation of the members of the Board of Directors is subject to "clawback" rules in accordance with art. 678 of the Swiss Code of Obligations. Members of the Board of Directors could be obligated to return benefits received from the Company to the extent these are manifestly disproportionate to the performance rendered in return and to the Company's economic situation (including as a result of fraud or accounting misstatement).

Principles

The remuneration of the members of the Board of Directors is set to attract and retain highly qualified individuals to serve on the Board of Directors. The level of remuneration reflects the time and effort required from the members in fulfilling their Board and Committee responsibilities. The pay structure (cash and blocked shares) is designed to ensure the Board's focus on the long-term success of the Company. There is no variable compensation for non-executive members of the Board of Directors, in order to ensure a proper level of independence.

The principal benchmark used to define Board remuneration is a selection of large Swiss Market Index (SMI) companies ^(b), adjusted for the size of Nestlé. These figures are periodically reviewed against this benchmark.

Compensation 2017 for the members of the Board of Directors

Board membership fees and allowances

With the exception of the Chairman and the CEO, each member of the Board of Directors receives a Board membership fee of CHF 280 000 and an Expense Allowance of CHF 15 000. These figures have remained unchanged since 2006.

(a) The Board of Directors may submit for approval by the General Meeting deviating or additional proposals relating to the same or different periods.

(b) Novartis, Roche, Richemont, ABB, Syngenta, UBS and Credit Suisse.

Members of a Board Committee receive the following additional fees ^(a):

	Chair	Members
Chairman's and Corporate Governance Committee	CHF 300 000	CHF 200 000
Compensation Committee	CHF 150 000	CHF 70 000
Nomination and Sustainability Committee	CHF 100 000	CHF 40 000
Audit Committee	CHF 150 000	CHF 100 000

(a) The Chairman and the CEO Committee fees are included in their total remuneration.

Committee membership on 31 December 2017

	Chairman's and Corporate Governance Committee	Compensation Committee	Nomination and Sustainability Committee	Audit Committee
Paul Bulcke, Chairman	• (Chair)		•	
Ulf Mark Schneider, CEO	•			
Andreas Koopmann, Vice Chairman	•	•		
Henri de Castries, Lead Independent Director	•		• (Chair)	•
Beat W. Hess	•	• (Chair)		
Renato Fassbind	•			• (Chair)
Steven G. Hoch			•	
Naiina Lal Kidwai				•
Jean-Pierre Roth		•		
Ann M. Veneman			•	
Eva Cheng				•
Ruth K. Oniang'o				
Patrick Aebischer		•		
Ursula M. Burns				

The above fees and allowances cover the period between the Annual General Meeting 2017 and the Annual General Meeting 2018. They are paid in two instalments. Board membership and Committee fees are paid 50% in cash and 50% in Nestlé S.A. shares, which are subject to a three-year blocking period. The blocking period remains applicable upon termination of the mandate.

The number of Nestlé S.A. shares is determined by taking the closing price of the share on the SIX Swiss Exchange on the ex-dividend date of the respective financial year. For valuation purposes, the shares are discounted by 16.038% to account for the blocking period of three years. In 2017, the value was CHF 63.48.

Compensation Payout 2017

At the Annual General Meeting of 6 April 2017, the shareholders approved a maximum compensation for the Board of Directors of CHF 10.0 million for the period from the Annual General Meeting 2017 to the Annual General Meeting 2018. The total actual compensation pay-out for this period including social security contributions is CHF 9 249 832.

Summary of compensation 2017 **

	Cash in CHF ^(a)	Number of shares	Discount value of shares in CHF ^(b)	Total Cash & Shares	Social security & addit. fees ^(c)	Total Compensation
Paul Bulcke, Chairman April-Dec.	450 000	51 588	3 274 806	3 724 806	21 150	3 745 956
Peter Brabeck-Letmathe, Chairman Jan.-March	400 000	–	–	400 000	7 050	407 050
Ulf Mark Schneider, Chief Executive Officer ^(d)	–	–	–	–	–	–
Andreas Koopmann, Vice Chairman	270 000	3 903	247 762	517 762	24 902	542 664
Henri de Castries, Lead Independent Director	355 000	4 498	285 533	640 533	28 200	668 733
Beat W. Hess	330 000	4 167	264 521	594 521	28 200	622 721
Renato Fassbind	330 000	4 167	264 521	594 521	28 200	622 721
Steven G. Hoch	175 000	2 117	134 387	309 387	–	309 387
Naina Lal Kidwai	205 000	2 514	159 589	364 589	17 913	382 502
Jean-Pierre Roth	190 000	2 315	146 956	336 956	15 638	352 594
Ann M. Veneman	175 000	2 117	134 387	309 387	25 000	334 387
Eva Cheng	205 000	2 514	159 589	364 589	17 052	381 641
Ruth K. Oniang'o	155 000	1 852	117 565	272 565	37 338	309 903
Patrick Aebischer	190 000	2 315	146 956	336 956	27 012	363 968
Ursula M. Burns	155 000	1 852	117 565	272 565	13 199	285 764
Total for 2017	3 585 000	85 919	5 454 137	9 039 137	290 854	9 329 991

Summary of compensation 2016 **

	Cash in CHF ^(a)	Number of shares	Discount value of shares in CHF ^(b)	Total Cash & Shares	Social security & addit. fees ^(c)	Total Compensation
Peter Brabeck-Letmathe, Chairman	1 600 000	60 414	3 553 551	5 153 551	28 200	5 181 751
Paul Bulcke, Chief Executive Officer ^(d)	–	–	–	–	–	–
Andreas Koopmann, Vice Chairman	340 000	4 640	272 925	612 925	28 200	641 125
Beat W. Hess	330 000	4 497	264 514	594 514	28 200	622 714
Renato Fassbind	330 000	4 497	264 514	594 514	28 200	622 714
Steven G. Hoch	175 000	2 285	134 404	309 404	–	309 404
Naina Lal Kidwai	205 000	2 713	159 579	364 579	17 913	382 492
Jean-Pierre Roth	190 000	2 499	146 991	336 991	15 638	352 629
Ann M. Veneman	175 000	2 285	134 404	309 404	25 000	334 404
Henri de Castries	205 000	2 713	159 579	364 579	17 913	382 492
Eva Cheng	205 000	2 713	159 579	364 579	17 052	381 631
Ruth K. Oniang'o	155 000	1 999	117 581	272 581	37 338	309 919
Patrick Aebischer ^(e)	190 000	–	–	190 000	19 481	209 481
Total for 2016	4 100 000	91 255	5 367 621	9 467 621	263 135	9 730 757

** For all Board members except the Chairman and the CEO, the above table shows the annual compensation paid semi-annually in April and October during the respective year covering the twelve-month period starting with the Annual General Meeting.

(a) The cash amount includes the expense allowance of CHF 15 000. The Chairman receives no expense allowance.

(b) Nestlé S.A. shares received as part of Board membership and Committee fees are valued at the closing price of the share on the SIX Swiss Exchange on the ex-dividend date, discounted by 16.038% to account for the blocking period of three years.

(c) Since Company contributions to social security are based on full earnings, whereas benefits are capped, only contributions that lead to future benefits are included. The additional cost to the Company taking into account full social security employer contributions is CHF 181 282 in 2017 and CHF 227 756 in 2016. For details of additional fees, see page 36.

(d) The CEO's compensation is disclosed in its entirety under compensation of the Executive Board.

(e) As long as he remained President of EPFL (until 31 December 2016) and in accordance with an agreement with the Swiss Federal Council, Patrick Aebischer did not receive any shares, and transferred his net cash compensation to EPFL.

(*) Sections highlighted with a blue bar are audited by KPMG. They include all elements the Company needs to disclose pursuant to art. 14 to 16 of the Ordinance against excessive compensation in listed companies.

Paul Bulcke replaced Peter Brabeck-Letmathe as Chairman of the Board, as from the Annual General Meeting 2017. In his capacity as active Chairman, Paul Bulcke received a cash compensation as well as Nestlé S.A. shares, which are blocked for three years. This in particular reflects certain responsibilities for the direction and control of the Group including the support to the new CEO, the support of Nestlé Health Science and Nestlé Skin Health through the respective Strategic Advisory Boards, and the direct leadership of Nestlé's interests in L'Oréal. Paul Bulcke also chairs the 2030 Water Resource Group (WRG), represents Nestlé as member of the European Roundtable of Industrialists (ERT), and as member of the WEF International Business Council. The remuneration includes all compensation received in relation to these activities. His total compensation was:

	Paul Bulcke		Peter Brabeck-Letmathe	
		2017		2016
	Number	Value in CHF	Number	Value in CHF
Cash compensation		450 000 ^(b)		1 600 000
Blocked shares (discounted value)	51 588	3 274 806	60 414	3 553 551
Total Cash & Shares		3 724 806		5 153 551
Company contribution to compulsory Swiss social security ^(a)		21 150		28 200
Total compensation		3 745 956		5 181 751

(a) Since Company contributions to social security are based on full earnings, whereas benefits are capped, only contributions that lead to future benefits are included.
The additional cost to the Company taking into account full social security employer contributions is CHF 163 981 in 2017 and CHF 224 040 in 2016.

(b) Pro-rated remuneration for the period April-December.

Shares and stock options ownership of the non-executive members of the Board of Directors and closely related parties on 31 December 2017

	Number of shares held ^(a)	Number of options held ^(b)
Paul Bulcke, Chairman	1 263 185	420 000
Andreas Koopmann, Vice Chairman	101 079	–
Henri de Castries, Lead Independent Director	18 940	–
Beat W. Hess	41 429	–
Renato Fassbind	22 921	–
Steven G. Hoch	167 727	–
Nāina Lal Kidwai	16 956	–
Jean-Pierre Roth	14 531	–
Ann M. Veneman	16 961	–
Eva Cheng	12 769	–
Ruth K. Oniang'o	5 743	–
Patrick Aebischer	2 315	–
Ursula M. Burns	1 852	–
Total as at 31 December 2017	1 686 408	420 000
Total as at 31 December 2016	3 969 584	127 000

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

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

Audited Other audited information regarding the Board of Directors Loans

There are no loans to members of the Board of Directors. Loans to a member of the Board of Directors may only be granted at market conditions and may, at the time of grant, not exceed the respective member's most recent total annual compensation (art. 21^{septies} of the Articles of Association).

Additional fees and remuneration of the Board of Directors

There are no additional fees or remuneration paid by Nestlé S.A. or any of its Group companies, directly or indirectly, to members of the Board of Directors, except for CHF 25 000 paid to Ann M. Veneman and to Ruth K. Oniang'o who serve as members of the Creating Shared Value (CSV) Council, and CHF 10 000 paid to Patrick Aebischer who serves on the Steering Committee of the Nestlé Institute of Health Sciences.

Compensation and loans for former members of the Board of Directors

There is no compensation conferred during 2017 on former members of the Board of Directors who gave up their function during the year preceding the year under review or earlier. Similarly, there are no loans outstanding to former members of the Board of Directors.

Compensation or loans to related parties of members of the Board of Directors

In 2017, no compensation was paid to related parties of members of the Board of Directors and there were no loans outstanding to related parties.

Executive Board

Principles of compensation for members of the Executive Board

Governance

Pursuant to art. 21^{bis} par. 1 of Nestlé's Articles of Association (*), the General Meeting shall approve annually the proposal of the Board of Directors in relation to the maximum aggregate amount of the compensation of the Executive Board for the following financial year (**).

In the event the General Meeting has not approved a proposal of the Board of Directors, the Board of Directors shall determine the respective maximum aggregate amount or maximum partial amounts of compensation, provided that:

- a) the Board of Directors takes into account: (i) the proposed maximum aggregate amount of compensation; (ii) the decision of the General Meeting and, to the extent known to the Board of Directors, the main reasons for the negative vote; and (iii) Nestlé's compensation principles; and
- b) the Board of Directors submits the amount(s) so determined to approval by the same General Meeting, a subsequent Extraordinary General Meeting or the next Annual General Meeting (art. 21^{bis} par. 2 of the Articles of Association).

If the maximum aggregate amount of compensation already approved by the General Meeting is not sufficient to also cover compensation of one or more members who become members of or are being promoted within the Executive Board during a compensation period for which the General Meeting has already approved the compensation of the Executive Board, Nestlé or companies controlled by it shall be authorised to pay such member(s) a supplementary amount during the compensation period(s) already approved. The total supplementary amount shall not exceed 40% of the aggregate amount of compensation of the Executive Board last approved by the General Meeting per compensation period (art. 21^{ter} of the Articles of Association).

Principles

The principles of compensation for members of the Executive Board are the following:

Pay for performance

The Total Direct Compensation for the members of the Executive Board includes a fixed portion (Annual Base Salary) and a variable portion (Short-Term Bonus and Long-Term Incentives). The fixed compensation takes into account individual performance. Variable compensation is determined based on collective and individual performance. These are intended to ensure a major part of executive rewards are contingent on achieving demanding performance goals.

(*) Nestlé's S.A.'s Articles of Association can be found on page 49 and on www.nestle.com/investors/corporate-governance/articles
(**) The Board of Directors may submit for approval by the General Meeting deviating or additional proposals relating to the same or different periods.

Alignment with long-term company strategy and shareholder interests

Compensation for members of the Executive Board is aligned with company strategy and shareholders' interests. The Short-Term Bonus payout is determined by the degree of achievement of a number of objectives aligned to annual business plans. Long-Term Incentives are provided in the form of share-based instruments, therefore ensuring alignment with shareholders' interests. In 2017, the main Long-Term Incentive instrument was the Performance Share Unit Plan (PSUP), following the discontinuation of the Restricted Stock Unit Plan (RSUP). PSUs have a vesting period of three years, with a further holding period of two years for Executive Board members, leading to a total restriction period of five years. Their alignment with shareholder interests is reinforced through pay-outs being tied to underlying Earnings per Share (EPS) growth and relative Total Shareholder Return (TSR) performance.

Coherence in remuneration plans and levels throughout the Company

The Company aims to align remuneration plans across the Group and to ensure that compensation rewards appropriately for the added responsibilities of positions held. This is reflected in the relative remuneration levels of the Executive Board.

Compensation to be internationally competitive by using selected benchmarks

The compensation packages for the members of the Executive Board need to be competitive in a dynamic international environment. Nestlé targets its overall remuneration policy to be between the median and the 75th percentile of the selected external benchmarks (please refer to page 42). Whenever appropriate, the benchmark values are adjusted for the size of Nestlé. The market competitiveness of the Executive Board is therefore periodically assessed using the services of Willis Towers Watson, a reputed international human capital and benefits consultancy.

The total compensation package consists of the following elements:

1. Base Salary

The Base Salary is the foundation of the total compensation. It reflects the experience, expertise and sustained performance of the Executive Board member as well as taking account external market competitiveness. It also serves as the basis for determining the Short-Term Bonus target levels, and the allocation of Long-Term Incentives. The Base Salary is reviewed annually by the Compensation Committee. Criteria for adjustments are individual contribution and the level of competitiveness against the benchmarks.

2. Short-Term Bonus

The Short-Term Bonus is intended to reward results achieved against annual collective and individual performance goals related to Nestlé's overall business strategy. The Short-Term Bonus is paid in cash and/or in Nestlé S.A. shares, which are subject to a three-year blocking period.

Governance

Pursuant to art. 21^{quater} of Nestlé's Articles of Association (*), variable compensation may comprise short-term compensation elements, and shall be subject to caps expressed as predetermined multipliers of the respective target levels.

Short-term compensation elements are governed by performance metrics that take into account the performance of Nestlé and/or parts thereof, targets in relation to the market, to other companies or to comparable benchmarks and/or individual targets, and achievement of which is generally measured based on a one-year period. The annual target level of the short-term compensation elements is determined as a percentage of the Base Salary; depending on achieved performance, the compensation may amount up to a pre-determined multiplier of target level.

The Board of Directors or, to the extent delegated to it, the Compensation Committee determines performance metrics and target levels, and their achievement.

(*) Nestlé's S.A.'s Articles of Association can be found on page 49 and on www.nestle.com/investors/corporate-governance/articles

Objectives 2017

The Short-Term Bonus (Annual Bonus) is based on a bonus target expressed in % of the Annual Base Salary.

- In 2017, the following target levels were applicable
- CEO: 150%;
 - Executive Vice President: 100%;
 - Deputy Executive Vice President: 80%.

For the CEO, 100% of the target was linked to performance against the Nestlé Group objectives (see below). For the other members of the Executive Board, at least 50% of the target is linked to business performance, to ensure accountability for Nestlé's results: for Function Heads, 50% is tied to Group performance, 30% to functional objectives and 20% to their individual performance (quantitative and qualitative objectives); for Zone or Business Heads, 30% is tied to Group performance, 50% to business goals they are directly responsible for, and 20% to individual performance (quantitative and qualitative objectives).

In case an executive reaches all objectives in full, the bonus payout will correspond to the targeted level. If one or more objectives are not reached, the bonus is reduced. The bonus payout is capped at a maximum of 130% of the target. There is no guarantee for the payout of a minimum bonus.

Members of the Executive Board can elect to receive part or all of their Short-Term Bonus in Nestlé S.A. shares. The CEO has to take a minimum of 50% in shares.

The number of shares granted is determined using the average market closing price of the last ten trading days of January 2018.

Group objectives

Every year, the Board of Directors defines a set of key quantitative operational targets, which comprise the main elements in determining the annual Group performance for the following year. These are linked to measurable operational objectives. In 2017, their weighting was 40% Growth (Organic Growth & Real Internal Growth), 40% Profitability (Trading Operating Profit & Operating Profit margins), and 20% Cash Flow.

Additional quantitative and qualitative targets, set by the Board of Directors in line with the Nestlé strategic roadmap, are also used to determine the Nestlé Group performance. Non-financial objectives include measures related to the Company's sustainability and its corporate social responsibility in line with our Creating Shared Value (CSV) strategy. These additional targets can include the proportion of products with Nutrition, Health & Wellness benefits, market shares, operational excellence savings, capital expenditure, working capital reduction, delivering on CSV commitments, strengthening Nestlé's values and culture, or quality, safety, sustainability and compliance objectives.

The above goals are kept under review by the Board of Directors so as to ensure they are aligned with Nestlé's business goals and the strategic ambition outlined at the 2017 Investor Seminar.

Functional and Individual objectives

Functional objectives and individual objectives are determined by the CEO for each member of the Executive Board. They are related to the individual area of responsibility and are of a financial or non-financial nature.

3. Long-Term Incentives

Long-Term Incentives are intended to reward sustained business success and overall shareholder value creation as well as to retain key senior management members.

Governance

Pursuant to art. 21^{quater} of Nestlé's Articles of Association (*), variable compensation may comprise long-term compensation elements, and shall be subject to caps expressed as pre-determined multipliers of the respective target levels.

Long-term compensation elements are governed by performance metrics that take into account strategic objectives of Nestlé, and achievement of which is generally measured based on a multi-annual period. The annual target level of the long-term compensation elements is determined as a percentage of the Base Salary; depending on the achieved performance, the compensation may amount up to a pre-determined multiplier of the target level. Vesting periods, as determined by the Board of Directors or, to the extent delegated to it, the Compensation Committee shall be at least three years. See further art. 21^{quater} par. 6 to par. 8 of the Articles of Association.

The Board of Directors or, to the extent delegated to it, the Compensation Committee determines performance metrics and target levels, and their achievement.

Target levels 2017

In 2017, members of Nestlé's Executive Board were eligible to receive Long-Term Incentives in the form of Performance Share Units under the Performance Share Unit Plan (PSUP). The grant value for Long-Term Incentives in 2017 was the following:

- CEO: 150% of the Annual Base Salary
- Executive Vice President and Deputy Executive Vice President: 100% of the Annual Base Salary

The fair value of Long-Term Incentives at grant is determined by using generally accepted pricing models.

Please refer to explanations on page 43.

The PSUP provides units which entitle participants to receive Nestlé S.A. shares at the end of the three-year vesting period. These shares remain blocked for a further period of two years for Executive Board members.

The level at which PSUs vest is determined by the degree by which the two performance measures of the PSUP are met over the full three-year vesting period. These two criteria are:

- the relative Total Shareholder Return (TSR) of the Nestlé S.A. share in relation to the STOXX Global 1800 Food & Beverage Net Return Index; and
- the growth of underlying Earnings per Share in constant currencies.

Total Shareholder Return performance in relation to peers and growth of underlying Earnings per Share are the two most commonly used measures to determine senior management long-term performance in the industry. Each of the two measures has equal weighting in determining the vesting level of the initial PSU award.

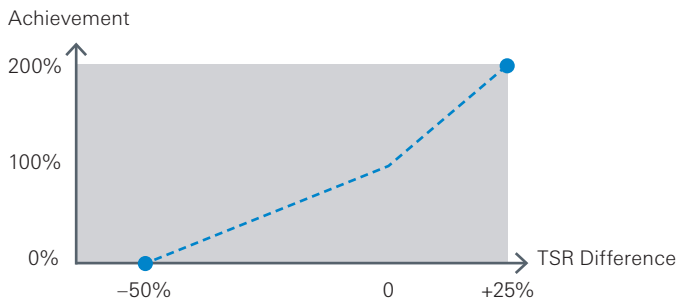
The following changes will be introduced for the 2018 PSUP grant:

- A third performance measure, ROIC (Return On Invested Capital) will be introduced, to address an efficient use of capital and M&A responsibility.
- The weighting of the three performance measures will be 50% underlying EPS (unchanged), 30% TSR and 20% ROIC.
- All three performance measures will be subject to Compensation Committee review in case of extraordinary events.
- The pay-out curve for TSR will change to a straight line, to reduce the reward if Nestlé is underperforming versus the peer index, with the thresholds moving from –50% to +25% currently to –20% to +20% going forward.
- The TSR base will be moved from the STOXX Global 1800 Food&Beverage Net Return Index to the STOXX Global 1800 Food&Beverage Gross Return Index to avoid distortion by tax impacts in line with market practice.
- The PSUP will cover only Executive Board and Senior Vice-Presidents, a restricted stock unit plan (RSUP) will be re-introduced for all other participants.

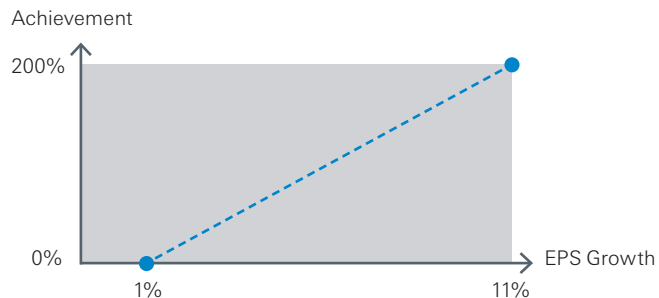
(*) Nestlé's S.A.'s Articles of Association can be found on page 49 and on www.nestle.com/investors/corporate-governance/articles

The following charts show the different potential levels of achievement for each of the two measures for the 2017 PSUP grant. See the changes for 2018 described above.

TSR Difference (Nestlé vs. Index)



Average Underlying EPS Growth (constant currencies)

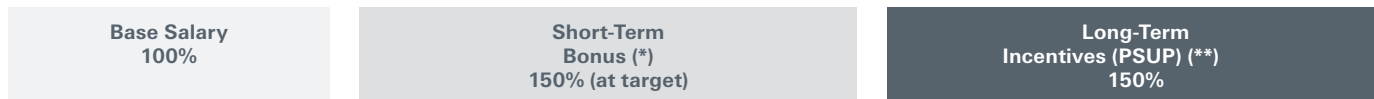


The total vesting level will be determined by applying, at the end of the vesting period, each one of the two measures to 50% of the grant, and by adding up both elements.

The vesting range of the PSU starts at 0% and is capped at 200% of the initial PSU award, thus providing alignment with strategy and shareholders’ interests, as well as ensuring competitiveness versus external market comparisons.

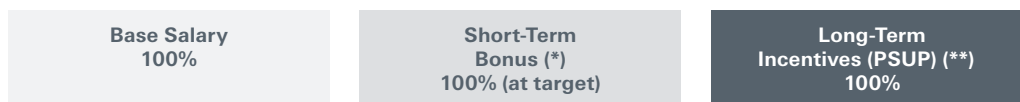
Overview of Executive Board compensation elements

CEO



(*) Payable between 50% and 100% in Nestlé S.A. shares with a three-year blocking period.
 (**) Subject to a two-year holding period after the three-year vesting period.

Executive Vice Presidents



(*) Payable between 0% and 100% in Nestlé S.A. shares with a three-year blocking period.
 (**) Subject to a two-year holding period after the three-year vesting period.

Maximum payout:

- Short-Term Bonus: capped at 130% of the target;
- PSUP: vesting ranges from 0% to 200% of the initial PSU award.

4. Other benefits

The Company limits other benefits to a minimum. Typical elements are a car allowance (there are no Company cars provided to members of the Executive Board), a contribution towards health insurance premiums (below CHF 4000 per annum) as well as long-term service awards related to 25 and 40 years of service to the Company, in line with the Company policy, as offered to other employees. Those Executive Board members who have been transferred to Switzerland from other Nestlé locations can receive benefits in line with the Nestlé Corporate Expatriation Policy.

5. Pension benefits

Executive Board members domiciled in Switzerland are affiliated to the Nestlé Pension Plan in Switzerland like all other employees. The Plan was changed from a defined contribution plan with a retirement pension objective to a Swiss-type defined contribution plan during 2013. Beneficiaries of the Plan born in 1958 or before maintain their membership in the former plan. Further changes to the Nestlé Pension Plan will apply as from 1 July 2018.

Pensionable earnings include the Annual Base Salary, but not the variable compensation (Short-Term Bonus or Long-Term Incentives). Any part of the Annual Base Salary which exceeds the ceiling prescribed by Swiss Pension Law is covered directly by the Company.

Benchmarks of Executive Board compensation

Any benchmarks need to take account of Nestlé's overall size, its sector and geographic location. The Compensation Committee has therefore decided the most appropriate way to assess the competitiveness of the compensation for the Executive Board is by comparing against the STOXX Europe 50 index (excluding financial services) as the primary benchmark*, while taking account of trends in executive remuneration in the European Fast Moving Consumer Goods and Pharma companies. Reflecting the Company's size (revenue and headcount), Nestlé's competitive position has been evaluated with reference to the 75th percentile of the benchmark.

Share ownership policy

The Company strongly encourages share ownership by the members of the Executive Board to ensure alignment with shareholder interests over time. As of the end of 2017, excluding unvested long-term incentive awards, the collective

share ownership of the members of the Executive Board was approximately equal to their combined annual total compensation.

Since 2015, an additional two-year blocking period is imposed on Nestlé S.A. shares delivered to Executive Board members upon vesting of PSUs, bringing the total restriction period to five years. The blocking period remains applicable upon termination.

Loans

The Company does not, as a rule, grant loans, except that it may provide advances, generally repayable over a three-year period to members of the Executive Board who have been transferred to Switzerland from other Nestlé locations in line with the Nestlé Corporate Expatriation Policy.

Loans to Executive Board members may only be granted at market conditions and may, at the time of grant, not exceed the respective member's most recent total annual compensation (art. 21^{septies} of the Articles of Association).

Contracts of employment and severance payments

As of 31 December 2017, members of the Executive Board are subject to a notice period of twelve months. During this time, unless there was termination for cause, entitlement to the Annual Base Salary and prorated Short-Term Bonus continues. Long-Term Incentives are forfeited upon voluntary resignation or termination for cause (except vested Stock Options which remain exercisable for a period of thirty days upon termination for cause); Long-Term Incentives (except Stock Options) immediately vest in all other cases of termination of employment. There are no severance payments or change of control provisions ("golden parachutes"). Non-compete provisions are in line with the Articles of Association and are activated by the Company only as necessary on a case-by-case basis.

Since 1 January 2016, the compensation of the members of the Executive Board is subject to forfeiture or clawback if the compensation paid or granted is rejected by the General Meeting of Nestlé S.A. in a final vote.

(*) Companies include: ABB, Air Liquide, Airbus, Anheuser-Busch Inbev, ASML, AstraZeneca, BASF, Bayer, BP, BAT, Daimler, Deutsche Telekom, Diageo, Eni, GlaxoSmithKline, Glencore, Imperial Brands, L'Oréal, LVMH, National Grid, Novartis, Novo Nordisk, Reckitt Benckiser, Rio Tinto, Roche, Royal Dutch Shell, Sanofi, SAP, Schneider Electric, Siemens, Telefonica, Total, Unilever, Vinci, Vodafone.

Benchmarks

See above elements of compensation for members of the Executive Board.

Audited Compensation 2017 for members of the Executive Board

At the Annual General Meeting of 7 April 2016, the shareholders approved a maximum compensation for members of the Executive Board of CHF 60 million for 2017. The total compensation paid to members of the Executive Board in 2017, including contributions towards future pension benefits and total social security contributions, was CHF 43 009 601.

Compensation for members of the Executive Board in CHF (including the CEO)

	2017	2016
Annual Base Salary	14 102 798	14 481 250
Short-Term Bonus (cash)	8 469 438	7 917 061
Short-Term Bonus (discounted value of Nestlé S.A. share)	3 744 001	6 907 297
Performance Share Units (fair value at grant)	10 985 508	14 422 467
Other benefits	603 360	1 541 365
Total	37 905 105	45 269 440
% Fixed/Variable	38.8 – 61.2	35.4 – 64.6
Company contributions towards future pension benefits (in line with Nestlé's Pension Benefit Policy described above)	2 639 785	4 314 427
Company contributions to compulsory Swiss social security ^(a)	394 800	394 800
Additional remuneration and fees paid to members of the Executive Board	522 074	–
Total including the elements above	41 461 764	49 978 667

The above compensation table includes the following:

	2017	2016
Number of Nestlé S.A. shares granted	54 641	112 515
Number of Performance Share Units granted under the PSUP	196 310	219 020

(a) Since the Company contributions to social security are based on full earnings, whereas benefits are capped, only contributions that lead to future benefits are included. The additional cost to the Company taking into account full social security employer contributions is CHF 1 547 837 in 2017 and CHF 1 925 259 in 2016.

Explanations

- On 31 December 2017, the Executive Board consisted of 14 members.
- Other benefits include a car allowance, contribution towards health insurance premiums, long-term service awards and expatriate benefits.
- Nestlé S.A. shares received as part of the Short-Term Bonus are valued at the average closing price of the last ten trading days of January 2018, discounted by 16.038% to account for the three-year blocking period.
- Performance Share Units granted in 2017 are disclosed at fair value at grant, which corresponds to CHF 55.96. The fair value is determined using a valuation model which reflects the probability of overachievement or underachievement on the Total Shareholder Return measure, which is a market condition, and based on five-year

historical data. The other inputs incorporated into the valuation model comprise the market price of Nestlé S.A. shares at grant date, discounted at a risk-free interest rate and adjusted for the dividends that participants are not entitled to receive during the vesting period of three years.

- The values in the table above differ in some respect from the compensation disclosure in Note 19.1 of the Consolidated Financial Statements of the Nestlé Group 2017, which have been prepared in accordance with International Financial Reporting Standards (IFRS). The differences relate to the timing of valuation of Performance Share Units, whose values are spread over three years under IFRS but reported fully at the grant date in this report, and to the valuation of blocked shares, which are not subject to a discount for the blocking period under IFRS.

Payout levels

- The Short-Term Bonus payout for the Executive Board was 89% in 2017, based on the achievement of the relevant Group and individual quantitative and qualitative objectives (2016: 102%).
- The Performance Share Units granted in 2015 vest in March 2018 with a payout of 85% of the initial PSU award (PSUs granted in 2014 vested in 2017 with a payout of 72%).

Events after the balance sheet date (all on 1 January 2018)

- Mr Heiko Schipper left the Executive Board (re-integration of Nestlé Nutrition)
- Mr Stefan Catsicas left the Executive Board (succeeded by Mr Stefan Palzer, new Chief Technology Officer)

Highest total compensation for a member of the Executive Board

In 2017, the highest total compensation for a member of the Executive Board was conferred to Ulf Mark Schneider, the CEO. The amounts below are included in the Executive Board compensation disclosed above.

	2017		2016	
	Number	Value in CHF	Number	Value in CHF
Annual Base Salary		2 400 000		2 500 000
Short-Term Bonus (cash)		1 260 023		–
Short-Term Bonus (discounted value of Nestlé S.A. share)	15 439	1 057 880	48 722	2 991 044
Performance Share Units (fair value at grant)	48 660	2 723 014	53 070	3 494 660
Other benefits		6 750		28 020
Total		7 447 667		9 013 724
% Fixed/Variable		32.3 – 67.7		28.0 – 72.0
Company contribution towards future pension benefits		386 996		2 170 556
Company contribution to compulsory Swiss social security ^(a)		28 200		28 200
Total including the elements above		7 862 863		11 212 480

(a) Since the Company contributions to social security are based on full earnings, whereas benefits are capped, only contributions that lead to future benefits are included. The additional cost to the Company taking into account full social security employer contributions is CHF 353 493 in 2017 and CHF 433 753 in 2016.

Explanations

- Nestlé S.A. shares received as part of the Short-Term Bonus are valued at the average closing price of the last ten trading days of January 2018, discounted by 16.038% to account for the three-year blocking period.
- Performance Share Units granted in 2017 are disclosed at fair value at grant, which corresponds to CHF 55.96.
- Please also refer to the explanations provided on page 43.

Payout levels

- The Short-Term Bonus payout for the CEO was 70% in 2017, based on the achievement of Group quantitative and qualitative objectives (2016: 95%).
- The Performance Share Units granted in 2015 vest in March 2018 with a payout of 85% of the initial PSU award (PSUs granted in 2014 vested in 2017 with a payout of 72%).

Shares and stock options held by members of the Executive Board
Total number of management stock options held on 31 December 2017
by members of the Executive Board

Grant date	Vesting date	Expiry date	Exercise price in CHF	Stock options outstanding
01.03.2012	01.03.2015	28.02.2019	55.57	327 000
Total				327 000

Shares and stock options ownership of the members of the Executive Board and closely related parties on 31 December 2017

	Number of shares held ^(a)	Number of options held ^(b)
Ulf Mark Schneider, Chief Executive Officer	7 795	–
Laurent Freixe	17 587	–
Chris Johnson	62 376	104 100
Patrice Bula	159 121	101 800
Wan Ling Martello	101 507	121 100
Stefan Catsicas ^(c)	10 347	–
Marco Settembri	31 837	–
François-Xavier Roger	14 544	–
Magdi Batato	9 152	–
Peter R. Vogt	49 960	–
Heiko Schipper ^(d)	–	–
Maurizio Patarnello	13 043	–
Grégory Behar	1 188	–
David P. Frick	53 199	–
Total as at 31 December 2017	531 656	327 000
Total as at 31 December 2016	1 569 090	1 272 470

(a) Including shares subject to a three-year blocking period, and further two-year holding period.

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

(c) Succeeded by Stefan Palzer as of 1 January 2018.

(d) Left the Executive Board as of 1 January 2018.

Audited **Other audited information regarding the Executive Board**
Loans to members of the Executive Board

On 31 December 2017, there were no loans outstanding to any member of the Executive Board.

Additional fees and remuneration of the Executive Board

One member of the Executive Board, in his role of CEO of Nestlé Health Science, also participated in 2017 in the Nestlé Health Science Long-Term Incentive Plan, a Phantom Share Unit plan based on the long-term development of that business. He was attributed 5 330 Units in 2017, with a fair value at grant of CHF 97.95 per Unit (vesting period of three years: value capped at two times the Unit price at grant).

Compensation and loans for former members of the Executive Board

Prior to his election as Chairman, at the Annual General Meeting 2017, Mr Paul Bulcke, the former CEO, received in 2017 a total compensation of CH 5 884 683, as per the terms of his contract of employment until retirement. This amount includes his Base Salary, Short-Term Bonus, Long-Term Incentives, as well as company contributions towards future pension benefits and social security.

Another former member of the Executive Board received a fee of CHF 25 000.

On 31 December 2017, there were no loans outstanding to former members of the Executive Board.

Compensation or loans to related parties of members of the Executive Board

In 2017, no compensation was paid to related parties of members of the Executive Board, and there were no loans outstanding to related parties.

Sections highlighted with a blue bar are audited by KPMG. They include all elements the Company needs to disclose pursuant to art. 14 to 16 of the Ordinance against excessive compensation in listed companies.



Report of the Statutory Auditor

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

We have audited the accompanying compensation report of Nestlé S.A. for the year ended 31 December 2017. The audit was limited to the information according to articles 14 to 16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies contained in the sections highlighted with a blue bar at left on pages 34 to 46 of the compensation report.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the compensation system and defining individual remuneration packages.

Auditor's Responsibility

Our responsibility is to express an opinion on the accompanying compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14 to 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14 to 16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the compensation report.

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

Opinion

In our opinion, the compensation report for the year ended 31 December 2017 of Nestlé S.A. complies with Swiss law and articles 14 to 16 of the Ordinance.

KPMG SA

Scott Cormack
Licensed Audit Expert
Auditor in Charge

Lukas Marty
Licensed Audit Expert

Geneva, 14 February 2018

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

KPMG SA is a subsidiary of KPMG Holding AG, which is a member of the KPMG network of independent firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss legal entity. All rights reserved.

Articles of Association of Nestlé S.A.

Amended by the
Annual General Meeting
of 7 April 2016

Articles of Association of Nestlé S.A.

Translation*

I. General

Article 1

Corporate name; Registered offices; Duration

- 1 Nestlé S.A. (Nestlé AG) (Nestlé Ltd.) (hereinafter "Nestlé") is a company limited by shares incorporated and organised in accordance with the Swiss Code of Obligations.
- 2 The registered offices of Nestlé are in Cham and Vevey, Switzerland.
- 3 The duration of Nestlé is unlimited.

Article 2

Purpose

- 1 The purpose of Nestlé is to participate in industrial, service, commercial and financial enterprises in Switzerland and abroad, in particular in the food, nutrition, health, wellness and related industries.
- 2 Nestlé may itself establish such undertakings or participate in, finance and promote the development of undertakings already in existence.
- 3 Nestlé may enter into any transaction which the business purpose may entail. Nestlé shall, in pursuing its business purpose, aim for long-term, sustainable value creation.

II. Share Capital

Article 3

Share capital

The share capital of Nestlé is CHF 311 216 000 (three hundred and eleven million two hundred and sixteen thousand Swiss francs) divided into 3 112 160 000 fully paid up registered shares with a nominal value of CHF 0.10 each.

Article 3^{bis}

Conditional share capital

- 1 The share capital of Nestlé may be increased in an amount not to exceed CHF 10 000 000 (ten million Swiss francs) by issuing up to 100 000 000 registered shares with a nominal value of CHF 0.10 each, which shall be fully paid up, through the exercise of conversion rights and/or option rights granted in connection with the issuance by Nestlé or one of its subsidiaries of newly or already issued convertible debentures, debentures with option rights or other financial market instruments.

- 2 The shareholders have no preferential rights to subscribe for these new shares. The current owners of conversion rights and/or option rights shall be entitled to subscribe for the new shares.
- 3 The new shares shall be subject, as soon as they are issued following the exercise of conversion and/or option rights, to the restrictions set forth in art. 5.
- 4 The Board of Directors may limit or withdraw the right of the shareholders to subscribe in priority to convertible debentures, debentures with option rights or similar financial market instruments when they are issued, if:
 - a) an issue by firm underwriting by a consortium with subsequent offering to the public without preferential subscription rights seems to be the most appropriate form of issue at the time, particularly in terms of the conditions for issue; or
 - b) the financial market instruments with conversion or option rights are issued in connection with the financing or refinancing of the acquisition of an enterprise or parts of an enterprise or participations or new investments.
- 5 Any financial market instruments with conversion or option rights which the Board of Directors decides not to offer directly or indirectly for prior subscription to the shareholders shall be subject to the following conditions:
 - a) Conversion rights may be exercised only for up to 15 years, and option rights only during 7 years from the date of issue of the relevant financial market instruments.
 - b) The new shares shall be issued according to the applicable conversion or option conditions. The respective financial instruments must be issued at the relevant market conditions.
 - c) The issue of new shares upon exercise of option or conversion rights shall be made at conditions taking into account the market price of the shares and/or comparable instruments with a market price at the time of issuance of the relevant convertible debenture, debenture with option rights or similar financial market instrument.

Article 4

Share certificates; Intermediated securities

- 1 Nestlé may issue its registered shares in the form of single certificates, global certificates or uncertificated securities. Under the conditions set forth by statutory law, Nestlé may convert its registered shares from one form into another form at any time and without the approval of the shareholders. Nestlé shall bear the cost of any such conversion.

**This is an unofficial translation. In case of doubt or differences of interpretation, the official French and German versions of the Articles of Association shall prevail over the English text.*

- 2 If registered shares are issued in the form of single certificates or global certificates, they shall be signed by two members of the Board of Directors. Both signatures may be affixed in facsimile.
- 3 The shareholder has no right to demand a conversion of the form of the registered shares. Each shareholder may, however, at any time request a written confirmation from Nestlé of the registered shares held by such shareholder, as reflected in the share register.
- 4 Intermediated securities based on registered shares of Nestlé cannot be transferred by way of assignment. A security interest in any such intermediated securities cannot be granted by way of assignment.

Article 5

Share register

- 1 Nestlé shall maintain a share register showing the name and address of the holders or usufructuaries. Any change of address must be reported to Nestlé.
- 2 Only persons entered in the share register as shareholders with voting rights may exercise the voting rights or the other rights related thereto.
- 3 After the acquisition of shares, upon request of the shareholder to be recognised as such, any acquiring party shall be considered as a shareholder without voting rights, until it is recognised by Nestlé as a shareholder with voting rights. If Nestlé does not refuse the request to recognise the acquiring party within twenty days, the latter shall be deemed to be a shareholder with voting rights.
- 4 An acquirer of shares shall be recorded in the share register as a shareholder with voting rights provided he expressly declares to have acquired the shares in his own name and for his own account.
- 5 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. All of the foregoing does not apply in the case of the acquisition of an enterprise, or parts of an enterprise or participations through exchange of shares or in the cases provided in art. 685d par. 3 of the Swiss Code of Obligations.
- 6 The Board of Directors shall promulgate regulations relating to the registration of fiduciaries or nominees to ensure compliance with these Articles of Association.

- 7 Legal entities that are linked to one another through capital, voting rights, management or in any other manner, as well as all natural persons or legal entities achieving an understanding or forming a syndicate or otherwise acting in concert to circumvent the regulations concerning the limitation on registration or the nominees, shall be counted as one person or nominee within the meaning of paragraphs 4 and 5 of this article.
- 8 After hearing the registered shareholder or nominee, the Board of Directors may cancel, with retroactive effect as of the date of registration, the registration of such shareholder or nominee if the registration was effected based on false information. The respective shareholder or nominee shall be informed immediately of the cancellation of the registration.
- 9 The Board of Directors shall specify the details and promulgate the necessary regulations concerning the application of this art. 5. Such regulations shall specify the cases in which the Board or a corporate body designated by the Board may allow exemptions from the limitation on registration or the regulation concerning nominees.
- 10 The limitation on registration provided for in this article shall also apply to shares acquired or subscribed by the exercise of subscription, option or conversion rights.

III. Organisation of Nestlé

A. General Meeting

Article 6

Powers of the General Meeting

- 1 The General Meeting of shareholders is the supreme authority of Nestlé.
- 2 The following non-transferable powers shall be vested in the General Meeting:
 - a) to adopt and amend the Articles of Association;
 - b) to elect and remove the members of the Board of Directors, the Chairman of the Board of Directors and the members of the Compensation Committee;
 - c) to elect and remove the Auditors;
 - d) to elect and remove the Independent Representative;
 - e) to approve the annual report and the consolidated financial statements;
 - f) to approve the annual financial statements as well as to resolve on the use of the balance sheet profit, in particular, the declaration of dividends;
 - g) to approve the compensation of the Board of Directors and of the Executive Board pursuant to art. 21^{bis};

- h) to grant discharge to the members of the Board of Directors and the persons entrusted with management; and
- i) to take all decisions which by law or under these Articles of Association are within the powers of the General Meeting.

Article 7

Annual General Meeting

The Annual General Meeting shall be held each year within six months of the close of the financial year of Nestlé. The meeting shall be convened by the Board of Directors.

Article 8

Extraordinary General Meeting

- 1 Extraordinary General Meetings shall be convened by the Board of Directors or, if necessary, by the Auditors, as well as in the other cases foreseen by law.
- 2 The Board of Directors shall, if so requested by a General Meeting or at the request in writing, specifying the items and proposals to appear on the agenda, of one or more shareholders with voting rights whose combined holdings represent at least one tenth of the share capital as recorded in the commercial register, convene an Extraordinary General Meeting. The Extraordinary General Meeting shall be held as promptly as practicable following such request.

Article 9

Notice of General Meetings; Agenda

- 1 Annual or Extraordinary General Meetings shall be convened by notice in the "Swiss Official Gazette of Commerce" not less than twenty days before the date fixed for the meeting. Shareholders may in addition be informed by ordinary mail.
- 2 The notice of a meeting shall state the items on the agenda and the proposals of the Board of Directors and of the shareholders who requested that a General Meeting be convened (art. 8 par. 2) or that items be included in the agenda (art. 9 par. 3).
- 3 One or more shareholders with voting rights whose combined holdings represent at least 0.15% of the share capital of Nestlé as recorded in the commercial register may request that an item be included in the agenda of a General Meeting. Such a request must be made in writing to the Board of Directors at the latest 45 days before the meeting and shall specify the agenda items and the proposals made.

- 4 No resolution shall be passed at a General Meeting on matters which do not appear on the agenda except for:
 - a) a resolution convening an Extraordinary General Meeting; or
 - b) the setting up of a special audit.

Article 10

Presiding officer; Minutes

- 1 The Chairman or any member of the Board of Directors shall preside at General Meetings and carry all procedural powers.
- 2 Minutes of General Meetings shall be kept by the Secretary of the Board of Directors.

Article 11

Voting rights; Representation of shareholders

- 1 Each share recorded in the share register as share with voting rights confers one vote on its holder.
- 2 At General Meetings 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. Legal entities that are linked to one another through capital, voting rights, management or in any other manner, as well as all natural persons or legal entities achieving an understanding or forming a syndicate or otherwise acting in concert to circumvent such a limit, shall be counted as one shareholder.
- 3 The foregoing limit does not apply to shares received and held by a shareholder pursuant to an acquisition of an enterprise, or parts of an enterprise or participations as referred in art. 5 par. 5.
- 4 In order to permit the exercise of voting rights in respect of shares held by nominees, the Board of Directors may by means of regulations or agreements with nominees depart from the limit foreseen in this article. It may also depart from such a limit within the framework of the regulations referred to in art. 5 par. 6 and par. 9. In addition, this limit shall not apply to the exercise of voting rights by the Independent Representative.
- 5 Each shareholder recorded in the share register with voting rights may be represented at the General Meeting by the Independent Representative or a third party. The Board of Directors shall determine the requirements regarding participation and representation in the General Meeting.

- 6 The Independent Representative shall be elected by the General Meeting for a term of office until completion of the next Annual General Meeting. Re-election is possible. If the office of the Independent Representative is vacant, the Board of Directors shall appoint the Independent Representative for the next General Meeting.

Article 12

Quorum and decisions

- 1 General Meetings shall be duly constituted irrespective of the number of shareholders present or of shares represented.
- 2 Unless provided otherwise by law or the Articles of Association, shareholders' resolutions and elections shall be decided by an absolute majority of the shares represented.
- 3 Votes shall be taken either on a show of hands or by electronic voting unless a vote by written ballot is ordered by the Presiding officer of the meeting. The Presiding officer may at any time order to repeat an election or resolution, if he doubts the results of the vote. In this case, the preceding election or resolution is deemed not having taken place.
- 4 If the first ballot fails to result in an election and more than one candidate is standing for election, the Presiding officer shall order a second ballot in which a relative majority shall be decisive.

Article 13

Special quorum

The approval of at least two thirds of the shares represented and the absolute majority of the nominal value represented at a General Meeting shall be required for resolutions with respect to:

- a) a modification of the purpose of Nestlé;
- b) the creation of shares with increased voting powers;
- c) restrictions on the transfer of registered shares and the change or removal of such restrictions;
- d) an authorized or conditional increase in share capital;
- e) an increase in share capital through the conversion of capital surplus, through a contribution in kind or for the purpose of an acquisition of assets, or a grant of special benefits upon a capital increase;
- f) the restriction or withdrawal of the right to subscribe;
- g) a change of the registered offices of Nestlé;
- h) the dissolution of Nestlé;
- i) restrictions on the exercise of voting rights and the change or removal of such restrictions;

- j) the limitation on registration (art. 5 par. 4 to 7) and the limitation on voting rights (art. 11 par. 2, 3 and 4) and the change or removal of such limitations;
- k) the change of the corporate name of Nestlé; and
- l) other matters as provided by statutory law.

B. Board of Directors

Article 14

Number of Directors

The Board of Directors shall consist of at least seven members.

Article 15

Term of office

- 1 The Chairman of the Board of Directors and the members of the Board of Directors shall be elected individually by the General Meeting for a term of office until completion of the next Annual General Meeting.
- 2 Members of the Board of Directors whose term of office has expired shall be immediately eligible for re-election.
- 3 If the office of the Chairman of the Board of Directors is vacant, the Board of Directors shall appoint a new Chairman from amongst its members for the remaining term of office.

Article 16

Organisation of the Board

- 1 The Board of Directors shall elect one or two Vice-Chairmen. It shall appoint a Secretary and his substitutes, neither of whom need be members of the Board of Directors.
- 2 The Board of Directors shall, within the limits of the law and the Articles of Association, define its organisation and the assignment of responsibilities in the Board regulations pursuant to art. 19 par. 2.

Article 17

Powers of the Board in general

The Board of Directors shall conduct all the business of Nestlé to the extent that it is not within the powers of the General Meeting or not delegated pursuant to the Board regulations as set forth in art. 19 par. 2.

Article 18

Specific powers of the Board

The Board of Directors has the following non-transferable and inalienable duties:

- a) the ultimate direction of the business of Nestlé, in particular the conduct, management and supervision of the business of Nestlé, and the provision of necessary directions;
- b) the determination of the organisation in the Board regulations pursuant to art. 19 par. 2;
- c) the determination of accounting and financial control principles;
- d) the appointment and removal of the persons entrusted with the management and the granting of signatory powers to persons representing Nestlé;
- e) the ultimate supervision of the persons entrusted with the management of Nestlé, ensuring in particular their compliance with the law, the Articles of Association, regulations and instructions given;
- f) the preparation of the business report and the compensation report in accordance with the provisions of the law;
- g) the preparation of General Meetings and the carrying out of its resolutions;
- h) the determination of the manner in which the dividend shall be paid;
- i) the opening and closing of branch offices; and
- j) the notification of the court in case of overindebtedness.

Article 19

Delegation of powers

- 1 The Board of Directors may, within the limits of the law and the Articles of Association, appoint from amongst its members standing or ad hoc committees entrusted with the preparation and execution of its decisions or the supervision of specific parts of the business. The Board of Directors shall ensure that it is kept properly informed.
- 2 Unless otherwise provided by law, the Board of Directors may in accordance with the Board regulations delegate all or part of the management to one or more of its members, to one or more board committees, or to third parties.

C. Compensation Committee

Article 19^{bis}

Number of members; Term of office; Organisation

- 1 The Compensation Committee consists of at least three independent members of the Board of Directors.
- 2 The members of the Compensation Committee shall be elected individually by the General Meeting for a term of office until completion of the next Annual General Meeting. Members of the Compensation Committee whose term of office has expired shall be immediately eligible for re-election.
- 3 If there are vacancies on the Compensation Committee, the Board of Directors shall appoint substitutes from amongst its members for the remaining term of office.
- 4 The Board of Directors shall elect a Chairman of the Compensation Committee. It shall, within the limits of the law and the Articles of Association, define the organisation of the Compensation Committee in regulations.

Article 19^{ter}

Powers of the Compensation Committee

- 1 The Compensation Committee supports the Board of Directors in establishing and periodically reviewing Nestlé's compensation strategy and guidelines and performance criteria as well as in preparing the proposals to the General Meeting regarding the compensation of the members of the Board of Directors and of the Executive Board. It may submit proposals and recommendations to the Board of Directors in other compensation-related issues.
- 2 The Board of Directors promulgates regulations to determine for which positions of the Board of Directors and of the Executive Board the Compensation Committee, together with the Chairman of the Board of Directors or on its own, shall submit proposals for the compensation, and for which positions it shall determine the compensation in accordance with the Articles of Association and the compensation guidelines established by the Board of Directors.
- 3 The Board of Directors may delegate further tasks and powers to the Compensation Committee.

D. Auditors

Article 20

Number of Auditors; Term of office

The General Meeting shall appoint, for a term of office until completion of the next Annual General Meeting, one or more Auditors of the annual financial statements of Nestlé and the consolidated financial statements of the Group, which shall be independent from Nestlé and meet the special professional standards required by law. The Auditors of Nestlé may be re-elected.

Article 21

Rights and duties of Auditors

The Auditors shall verify the annual financial statements of Nestlé and the consolidated financial statements of the Group and perform such other tasks as defined by law. The Auditors shall submit their reports to the General Meeting. Their rights and duties shall be as set out in the applicable Swiss laws.

III^{bis}. Compensation of the Board of Directors and of the Executive Board

Article 21^{bis}

Approval of compensation by General Meeting

- 1 The General Meeting shall approve annually and separately the proposals of the Board of Directors in relation to the maximum aggregate amount of:
 - a) compensation of the Board of Directors for the period until the next Annual General Meeting;
 - b) compensation of the Executive Board for the following financial year.

The Board of Directors may submit for approval by the General Meeting deviating or additional proposals relating to the same or different periods.
- 2 In the event the General Meeting has not approved a proposal of the Board of Directors, the Board of Directors shall determine the respective maximum aggregate amount or maximum partial amounts of compensation, provided that:
 - a) the Board of Directors takes into account:
 - (i) the proposed maximum aggregate amount of compensation;
 - (ii) the decision of the General Meeting and, to the extent known to the Board of Directors, the main reasons for the negative vote; and
 - (iii) Nestlé's compensation principles; and
 - b) the Board of Directors submits the amount(s) so determined to approval by the same General Meeting, a subsequent Extraordinary General Meeting or the next Annual General Meeting.
- 3 Notwithstanding the preceding paragraph, Nestlé or companies controlled by it may pay out compensation prior to approval by the General Meeting subject to subsequent approval by a General Meeting.
- 4 The Board of Directors shall submit the annual compensation report to an advisory vote of the General Meeting.

Article 21^{ter}

Supplementary amount for changes on the Executive Board

If the maximum aggregate amount of compensation already approved by the General Meeting is not sufficient to also cover compensation of one or more members who become members of or are being promoted within the Executive Board during a compensation period for which the General Meeting has already approved the compensation of the Executive Board, Nestlé or companies controlled by it shall be authorized to pay to such member(s) a supplementary amount during the compensation period(s) already approved. The total supplementary amount shall not exceed 40% of the aggregate amount of compensation of the Executive Board last approved by the General Meeting per compensation period.

Article 21^{quater}

General compensation principles

- 1 Compensation of the non-executive members of the Board of Directors comprises fixed compensation elements only.
- 2 Compensation of the members of the Executive Board comprises fixed and variable compensation elements. Fixed compensation comprises the base salary and may comprise other compensation elements and benefits. Variable compensation may comprise short-term and long-term compensation elements, and shall be subject to caps expressed as predetermined multipliers of the respective target levels.
- 3 Short-term compensation elements are governed by performance metrics that take into account the performance of Nestlé and/or parts thereof, targets in relation to the market, to other companies or to comparable benchmarks and/or individual targets, and achievement of which is generally measured based on a one-year period. The annual target level of the short-term compensation elements is determined as a percentage of the base salary; depending on achieved performance, the compensation may amount up to a pre-determined multiplier of target level.
- 4 Long-term compensation elements are governed by performance metrics that take into account strategic objectives of Nestlé, and achievement of which is generally measured based on a multiannual period. The annual target level of the long-term compensation elements is determined as a percentage of the base salary; depending on achieved performance, the compensation may amount up to a pre-determined multiplier of target level. Vesting periods, as determined by the Board of Directors or, to the extent delegated to it, the Compensation Committee, shall be at least three years.
- 5 The Board of Directors or, to the extent delegated to it, the Compensation Committee determines performance metrics and target levels, and their achievement.
- 6 Compensation may be paid or granted in the form of cash, shares, other benefits or in kind; compensation to members of the Executive Board may also be paid or granted in the form of financial instruments or similar units. The Board of Directors or, to the extent delegated to it, the Compensation Committee determines grant, vesting, blocking, exercise and forfeiture conditions; they may provide for continuation, acceleration or removal of vesting and exercise conditions, for payment or grant of compensation assuming target achievement or for forfeiture in the event of predetermined events such as a termination of an employment or mandate agreement.
- 7 Compensation may be paid by Nestlé or companies controlled by it.
- 8 The Board of Directors values compensation according to the principles that apply to the compensation report.

III^{ter}. Contracts with members of the Board of Directors and of the Executive Board

Article 21^{quinquies}

Basic principles

- 1 Nestlé or companies controlled by it may enter into agreements with members of the Board of Directors relating to their compensation for a fixed term or for an indefinite term; term and notice period may not exceed one year.
- 2 Nestlé or companies controlled by it may enter into contracts of employment with members of the Executive Board for a definite period of time not to exceed one year or for an indefinite period of time with a notice period not to exceed 12 months.
- 3 Contracts of employment with members of the Executive Board may contain a prohibition of competition for the time after the end of employment for a duration of up to 2 years. The annual consideration for such prohibition shall not exceed 50% of the total annual compensation last paid to such member of the Executive Board.

III^{quater}. Mandates outside Nestlé; Loans

Article 21^{sexies}

Mandates outside Nestlé

- 1 No member of the Board of Directors may hold more than 4 additional mandates in listed companies and 5 additional mandates in non-listed companies.
- 2 No member of the Executive Board may hold more than 2 additional mandates in listed companies and 4 additional mandates in non-listed companies. Each of these mandates shall be subject to approval by the Board of Directors.
- 3 The following mandates are not subject to these limitations:
 - a) mandates in companies which are controlled by Nestlé;
 - b) mandates which a member of the Board of Directors or of the Executive Board holds at the request of Nestlé or companies controlled by it. No Member of the Board of Directors or of the Executive Board shall hold more than 10 such mandates; and
 - c) mandates in associations, charitable organizations, foundations, trusts and employee welfare foundations. No Member of the Board of Directors or of the Executive Board shall hold more than 10 such mandates.
- 4 Mandates shall mean mandates in the supreme governing body of a legal entity which is required to be registered in the commercial register or a comparable foreign register. Mandates in different legal entities which are under joint control are deemed one mandate.
- 5 The Board of Directors shall promulgate regulations that, taking into account the position of the respective member, determine additional restrictions.

Article 21^{septies}

Loans

Loans to a member of the Board of Directors or the Executive Board may only be granted at market conditions and may, at the time of grant, not exceed the respective member's most recent total annual compensation.

IV. Business report and appropriation of profit resulting from the balance sheet

Article 22

Financial year

The financial year shall commence on 1 January and shall end on 31 December.

Article 23

Business report

For every financial year the Board of Directors shall prepare a business report consisting of the annual financial statements of Nestlé, of the annual report and the consolidated financial statements.

Article 24

Appropriation of profit resulting from the balance sheet

The profit shall be allocated by the General Meeting within the limits set by applicable law. The Board of Directors shall submit its proposals to the General Meeting.

V. Announcements, Communications

Article 25

Notices

All notices and communications to be made by Nestlé shall be considered duly made if published in the "Swiss Official Gazette of Commerce", unless the law provides otherwise.

Articles of Association amended by the Annual General Meeting of 7 April 2016

Financial Statements 2017

Consolidated Financial Statements of the Nestlé Group 2017

<p>63 Principal exchange rates</p> <p>64 Consolidated income statement for the year ended 31 December 2017</p> <p>65 Consolidated statement of comprehensive income for the year ended 31 December 2017</p> <p>66 Consolidated balance sheet as at 31 December 2017</p> <p>68 Consolidated cash flow statement for the year ended 31 December 2017</p> <p>69 Consolidated statement of changes in equity for the year ended 31 December 2017</p> <p>71 Notes</p> <p>71 1. Accounting policies</p> <p>74 2. Scope of consolidation, acquisitions and disposals of businesses, assets held for sale and acquisitions of non-controlling interests</p> <p>78 3. Analyses by segment</p> <p>86 4. Net other trading and operating income/ (expenses)</p> <p>87 5. Net financial income/(expense)</p> <p>88 6. Inventories</p> <p>90 7. Trade and other receivables/payables</p> <p>93 8. Property, plant and equipment</p> <p>100 9. Goodwill and intangible assets</p> <p>110 10. Employee benefits</p> <p>112 11. Provisions and contingencies</p> <p>125 12. Financial instruments</p> <p>128 13. Taxes</p> <p>130 14. Associates and joint ventures</p> <p>131 15. Earnings per share</p> <p>134 16. Cash flow statement</p> <p>139 17. Equity</p> <p>140 18. Lease commitments</p> <p>142 19. Transactions with related parties</p> <p>20. Guarantees</p> <p>21. Events after the balance sheet date</p>	<p>144 Statutory Auditor's Report – Report on the Audit of the Consolidated Financial Statements</p> <p>150 Financial information – 5 year review</p> <p>152 Companies of the Nestlé Group, joint arrangements and associates</p>
---	---

Principal exchange rates

CHF per

		2017	2016	2017	2016
		Year ending rates		Weighted average annual rates	
1 US Dollar	USD	0.977	1.023	0.984	0.985
1 Euro	EUR	1.168	1.075	1.113	1.090
100 Chinese Yuan Renminbi	CNY	15.001	14.715	14.593	14.838
100 Brazilian Reais	BRL	29.531	31.383	30.796	28.583
100 Philippine Pesos	PHP	1.957	2.064	1.953	2.075
1 Pound Sterling	GBP	1.316	1.255	1.271	1.331
100 Mexican Pesos	MXN	4.957	4.938	5.212	5.279
1 Canadian Dollar	CAD	0.778	0.758	0.759	0.745
100 Japanese Yen	JPY	0.867	0.874	0.878	0.907
1 Australian Dollar	AUD	0.761	0.738	0.754	0.733
100 Russian Rubles	RUB	1.694	1.685	1.688	1.485

Consolidated income statement for the year ended 31 December 2017

In millions of CHF

	Notes	2017	2016
Sales	3	89 791	89 469
Other revenue		330	317
Cost of goods sold		(44 923)	(44 199)
Distribution expenses		(8 205)	(8 059)
Marketing and administration expenses		(20 540)	(21 485)
Research and development costs		(1 724)	(1 736)
Other trading income	4	111	99
Other trading expenses	4	(1 607)	(713)
Trading operating profit	3	13 233	13 693
Other operating income	4	379	354
Other operating expenses	4	(3 500)	(884)
Operating profit		10 112	13 163
Financial income	5	152	121
Financial expense	5	(771)	(758)
Profit before taxes, associates and joint ventures		9 493	12 526
Taxes	13	(2 779)	(4 413)
Income from associates and joint ventures	14	824	770
Profit for the year		7 538	8 883
of which attributable to non-controlling interests		355	352
of which attributable to shareholders of the parent (Net profit)		7 183	8 531
As percentages of sales			
Trading operating profit		14.7%	15.3%
Profit for the year attributable to shareholders of the parent (Net profit)		8.0%	9.5%
Earnings per share (in CHF)			
Basic earnings per share	15	2.32	2.76
Diluted earnings per share	15	2.32	2.75

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

In millions of CHF

	Notes	2017	2016
Profit for the year recognised in the income statement		7 538	8 883
Currency retranslations, net of taxes	17	(558)	1 033
Fair value adjustments on available-for-sale financial instruments, net of taxes	17	(10)	16
Fair value adjustments on cash flow hedges, net of taxes	17	(55)	(1)
Share of other comprehensive income of associates and joint ventures	14/17	(240)	(154)
Items that are or may be reclassified subsequently to the income statement		(863)	894
Remeasurement of defined benefit plans, net of taxes	10/17	1 063	(143)
Share of other comprehensive income of associates and joint ventures	14/17	52	(10)
Items that will never be reclassified to the income statement		1 115	(153)
Other comprehensive income for the year	17	252	741
Total comprehensive income for the year		7 790	9 624
of which attributable to non-controlling interests		328	343
of which attributable to shareholders of the parent		7 462	9 281

Consolidated balance sheet as at 31 December 2017

before appropriations

In millions of CHF	Notes	2017	2016
Assets			
Current assets			
Cash and cash equivalents	12/16	7 938	7 990
Short-term investments	12	655	1 306
Inventories	6	9 061	8 401
Trade and other receivables	7/12	12 422	12 411
Prepayments and accrued income		607	573
Derivative assets	12	231	550
Current income tax assets		919	786
Assets held for sale	2	357	25
Total current assets		32 190	32 042
Non-current assets			
Property, plant and equipment	8	27 775	27 554
Goodwill	9	29 748	33 007
Intangible assets	9	20 615	20 397
Investments in associates and joint ventures	14	11 628	10 709
Financial assets	12	6 003	5 719
Employee benefits assets	10	392	310
Current income tax assets		62	114
Deferred tax assets	13	1 967	2 049
Total non-current assets		98 190	99 859
Total assets		130 380	131 901

In millions of CHF

	Notes	2017	2016
Liabilities and equity			
Current liabilities			
Financial debt	12	10 536	12 118
Trade and other payables	7/12	18 872	18 629
Accruals and deferred income		4 094	3 855
Provisions	11	863	620
Derivative liabilities	12	507	1 068
Current income tax liabilities		1 170	1 221
Liabilities directly associated with assets held for sale	2	12	6
Total current liabilities		36 054	37 517
Non-current liabilities			
Financial debt	12	15 932	11 091
Employee benefits liabilities	10	7 111	8 420
Provisions	11	2 445	2 640
Deferred tax liabilities	13	3 559	3 865
Other payables	12	2 502	2 387
Total non-current liabilities		31 549	28 403
Total liabilities		67 603	65 920
Equity	17		
Share capital		311	311
Treasury shares		(4 537)	(990)
Translation reserve		(19 433)	(18 799)
Other reserves		989	1 198
Retained earnings		84 174	82 870
Total equity attributable to shareholders of the parent		61 504	64 590
Non-controlling interests		1 273	1 391
Total equity		62 777	65 981
Total liabilities and equity		130 380	131 901

Consolidated cash flow statement for the year ended 31 December 2017

In millions of CHF			
	Notes	2017	2016
Operating activities			
Operating profit	16	10 112	13 163
Depreciation and amortisation	16	3 227	3 132
Impairment		3 557	640
Net result on disposal of businesses	4	132	—
Other non-cash items of income and expense		(185)	35
Cash flow before changes in operating assets and liabilities		16 843	16 970
Decrease/(increase) in working capital	16	(243)	1 801
Variation of other operating assets and liabilities	16	393	54
Cash generated from operations		16 993	18 825
Financing activities			
Net cash flows from treasury activities	16	(423)	(327)
Taxes paid		(3 666)	(3 435)
Dividends and interest from associates and joint ventures	14	582	519
Operating cash flow		13 486	15 582
Investing activities			
Capital expenditure	8	(3 934)	(4 010)
Expenditure on intangible assets	9	(769)	(682)
Acquisition of businesses	2	(696)	(585)
Disposal of businesses	2	140	271
Investments (net of divestments) in associates and joint ventures	14	(140)	(748)
Inflows/(outflows) from treasury investments		593	(335)
Other investing activities		(134)	(34)
Investing cash flow		(4 940)	(6 123)
Financing activities			
Dividend paid to shareholders of the parent	17	(7 126)	(6 937)
Dividends paid to non-controlling interests		(342)	(432)
Acquisition (net of disposal) of non-controlling interests	2	(526)	(1 208)
Purchase (net of sale) of treasury shares ^(a)		(3 295)	760
Inflows from bonds and other non-current financial debt	12	6 406	1 695
Outflows from bonds and other non-current financial debt	12	(2 489)	(1 430)
Inflows/(outflows) from current financial debt		(1 009)	1 368
Financing cash flow		(8 381)	(6 184)
Currency retranslations		(217)	(169)
Increase/(decrease) in cash and cash equivalents		(52)	3 106
Cash and cash equivalents at beginning of year		7 990	4 884
Cash and cash equivalents at end of year		7 938	7 990

(a) In 2017, mostly relates to the Share Buy-Back Programme launched in 2017.

Consolidated statement of changes in equity for the year ended 31 December 2017

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
Equity as at 31 December 2015	319	(7 489)	(19 851)	1 345	88 014	62 338	1 648	63 986
Profit for the year	–	–	–	–	8 531	8 531	352	8 883
Other comprehensive income for the year	–	–	1 052	(148)	(154)	750	(9)	741
Total comprehensive income for the year	–	–	1 052	(148)	8 377	9 281	343	9 624
Dividends	–	–	–	–	(6 937)	(6 937)	(432)	(7 369)
Movement of treasury shares	–	803	–	–	(27)	776	–	776
Equity compensation plans	–	207	–	–	(27)	180	–	180
Changes in non-controlling interests ^(a)	–	–	–	–	(991)	(991)	(168)	(1 159)
Reduction in share capital ^(b)	(8)	5 489	–	–	(5 481)	–	–	–
Total transactions with owners	(8)	6 499	–	–	(13 463)	(6 972)	(600)	(7 572)
Other movements	–	–	–	1	(58)	(57)	–	(57)
Equity as at 31 December 2016	311	(990)	(18 799)	1 198	82 870	64 590	1 391	65 981
Profit for the year	–	–	–	–	7 183	7 183	355	7 538
Other comprehensive income for the year	–	–	(634)	(209)	1 122	279	(27)	252
Total comprehensive income for the year	–	–	(634)	(209)	8 305	7 462	328	7 790
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 ^(a)	–	–	–	–	93	93	(104)	(11)
Total transactions with owners	–	(3 547)	–	–	(6 931)	(10 478)	(446)	(10 924)
Other movements	–	–	–	–	(70)	(70)	–	(70)
Equity as at 31 December 2017	311	(4 537)	(19 433)	989	84 174	61 504	1 273	62 777

(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.

(b) 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 an accrual basis and under the historical cost convention, unless stated otherwise. All significant consolidated companies, joint arrangements and associates have a 31 December accounting year-end.

The Consolidated Financial Statements 2017 were approved for issue by the Board of Directors on 14 February 2018 and are subject to approval by the Annual General Meeting on 12 April 2018.

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 recognised 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 provisions and contingencies (see Note 11), goodwill and intangible assets with indefinite useful life impairment tests (see Note 9), employee benefits (see Note 10), allowance for doubtful receivables (see Note 7) 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 recognised in other comprehensive income.

The balance sheet and net 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.

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

Valuation methods, presentation and definitions

Revenue

Sales represent amounts received and receivable from third parties for goods supplied to the customers and for services rendered. Revenue from the sales of goods is recognised in the income statement at the moment when the significant risks and rewards of ownership of the goods have been transferred to the buyer, which is mainly upon shipment. It is measured at 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. Payments made to the customers for commercial services received are expensed.

Other revenue is primarily 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 recognised when the Group receives the risks and rewards of ownership of the goods or when it receives the services. Additional details of specific expenses are provided in the respective notes.

Changes in presentation – analyses by segment

Starting in 2017, Underlying Trading operating profit is shown in the analyses by segment on a voluntary basis because it is one of the key metrics used by Group Management to monitor the Group and segment performance.

Changes in accounting standards

A number of standards have been modified on miscellaneous points with effect from 1 January 2017. Such changes include Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12), Disclosure Initiative (Amendments to IAS 7), and Annual Improvements 2014–2016 (specifically the amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of the Standard).

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

Changes in accounting standards that may affect the Group after 31 December 2017

The following new accounting standards, interpretations and amendments to existing standards have been published and are mandatory for the accounting period beginning on 1 January 2018 or later. The Group has not early adopted them.

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. It will be mandatory for the accounting period beginning on 1 January 2018.

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, debt instruments whose cash flows are solely payments of principal and interest ("SPPI") will be designated either at amortised cost or at fair value through Other Comprehensive Income depending the objectives of the business model. The existing investments in equity

instruments at the date of the initial application will generally be designated at fair value through Other Comprehensive Income by election. This election should generate a reclassification between equity components, with no net impact on the total Group's equity.

There is no expected impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the Group does not have any such liabilities.

The impact of the new impairment model has also been reviewed. This analysis requires the identification of the credit risk associated with the counterparties and, considering that the majority of Group's financial assets are trade receivables, integrates some statistical data reflecting the past experience of losses incurred due to default.

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.

Changes in accounting policies resulting from IFRS 9 will be applied retrospectively as at 1 January 2018, but with no restatement of comparative information for prior years. Consequently, the Group will recognise 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) of the accounting period including the date of initial application.

The total estimated adjustment (net of tax) to the opening equity at the date of initial application is not material.

IFRS 15 – Revenue from Contract with Customers

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

It defines a new five-step model to recognise revenue from customer contracts. The Group has undertaken a review of the main types of commercial arrangements used with customers under this model and has tentatively concluded that the application of IFRS 15 will not have a material impact on the consolidated results or financial position. The effects identified so far are as follows:

- i) a small proportion of sales (less than 0.5% of annual sales) is expected to be recognised on average 2 days later under the new standard, but the impact at the end of the period is compensated by a similar effect at the start of the year leading to a net nil impact at Group level;

- ii) an estimated amount of CHF 0.2 billion in payments to customers currently treated as distribution costs would be reclassified as deductions from sales under the new standard.

This standard is mandatory for the accounting period beginning on 1 January 2018. The Group is planning to apply the standard retrospectively, utilising the practical expedient to not restate contracts that begin and end within the same annual accounting period.

IFRS 16 – Leases

This standard will replace 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 recognise assets and liabilities for almost all leases and will therefore result in an increase of total property, plant and equipment and total financial debt of approximately CHF 3 billion. All things being equal, under the new standard Trading operating profit would increase by approximately CHF 0.1 billion due to the replacement of the operating lease expense with amortisation of the lease assets. This increase would be partially or entirely offset by higher interest expense resulting in an insignificant impact on net profit. The Group is currently finalising the precise impact of this new standard.

This standard is mandatory for the accounting period beginning on 1 January 2019. The Group is planning to early adopt the standard beginning on 1 January 2018 under the full retrospective approach.

Improvements and other amendments to IFRS/IAS

A number of standards have been modified on miscellaneous points. These include Measuring an Associate or Joint Venture at Fair Value and Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28 Investments in Associates and Joint Ventures), Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2), Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4), Foreign Currency Transactions and Advance Consideration (IFRIC Interpretation 22), as well as the Annual Improvements to IFRS Standards 2015–2017 Cycle.

None of these amendments are expected to have a material effect on the Group's Financial Statements.

In June 2017, the IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty

in accounting for income taxes. The current assessment of the Group is that the measurement of taxes will not be impacted. The uncertain tax liabilities of circa CHF 1.3 billion included under provisions in non-current liabilities will be reclassified on the face of the balance sheet to current and deferred taxes as deemed appropriate.

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 recognised 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 recognises a gain or a loss to the income statement.

2.1 Modification of the scope of consolidation

Acquisitions

In 2017, among others, the acquisitions included:

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

None of the acquisitions of 2017 were significant.

In 2016, among others, the acquisitions included:

- Proactiv business from Guthy-Renker, worldwide, acne treatment (Nutrition and Health Science), 75%, May.

None of the acquisitions of 2016 were significant.

Disposals

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

In 2016, the following significant disposal was made:

- Ice cream business in Europe, Egypt, the Philippines, Brazil and Argentina, frozen food business in Europe but excluding pizza and retail frozen food in Italy as well as chilled dairy business in the Philippines (Milk products and Ice Cream as well as Prepared dishes and cooking aids), 100%, end of September.

This disposal related to the creation of the joint venture Froneri (see Note 14.3).

None of the other 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		
	2017	2016
Property, plant and equipment	54	8
Intangible assets ^(a)	326	560
Inventories and other assets	72	64
Financial debt	(20)	—
Employee benefits, deferred taxes and provisions	(110)	—
Other liabilities	(41)	(43)
Fair value of identifiable net assets	281	589

(a) Mainly 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		
	2017	2016
Fair value of consideration transferred	729	682
Non-controlling interests ^(a)	49	100
Subtotal	778	782
Fair value of identifiable net assets	(281)	(589)
Goodwill	497	193

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

In millions of CHF		
	2017	2016
Fair value of consideration transferred	729	682
Cash and cash equivalents acquired	(18)	(13)
Consideration payable	(78)	(96)
Payment of consideration payable on prior years acquisitions and other	63	12
Cash outflow on acquisitions	696	585

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

Acquisition-related costs

Acquisition-related costs have been recognised under other operating expenses in the income statement (see Note 4.2) for an amount of CHF 27 million (2016: CHF 17 million).

Acquisition after 31 December 2017

On 5 December 2017, the Group announced that it has agreed to acquire Atrium Innovations, a global leader in nutritional health products for USD 2.3 billion in cash. It will enhance the Nestlé Health Science's Consumer Care portfolio with value-added solutions such as probiotics, plant-based protein nutrition, meal replacements and an extensive multivitamin line. It represents annual sales of about USD 700 million made in the US, Canada and Europe. The transaction is expected to close in the first quarter of 2018 following the completion of customary approvals and closing conditions.

2.3 Disposals of businesses

During the year, there were no significant disposals of businesses.

In 2016, assets and liabilities disposed of were mainly composed of assets held for sale (primarily fixed assets, goodwill and inventories) and liabilities held for sale (primarily pension liabilities and accounts payables) related to the formation of the joint venture Froneri (see Note 14.3). The major part of those assets and liabilities were presented in Zone EMENA, with minor portions in the Zone AOA, Zone AMS and Other businesses reportable segments.

In 2016, the loss on disposals (see Note 4.2) was mainly composed of the disposal of businesses related to the creation of the joint venture Froneri and of other non-significant disposals. With regards of Froneri, the net loss on disposal amounted to CHF 90 million. It included the result of recycling in the income statement of the cumulative translation losses in other comprehensive income of CHF 385 million as well as some costs related to the creation of this joint venture.

In 2016, the profit on disposals (see Note 4.2) was mainly composed of a remeasurement of a disposal group held for sale at end of 2015 following its reclassification during the year as non-current assets as a result of a decision not to sell the business following identification of new business opportunities for expansion.

In 2017 and 2016, cash inflow on disposals of businesses relates to several non-significant disposals. With regards to the disposal of the ice cream and frozen food business in 2016, a non-cash consideration of CHF 1243 million was received from Froneri in the form of equity and shareholder loans.

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 the sale is expected to 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 amortised or depreciated.

As of 31 December 2017, assets held for sale are mainly composed of the US confectionery business. A sale agreement has been signed on 16 January 2018, and completion of the transaction and the loss of control is expected before the end of the first quarter of 2018. The assets reclassified (primarily fixed assets and inventory) are part of the Zone AMS operating segment. The related cumulative translation loss in other comprehensive income has been estimated at CHF 30 million and will be recognised at the date the control is lost. The estimated gain on the transaction amounts to about CHF 2 billion.

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.

During the year, the Group increased its ownership interests in certain subsidiaries. In 2017 the most significant one was in China. The consideration paid to non-controlling interests in cash amounted to CHF 526 million and the decrease of non-controlling interests amounted to CHF 152 million. Part of the consideration was recorded as a liability in previous years for CHF 518 million. During the year 2017, the equity attributable to shareholders of the parent was positively impacted by CHF 144 million.

In 2016 the most significant ones were in Israel and China. The consideration paid to non-controlling interests in cash amounted to CHF 1208 million and the decrease of non-controlling interests amounted to CHF 267 million. Part of the consideration had been recorded as a liability in previous years for CHF 311 million. The equity attributable to shareholders of the parent was negatively impacted by CHF 630 million.

3. Analyses by segment

Nestlé is organised 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 189 countries and employs around 323 000 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;
- Nestlé Nutrition.

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 1 January 2017, Nestlé Professional 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. 2016 comparatives have been restated.

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 amortisation includes depreciation of property, plant and equipment and amortisation 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 recognised 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, intangible assets and goodwill, including those arising from business combinations. Capital expenditure represents the investment in property, plant and equipment only.

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.

3.1 Operating segments

Revenue and results

In millions of CHF

							2017
	Sales ^(a)	Underlying Trading operating profit ^(b)	Trading operating profit	Net other trading income/(expenses) ^(c)	of which impairment of property, plant and equipment	of which restructuring costs	Depreciation and amortisation
Zone EMENA	16 535	2 990	2 768	(222)	(67)	(110)	(531)
Zone AMS	28 479	5 791	5 459	(332)	(32)	(172)	(781)
Zone AOA	16 224	3 265	3 123	(142)	(89)	(21)	(514)
Nestlé Waters	7 955	1 012	948	(64)	(30)	(21)	(337)
Nestlé Nutrition	10 361	2 384	2 282	(102)	(25)	(34)	(383)
Other businesses ^(d)	10 237	1 625	1 174	(451)	(116)	(286)	(492)
Unallocated items ^(e)	—	(2 338)	(2 521)	(183)	(7)	(29)	(189)
Total	89 791	14 729	13 233	(1 496)	(366)	(673)	(3 227)

In millions of CHF

							2016 *
	Sales ^(a)	Underlying Trading operating profit ^(b)	Trading operating profit	Net other trading income/(expenses) ^(c)	of which impairment of property, plant and equipment	of which restructuring costs	Depreciation and amortisation
Zone EMENA	17 428	3 020	2 888	(132)	(33)	(107)	(501)
Zone AMS	28 130	5 537	5 356	(181)	(20)	(112)	(777)
Zone AOA	15 904	3 171	3 085	(86)	(58)	(15)	(525)
Nestlé Waters	7 926	990	946	(44)	(20)	(7)	(335)
Nestlé Nutrition	10 326	2 389	2 342	(47)	(13)	(13)	(356)
Other businesses ^(d)	9 755	1 503	1 407	(96)	(8)	(45)	(483)
Unallocated items ^(e)	—	(2 303)	(2 331)	(28)	(5)	(1)	(155)
Total	89 469	14 307	13 693	(614)	(157)	(300)	(3 132)

* 2016 comparatives have been restated following the change of business structure, effective as from 1 January 2017, for Nestlé Professional (NP) from a Globally Managed to a Regionally Managed Business.

(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 and Nestlé Skin Health.

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

3. Analyses by segment

Invested capital and other information

In millions of CHF

					2017	
	Invested capital	Goodwill and intangible assets	Impairment of goodwill and non-commercialised intangible assets	Impairment of intangible assets	Capital additions	of which capital expenditure
Zone EMENA	5 762	1 815	—	(30)	786	725
Zone AMS	8 001	8 018	—	—	1 430	1 200
Zone AOA	3 848	3 133	(227)	—	554	539
Nestlé Waters	2 714	1 475	(3)	(2)	594	545
Nestlé Nutrition	5 496	15 290	—	—	542	331
Other businesses ^(a)	2 143	10 572	(2 809)	(2)	1 260	421
Unallocated items ^(b) and inter-segment eliminations	1 462	10 060	—	(118)	413	173
Total	29 426	50 363	(3 039)	(152)	5 579	3 934

In millions of CHF

					2016 *	
	Invested capital	Goodwill and intangible assets	Impairment of goodwill and non-commercialised intangible assets	Impairment of intangible assets	Capital additions	of which capital expenditure
Zone EMENA	4 787	1 682	(2)	—	826	791
Zone AMS	7 973	8 210	(67)	—	1 148	1 083
Zone AOA	4 125	3 324	(365)	—	602	574
Nestlé Waters	2 481	1 534	(5)	(14)	556	496
Nestlé Nutrition	5 554	15 506	—	—	558	414
Other businesses ^(a)	2 276	12 878	—	(3)	1 449	451
Unallocated items ^(b) and inter-segment eliminations	1 544	10 270	—	(27)	323	201
Total	28 740	53 404	(439)	(44)	5 462	4 010

* 2016 comparatives have been restated following the change of business structure, effective as from 1 January 2017, for Nestlé Professional (NP) from a Globally Managed to a Regionally Managed Business.

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

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

3.2 Products

Revenue and results

In millions of CHF

				2017		
	Sales	Underlying Trading operating profit ^(a)	Trading operating profit	Net other trading income/(expenses) ^(b)	of which impairment of property, plant and equipment	of which restructuring costs
Powdered and Liquid Beverages	20 408	4 461	4 302	(159)	(50)	(56)
Water	7 455	968	905	(63)	(30)	(20)
Milk products and Ice cream	13 447	2 509	2 326	(183)	(65)	(77)
Nutrition and Health Science	15 257	2 961	2 425	(536)	(133)	(319)
Prepared dishes and cooking aids	11 957	2 103	1 933	(170)	(37)	(77)
Confectionery	8 805	1 387	1 237	(150)	(35)	(55)
PetCare	12 462	2 678	2 626	(52)	(9)	(40)
Unallocated items ^(c)	—	(2 338)	(2 521)	(183)	(7)	(29)
Total	89 791	14 729	13 233	(1 496)	(366)	(673)

In millions of CHF

				2016 *		
	Sales	Underlying Trading operating profit ^(a)	Trading operating profit	Net other trading income/(expenses) ^(b)	of which impairment of property, plant and equipment	of which restructuring costs
Powdered and Liquid Beverages	19 792	4 270	4 129	(141)	(54)	(68)
Water	7 414	950	906	(44)	(20)	(8)
Milk products and Ice cream	14 331	2 759	2 649	(110)	(30)	(60)
Nutrition and Health Science	15 038	2 900	2 775	(125)	(18)	(44)
Prepared dishes and cooking aids	12 148	1 940	1 838	(102)	(9)	(81)
Confectionery	8 679	1 237	1 192	(45)	(13)	(32)
PetCare	12 067	2 554	2 535	(19)	(8)	(6)
Unallocated items ^(c)	—	(2 303)	(2 331)	(28)	(5)	(1)
Total	89 469	14 307	13 693	(614)	(157)	(300)

* 2016 comparatives have been restated following the change of business structure, effective as from 1 January 2017, for Nestlé Professional (NP) from a Globally Managed to a Regionally Managed Business.

(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.

3. Analyses by segment

Invested capital and other information

In millions of CHF

		2017		
	Invested capital	Goodwill and intangible assets	Impairment of goodwill and non-commercialised intangible assets	Impairment of intangible assets
Powdered and Liquid Beverages	5 544	831	(3)	—
Water	2 590	1 502	(3)	(2)
Milk products and Ice cream	3 491	3 073	(137)	(1)
Nutrition and Health Science	7 073	27 191	(2 806)	(2)
Prepared dishes and cooking aids	3 105	5 590	—	(26)
Confectionery	3 026	1 749	(90)	(3)
PetCare	3 940	10 095	—	—
Unallocated items ^(a) and intra-group eliminations	1 584	1 900	—	(118)
Total	30 353	51 931	(3 039)	(152)

In millions of CHF

		2016 *		
	Invested capital	Goodwill and intangible assets	Impairment of goodwill and non-commercialised intangible assets	Impairment of intangible assets
Powdered and Liquid Beverages	5 610	578	—	—
Water	2 408	1 496	(5)	(14)
Milk products and Ice cream	4 166	3 478	(402)	—
Nutrition and Health Science	7 168	27 560	—	(3)
Prepared dishes and cooking aids	3 308	5 571	—	—
Confectionery	2 902	1 787	(32)	—
PetCare	3 602	10 038	—	—
Unallocated items ^(a) and intra-group eliminations	1 432	2 084	—	(27)
Total	30 596	52 592	(439)	(44)

* 2016 comparatives have been restated following the change of business structure, effective as from 1 January 2017, for Nestlé Professional (NP) from a Globally Managed to a Regionally Managed Business.

(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

	2017	2016
Underlying Trading operating profit ^(a)	14 729	14 307
Net other trading income/(expenses)	(1 496)	(614)
Trading operating profit	13 233	13 693
Impairment of goodwill and non-commercialised intangible assets	(3 039)	(439)
Net other operating income/(expenses) excluding impairment of goodwill and non-commercialised intangible assets	(82)	(91)
Operating profit	10 112	13 163
Net financial income/(expense)	(619)	(637)
Profit before taxes, associates and joint ventures	9 493	12 526

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

3.3b Reconciliation from invested capital to total assets

In millions of CHF

	2017	2016
Invested capital as per Note 3.1	29 426	28 740
Liabilities included in invested capital	24 154	23 301
Subtotal	53 580	52 041
Intangible assets and goodwill as per Note 3.1	50 363	53 404
Other assets	26 437	26 456
Total assets	130 380	131 901

3.4 Customers

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

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, 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

	2017		2016	
	Sales	Non-current assets	Sales	Non-current assets
USA	26 678	25 932	26 704	27 436
Greater China Region	6 578	7 418	6 536	8 408
Switzerland	1 262	15 693	1 475	14 475
Rest of the world	55 273	29 095	54 754	30 639
Total	89 791	78 138	89 469	80 958

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-commercialised 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 reorganisation 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-commercialised 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	2017	2016
Other trading income		111	99
Restructuring costs		(673)	(300)
Impairment of property, plant and equipment and intangible assets ^(a)	8/9	(518)	(201)
Litigations and onerous contracts ^(b)		(328)	(155)
Miscellaneous trading expenses		(88)	(57)
Other trading expenses		(1 607)	(713)
Total net other trading income/(expenses)		(1 496)	(614)

(a) Excluding non-commercialised intangible assets.

(b) Mainly relates to numerous separate legal cases (for example labour, civil and tax litigations) and several separate onerous contracts.

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

4.2 Net other operating income/(expenses)

In millions of CHF

	Notes	2017	2016
Profit on disposal of businesses	2	60	203
Miscellaneous operating income		319	151
Other operating income		379	354
Loss on disposal of businesses	2	(192)	(203)
Impairment of goodwill and non-commercialised intangible assets	9	(3 039)	(439)
Miscellaneous operating expenses		(269)	(242)
Other operating expenses		(3 500)	(884)
Total net other operating income/(expenses)		(3 121)	(530)

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 (collectively termed "net financial debt"). 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 capitalised as explained under the section on Property, plant and equipment.

In millions of CHF

	Notes	2017	2016
Interest income		122	99
Interest expense		(535)	(543)
Net financing cost of net financial debt		(413)	(444)
Interest income on defined benefit plans		30	22
Interest expense on defined benefit plans		(231)	(210)
Net interest income/(expense) on defined benefit plans	10	(201)	(188)
Other		(5)	(5)
Net financial income/(expense)		(619)	(637)

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 realisable value. Work in progress, sundry supplies and manufactured finished goods are valued at the lower of their weighted average cost and net realisable 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

	2017	2016
Raw materials, work in progress and sundry supplies	3 864	3 619
Finished goods	5 415	5 008
Allowance for write-down to net realisable value	(218)	(226)
	9 061	8 401

Inventories amounting to CHF 289 million (2016: CHF 271 million) are pledged as security for financial liabilities.

7. Trade and other receivables/payables

7.1 Trade and other receivables by type

In millions of CHF

	2017	2016
Trade receivables	10 199	10 023
Other receivables	2 223	2 388
	12 422	12 411

The five major customers represent 12% (2016: 12%) of trade and other receivables, none of them individually exceeding 7% (2016: 7%).

7.2 Past due and allowance for doubtful receivables

Allowances for doubtful receivables represent the Group's estimates of losses that could arise from the failure or inability of customers to make payments when due (except if due to commercial disputes, for example over pricing or promotions). These estimates are based on the ageing of customers' balances, specific credit circumstances and the Group's historical bad receivables experience.

7. Trade and other receivables/payables

In millions of CHF

	2017	2016
Not past due	10 965	11 086
Past due 1–30 days	851	812
Past due 31–60 days	245	178
Past due 61–90 days	108	105
Past due 91–120 days	87	59
Past due more than 120 days	514	522
Allowance for doubtful receivables	(348)	(351)
	12 422	12 411

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

7.3 Trade and other payables by type

In millions of CHF

	2017	2016
Due within one year		
Trade payables	12 899	12 284
Social security and sundry taxes and levies	2 281	2 032
Other payables	3 692	4 313
	18 872	18 629

8. Property, plant and equipment

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

Depreciation is provided 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 capitalised if the assets under construction are significant and if their construction requires a substantial period to complete (typically more than one year). The capitalisation rate is determined on the basis of the short-term borrowing rate for the period of construction. Premiums capitalised for leasehold land or buildings are amortised over the length of the lease. Government grants are recognised as deferred income which is released to the income statement over the useful life of the related assets. Grants that are not related to assets are credited to the income statement when they are received, if there is reasonable assurance that the terms of the grant will be met.

8. Property, plant and equipment

In millions of CHF

	Land and buildings	Machinery and equipment	Tools, furniture and other equipment	Vehicles	Total
Gross value					
At 1 January 2017	17 380	30 166	7 653	731	55 930
Currency retranslations	(96)	(17)	106	(27)	(34)
Capital expenditure ^(a)	1 031	2 061	799	43	3 934
Disposals	(94)	(499)	(494)	(100)	(1 187)
Reclassification (to)/from held for sale	(215)	(568)	(47)	(17)	(847)
Modification of the scope of consolidation	42	(20)	1	—	23
At 31 December 2017	18 048	31 123	8 018	630	57 819
Accumulated depreciation and impairments					
At 1 January 2017	(5 727)	(16 708)	(5 472)	(469)	(28 376)
Currency retranslations	(44)	(51)	(23)	18	(100)
Depreciation	(480)	(1 584)	(724)	(65)	(2 853)
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
At 31 December 2017	(6 243)	(17 649)	(5 724)	(428)	(30 044)
Net at 31 December 2017	11 805	13 474	2 294	202	27 775
Gross value					
At 1 January 2016	16 359	28 554	7 254	732	52 899
Currency retranslations	50	200	109	6	365
Capital expenditure ^(a)	1 124	2 048	782	56	4 010
Disposals	(94)	(561)	(497)	(63)	(1 215)
Reclassification (to)/from held for sale	(39)	(58)	14	—	(83)
Modification of the scope of consolidation	(20)	(17)	(9)	—	(46)
At 31 December 2016	17 380	30 166	7 653	731	55 930
Accumulated depreciation and impairments					
At 1 January 2016	(5 263)	(15 468)	(5 144)	(448)	(26 323)
Currency retranslations	(58)	(139)	(44)	(2)	(243)
Depreciation	(462)	(1 551)	(709)	(73)	(2 795)
Impairments	(46)	(96)	(15)	—	(157)
Disposals	49	489	467	56	1 061
Reclassification to/(from) held for sale	46	48	(31)	(2)	61
Modification of the scope of consolidation	7	9	4	—	20
At 31 December 2016	(5 727)	(16 708)	(5 472)	(469)	(28 376)
Net at 31 December 2016	11 653	13 458	2 181	262	27 554

(a) Including borrowing costs.

8. Property, plant and equipment

At 31 December 2017, property, plant and equipment include CHF 938 million of assets under construction (2016: CHF 703 million). Net property, plant and equipment held under finance leases amount to CHF 109 million (2016: CHF 133 million). Net property, plant and equipment of CHF 291 million are pledged as security for financial liabilities (2016: CHF 301 million).

At 31 December 2017, the Group was committed to expenditure amounting to CHF 527 million (2016: CHF 645 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 unfavourable development of a business under competitive pressures or severe economic slowdown in a given market as well as reorganisation 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 optimise industrial manufacturing capacities by closing or selling inefficient production facilities (in 2017, mainly related to Nestlé Skin Health).

9. Goodwill and intangible assets

Goodwill

Goodwill is initially recognised 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 capitalised 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 capitalised as non-commercialised intangible assets, as they are separately identifiable and are expected to generate future benefits. Non-commercialised intangible assets are not amortised, 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 commercialised 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 and intellectual property rights. They are not amortised 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 amortised 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 amortised on a straight-line basis assuming a zero residual value: management information systems over a period ranging from 3 to 5 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. Amortisation 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 recognised 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.

Capitalised 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
Gross value						
At 1 January 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 ^(a)	487	209	36	1	246	–
At 31 December 2017	36 372	17 560	2 964	4 958	25 482	4 447
of which indefinite useful life	–	16 218	32	–	16 250	–
of which non-commercialised intangible assets	–	34	194	–	228	–
Accumulated amortisation and impairments						
At 1 January 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)
Amortisation	–	(88)	(132)	(154)	(374)	(120)
Impairments ^(b)	(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	–
At 31 December 2017	(6 624)	(435)	(544)	(3 888)	(4 867)	(3 561)
of which indefinite useful life	–	(52)	(10)	–	(62)	–
of which non-commercialised intangible assets	–	(6)	–	–	(6)	–
Net at 31 December 2017	29 748	17 125	2 420	1 070	20 615	886
of which indefinite useful life ^(c)	–	16 166	22	–	16 188	–
of which non-commercialised intangible assets	–	28	194	–	222	–

(a) Goodwill: acquisition of businesses amounts to CHF 497 million and disposal of businesses to CHF 10 million.

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

(c) Annual impairment tests are performed in connection with goodwill impairment tests. Depending on the items tested, the level at which the test is applied is the goodwill CGU or lower.

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
Gross value						
At 1 January 2016	35 946	16 648	2 502	4 118	23 268	3 795
of which indefinite useful life	–	15 418	32	–	15 450	–
Currency retranslations	588	163	51	70	284	20
Expenditure	–	14	340	328	682	260
Disposals	–	–	(68)	(16)	(84)	(14)
Reclassification (to)/from held for sale	–	209	26	(12)	223	(11)
Modification of the scope of consolidation ^(a)	120	413	(3)	(2)	408	(1)
At 31 December 2016	36 654	17 447	2 848	4 486	24 781	4 049
of which indefinite useful life	–	16 200	33	–	16 233	–
of which non-commercialised intangible assets	–	20	159	–	179	–
Accumulated amortisation and impairments						
At 1 January 2016	(3 174)	(217)	(375)	(3 440)	(4 032)	(3 195)
of which indefinite useful life	–	(19)	–	–	(19)	–
Currency retranslations	(34)	3	(6)	(51)	(54)	(22)
Amortisation	–	(87)	(140)	(110)	(337)	(83)
Impairments	(439)	–	(10)	(34)	(44)	(32)
Disposals	–	–	63	16	79	13
Reclassification to/(from) held for sale	–	(14)	(4)	11	(7)	11
Modification of the scope of consolidation	–	–	7	4	11	1
At 31 December 2016	(3 647)	(315)	(465)	(3 604)	(4 384)	(3 307)
of which indefinite useful life	–	(20)	(10)	–	(30)	–
of which non-commercialised intangible assets	–	–	–	–	–	–
Net at 31 December 2016	33 007	17 132	2 383	882	20 397	742
of which indefinite useful life ^(b)	–	16 180	23	–	16 203	–
of which non-commercialised intangible assets	–	20	159	–	179	–

(a) Goodwill: acquisition of businesses amounts to CHF 193 million and disposal of businesses to CHF 73 million.

(b) Annual impairment tests are performed in connection with goodwill impairment tests. Depending on the items tested, the level at which the test is applied is the goodwill CGU or lower.

At 31 December 2017, the Group was committed to expenditure amounting to CHF 9 million (2016: CHF 10 million).

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 capitalised as non-commercialised intangible assets (see accounting policy in Note 9 – Intangible assets).

As of 31 December 2017, the Group's committed payments (undiscounted and not risk-adjusted) and their estimated timing are:

In millions of CHF

	2017			2016		
	Unconditional commitments	Potential milestone payments	Total	Unconditional commitments	Potential milestone payments	Total
Within one year	2	85	87	—	41	41
In the second year	—	156	156	—	126	126
In the third and fourth year	—	284	284	—	268	268
Thereafter	—	1 198	1 198	—	1 290	1 290
Total	2	1 723	1 725	—	1 725	1 725
of which related parties	—	1 105	1 105	—	1 167	1 167

Impairment of goodwill and intangible assets (including non-commercialised 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 test of non-commercialised 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, 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

The 2017 impairment charge mainly relates to the Nestlé Skin Health CGU and other various non-significant impairments of goodwill (predominantly in Zone AOA) and intangible assets (predominantly in Unallocated items).

The Nestlé Skin Health CGU is composed mainly of goodwill and intangible assets. These have arisen mainly from the acquisitions in 2014 of the remaining 50% stake in Galderma and of the commercialisation rights in the United States and Canada from Valeant Pharmaceuticals International.

The annual impairment test for the Nestlé Skin Health CGU was concluded during year-end closing. This test was based on financial projections prepared after a complete strategy review done by Nestlé Skin Health's new management. The review looked at the maturity and competitive environment of the worldwide skincare market and the mixed results of recent new products launches, brand or geographic expansion. The analysis drove substantial changes in Nestlé Skin Health's portfolio and focus leading to significant restructuring activities initiated in late 2017. These translated to revised forecasted sales and margins, and a reduction of the period of cash flows projection to 5 years.

As a result, a goodwill impairment charge of CHF 2799 million has been recognised under the heading Other operating expenses in the income statement. The 2017 carrying amount of the Nestlé Skin Health CGU now amounts to CHF 7569 million, which includes CHF 332 million of goodwill and CHF 4621 million of intangible assets with indefinite useful life.

The recoverable amount of the CGU has been determined based on a value-in-use calculation (see Note 9.1.2). A discount rate of 8.7% (2016: 6.7%), impacted in 2017 by the increase of the risk free rates and the weight of the different cash flows of the CGU, was used in this calculation.

There was no significant impairment of the carrying amounts of other assets of the CGU. The goodwill is included in the Other businesses segment disclosed in Note 3.1.

In 2016, there were various impairments of goodwill (predominantly in Zone AOA) and intangible assets (predominantly in Unallocated items). None of them were individually significant.

9.1.2 Annual impairment tests

Impairment reviews have been conducted for more than 200 items of goodwill and intangible assets with indefinite useful lives, allocated to more than 50 Cash Generating Units (CGU).

9. Goodwill and intangible assets

The following five CGUs have been considered as significant either with regard to the total goodwill or to the total intangible assets with indefinite useful life for which detailed results are presented hereafter: Wyeth Infant Nutrition, PetCare Zone AMS, Nestlé Skin Health, DSD for Frozen Pizza and Ice Cream – USA and Nestlé Infant Nutrition.

In millions of CHF

	2017			2016		
	Goodwill	Intangible assets with indefinite useful life	Total	Goodwill	Intangible assets with indefinite useful life	Total
Wyeth Infant Nutrition	4 567	4 508	9 075	4 624	4 544	9 168
PetCare Zone AMS	7 812	379	8 191	8 180	397	8 577
Nestlé Skin Health ^(a)	332	4 621	4 953	3 182	4 653	7 835
DSD for Frozen Pizza and Ice Cream – USA	2 485	1 749	4 234	2 602	1 831	4 433
Nestlé Infant Nutrition	3 673	1 299	4 972	3 851	1 359	5 210
Subtotal	18 869	12 556	31 425	22 439	12 784	35 223
as % of total carrying amount	63%	78%	68%	68%	79%	72%
Other CGUs	10 879	3 632	14 511	10 568	3 419	13 987
Total	29 748	16 188	45 936	33 007	16 203	49 210

(a) After impairment (see Note 9.1.1).

For each CGUs, except for Nestlé Skin Health (see Note 9.1.1), 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 the next 5 years. They have been extrapolated using a steady or declining terminal growth rate and discounted at a pre-tax weighted average rate.

The following table summarises the key assumptions for each significant CGU:

2017					
	Period of cash flow projections	Annual sales growth	Annual margin evolution	Terminal growth rate	Pre-tax discount rate
Wyeth Infant Nutrition	5 years	-1% to 6%	Stable	3.2%	8.0%
PetCare Zone AMS	5 years	2% to 4%	Declining	2.0%	9.0%
Nestlé Skin Health	5 years	4% to 7%	Improvement	2.3%	8.7%
DSD for Frozen Pizza and Ice Cream – USA	5 years	-1% to 0%	Improvement	1.8%	8.7%
Nestlé Infant Nutrition	5 years	1% to 4%	Improvement	3.5%	11.6%

2016					
	Period of cash flow projections	Annual sales growth	Annual margin evolution	Terminal growth rate	Pre-tax discount rate
Wyeth Infant Nutrition	5 years	0% to 7%	Improvement	3.2%	7.2%
PetCare Zone AMS	5 years	3% to 5%	Stable	2.0%	7.7%
Nestlé Skin Health	10 years	12% to 19%	Improvement	1.9%	6.7%
DSD for Frozen Pizza and Ice Cream – USA	5 years	1%	Improvement	1.5%	7.7%
Nestlé Infant Nutrition	5 years	2% to 4%	Improvement	3.7%	11.1%

- 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 CGU Nestlé Skin Health for which any negative change would lead to further impairment, and
- the 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 410 basis points
Margin improvement	Decrease by 50 basis points
Terminal growth rate	Decrease by 110 basis points
Pre-tax discount rate	Increase by 140 basis points

10. Employee benefits

10.1 Employee remuneration

The Group's salaries of CHF 12 350 million (2016: CHF 12 427 million) and welfare expenses of CHF 4221 million (2016: CHF 4290 million) represent a total of CHF 16 571 million (2016: CHF 16 717 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 247 million (2016: CHF 227 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 recognised 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 have been 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, in order to mitigate the impact of changes in mortality and decrease in conversion rates.

In the United Kingdom, Nestlé's pension plan is an arrangement combining a defined benefit career average section with salary revaluation plus a defined contribution section. It should be noted that the defined benefit section was closed to new entrants during 2016. In the defined benefit section members accrue a pension defined on the average of their salaries during their career at Nestlé since 2010. The salaries are automatically revalued according to inflation subject to caps. Pensions earned before 2010 are also revalued according to inflation subject to a cap and similarly, pensions in payment are mandatorily adjusted, as well. At retirement, there is a lump sum option. Up to 31 July 2017, members employed before 1 July 2016 had the option to switch between the defined benefit section and the defined contribution section. Finally, the funding of the shortfall of the Nestlé UK Pension Fund (a related party) is defined on the basis of a triennial independent actuarial valuation in accordance with local regulations. In accordance with the last valuation, an amount of GBP 89 million has been paid by Nestlé UK Ltd during the year in accordance with the agreed schedule of contributions. The undiscounted future payments after 31 December 2017 related to the shortfall amount to GBP 493 million (GBP 172 million between 2018 to 2019, GBP 172 million between 2020 to 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.

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 minimise 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 minimise 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. The related past service costs of CHF 94 million have been recognised 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 recognised in the balance sheet

In millions of CHF

	2017			2016		
	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	27 347	62	27 409	27 201	52	27 253
Fair value of plan assets	(24 656)	(35)	(24 691)	(23 013)	(24)	(23 037)
Excess of liabilities/(assets) over funded obligations	2 691	27	2 718	4 188	28	4 216
Present value of unfunded obligations	862	2 018	2 880	775	2 021	2 796
Unrecognised assets	23	—	23	43	—	43
Net defined benefit liabilities/(assets)	3 576	2 045	5 621	5 006	2 049	7 055
Other employee benefit liabilities			1 098			1 055
Net liabilities			6 719			8 110
Reflected in the balance sheet as follows:						
Employee benefit assets			(392)			(310)
Employee benefit liabilities			7 111			8 420
Net liabilities			6 719			8 110

10.2b Funding situation by geographic area of defined benefit plans

In millions of CHF

	2017				2016			
	EMENA	AMS	AOA	Total	EMENA	AMS	AOA	Total
Present value of funded obligations	20 425	5 247	1 737	27 409	20 055	5 285	1 913	27 253
Fair value of plan assets	(17 675)	(5 341)	(1 675)	(24 691)	(15 985)	(5 261)	(1 791)	(23 037)
Excess of liabilities/(assets) over funded obligations	2 750	(94)	62	2 718	4 070	24	122	4 216
Present value of unfunded obligations	472	2 082	326	2 880	421	2 099	276	2 796

10.2c Movement in the present value of defined benefit obligations

In millions of CHF

	2017			2016		
	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 1 January	27 976	2 073	30 049	27 110	1 784	28 894
of which funded defined benefit plans	27 201	52	27 253	26 411	52	26 463
of which unfunded defined benefit plans	775	2 021	2 796	699	1 732	2 431
Currency retranslations	415	(76)	339	(645)	133	(512)
Service cost	689	52	741	798	51	849
of which current service cost	778	57	835	800	54	854
of which past service cost	(89)	(5)	(94)	(2)	(3)	(5)
Interest expense	649	111	760	723	98	821
Actuarial (gains)/losses	144	56	200	1 723	140	1 863
Benefits paid on funded defined benefit plans	(1 484)	(5)	(1 489)	(1 108)	(5)	(1 113)
Benefits paid on unfunded defined benefit plans	(73)	(129)	(202)	(46)	(115)	(161)
Modification of the scope of consolidation	(1)	(2)	(3)	(2)	(1)	(3)
Reclassification to/(from) held for sale	—	—	—	29	(12)	17
Transfer from/(to) defined contribution plans	(106)	—	(106)	(606)	—	(606)
At 31 December	28 209	2 080	30 289	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

10.2d Movement in fair value of defined benefit plan assets

In millions of CHF

	2017			2016		
	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 1 January	(23 013)	(24)	(23 037)	(22 353)	(25)	(22 378)
Currency retranslations	(326)	(1)	(327)	566	(1)	565
Interest income	(560)	—	(560)	(633)	(1)	(634)
Actual return on plan assets, excluding interest income	(1 685)	(9)	(1 694)	(1 427)	2	(1 425)
Employees' contributions	(141)	—	(141)	(138)	—	(138)
Employer contributions	(547)	(6)	(553)	(733)	(4)	(737)
Benefits paid on funded defined benefit plans	1 484	5	1 489	1 108	5	1 113
Administration expenses	21	—	21	21	—	21
Modification of the scope of consolidation	5	—	5	2	—	2
Reclassification to/(from) held for sale	—	—	—	(32)	—	(32)
Transfer (from)/to defined contribution plans	106	—	106	606	—	606
At 31 December	(24 656)	(35)	(24 691)	(23 013)	(24)	(23 037)

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

	2017	2016
Equities	28%	29%
of which US equities	12%	13%
of which European equities	9%	8%
of which other equities	7%	8%
Debts	45%	43%
of which government debts	32%	30%
of which corporate debts	13%	13%
Real estate	11%	10%
Alternative investments	11%	14%
of which hedge funds	7%	9%
of which private equities	4%	4%
of which commodities	0%	1%
Cash/Deposits	5%	4%

Equity, government debts and commodities represent 60% (2016: 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 35% (2016: 36%) of the plan assets. Almost all of them are either not quoted or quoted in a market which is not active.

10. Employee benefits

The plan assets of funded defined benefit plans include property occupied by subsidiaries with a fair value of CHF 23 million (2016: CHF 26 million). Furthermore, funded defined benefit plans are invested in Nestlé S.A. (or related) shares to the extent of CHF 35 million (2016: CHF 39 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 715 million to its funded defined benefit plans in 2018.

10.2e Expenses recognised in the income statement

In millions of CHF

	2017			2016		
	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	689	52	741	798	51	849
Employees' contributions	(141)	—	(141)	(138)	—	(138)
Net interest (income)/expense	90	111	201	91	97	188
Administration expenses	21	—	21	21	—	21
Defined benefit expenses	659	163	822	772	148	920
Defined contribution expenses			335			325
Total			1 157			1 245

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

	2017			2016		
	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	1 685	9	1 694	1 427	(2)	1 425
Experience adjustments on plan liabilities	(81)	10	(71)	251	(45)	206
Change in demographic assumptions on plan liabilities	55	(1)	54	(224)	11	(213)
Change in financial assumptions on plan liabilities	(118)	(65)	(183)	(1 750)	(106)	(1 856)
Transfer from/(to) unrecognised assets and other	19	—	19	(13)	—	(13)
Remeasurement of defined benefit plans	1 560	(47)	1 513	(309)	(142)	(451)

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.

	2017				2016			
	EMENA	AMS	AOA	Total	EMENA	AMS	AOA	Total
Discount rates	1.5%	4.5%	4.4%	2.5%	1.5%	5.1%	4.4%	2.6%
Expected rates of salary increases	1.7%	2.7%	4.6%	2.3%	1.9%	2.8%	4.5%	2.4%
Expected rates of pension adjustments	1.3%	0.4%	1.6%	1.1%	1.3%	0.5%	1.7%	1.1%
Medical cost trend rates		5.3%		5.3%		5.5%		5.5%

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

Expressed in years

		2017	2016	2017	2016
Country	Mortality table	Life expectancy at age 65 for a male member currently aged 65		Life expectancy at age 65 for a female member currently aged 65	
EMENA					
Switzerland	LPP 2015	22.0	21.9	23.9	23.9
United Kingdom	S2NA	21.8	21.5	23.1	23.1
Germany	Heubeck Richttafeln 2005 G modifiziert	20.1	20.1	23.6	23.6
AMS					
USA	RP-2014	20.9	20.9	23.0	22.9

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

	2017				2016			
	EMENA	AMS	AOA	Total	EMENA	AMS	AOA	Total
As reported	20 897	7 329	2 063	30 289	20 476	7 384	2 189	30 049
Discount rates								
Increase of 50 basis points	19 308	6 901	1 966	28 175	18 878	6 994	2 092	27 964
Decrease of 50 basis points	22 724	7 815	2 172	32 711	22 319	7 808	2 299	32 426
Expected rates of salary increases								
Increase of 50 basis points	21 064	7 390	2 094	30 548	20 641	7 449	2 220	30 310
Decrease of 50 basis points	20 742	7 268	2 035	30 045	20 324	7 322	2 161	29 807
Expected rates of pension adjustments								
Increase of 50 basis points	22 074	7 384	2 124	31 582	21 634	7 442	2 250	31 326
Decrease of 50 basis points	20 264	7 291	2 044	29 599	19 869	7 321	2 171	29 361
Medical cost trend rates								
Increase of 50 basis points	20 898	7 381	2 065	30 344	20 476	7 434	2 191	30 101
Decrease of 50 basis points	20 896	7 281	2 061	30 238	20 475	7 340	2 187	30 002
Mortality assumption								
Setting forward the tables by 1 year	20 205	7 177	2 031	29 413	19 794	7 236	2 157	29 187
Setting back the tables by 1 year	21 600	7 479	2 095	31 174	21 168	7 532	2 220	30 920

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

	2017				2016			
	EMENA	AMS	AOA	Total	EMENA	AMS	AOA	Total
At 31 December	19.6	17.2	12.8	18.7	17.0	11.6	10.3	15.2

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 recognised 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 recognised 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
At 1 January 2017	583	27	2 118	532	3 260
Currency retranslations	19	(1)	(35)	5	(12)
Provisions made during the year ^(a)	619	2	404	173	1 198
Amounts used	(234)	(2)	(246)	(101)	(583)
Reversal of unused amounts	(58)	(1)	(408)	(105)	(572)
Modification of the scope of consolidation	—	—	18	(1)	17
At 31 December 2017	929	25	1 851	503	3 308
of which expected to be settled within 12 months					863
At 1 January 2016	459	21	2 087	598	3 165
Currency retranslations	4	1	72	10	87
Provisions made during the year ^(a)	284	10	422	179	895
Amounts used	(120)	(1)	(287)	(56)	(464)
Reversal of unused amounts	(56)	(4)	(174)	(161)	(395)
Reclassification (to)/from held for sale	12	—	(2)	1	11
Modification of the scope of consolidation	—	—	—	(39)	(39)
At 31 December 2016	583	27	2 118	532	3 260
of which expected to be settled within 12 months					620

(a) Including discounting of provisions.

Restructuring

Restructuring provisions arise from a number of projects across the Group. These include plans to optimise production, sales and administration structures, mainly in the geographies EMENA (in 2017, mainly related to Nestlé Skin Health) and AMS (in 2017, mainly in USA). 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 tax disputes and income tax uncertainties. 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 unfavourable leases, breach 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 2024 million (2016: CHF 1893 million) representing potential litigations of CHF 1979 million (2016: CHF 1874 million) and other items of CHF 45 million (2016: CHF 19 million). Potential litigations relate mainly to labour, civil and tax litigations in Latin America.

Contingent assets for litigation claims in favour of the Group amount to a maximum potential recoverable amount of CHF 461 million (2016: CHF 201 million), mainly in Latin America.

12. Financial instruments

Financial assets

Financial assets are initially recognised at fair value plus directly attributable transaction costs. However when a financial asset at fair value to income statement is recognised, the transaction costs are expensed immediately. Subsequent remeasurement of financial assets is determined by their categorisation that is revisited at each reporting date.

The settlement date is used for both initial recognition and subsequent 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).

At each balance sheet date, the Group assesses whether its financial assets are to be impaired. Impairment losses are recognised in the income statement where there is objective evidence of impairment, such as where the issuer is in bankruptcy, default or other significant financial difficulty.

Financial assets are derecognised (in full or partly) when substantially all the Group's rights to cash flows from the respective assets have expired or have been transferred and the Group has neither exposure to substantially all the risks inherent in those assets nor entitlement to rewards from them.

Classes and categories of financial instruments

The Group classifies its financial instruments into the following categories: loans and receivables, financial assets designated at fair value through income statement, held-for-trading, available-for-sale assets and financial liabilities at amortised cost.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category includes the following classes of financial assets: loans; trade and other receivables; and cash at bank and in hand.

Subsequent to initial measurement, loans and receivables are carried at amortised cost using the effective interest rate method less appropriate allowances for doubtful receivables (see Note 7.2).

Financial instruments at fair value through income statement

Certain financial assets are designated at fair value through income statement because this reduces an accounting mismatch which would otherwise arise due to the remeasurement of certain liabilities using current market prices as inputs.

Held-for-trading assets and liabilities are derivative financial instruments. Subsequent to initial measurement, these items are carried at fair value and all their gains and losses, realised and unrealised, are recognised in the income statement unless they are part of a hedging relationship (refer to hedge accounting, see Note 12.2d).

Available-for-sale assets

Available-for-sale assets are those non-derivative financial assets that are either designated as such upon initial recognition or are not classified in any of the other categories of financial assets. This category includes the following classes of financial assets: bonds and bond funds, equities and equity funds, commercial paper, time deposits and other investments.

Subsequent to initial measurement, available-for-sale assets are stated at fair value with all gains or losses recognised against other comprehensive income until their disposal when such gains or losses are recognised in the income statement.

Interest and dividends from available-for-sale assets are recognised in the income statement.

Financial liabilities at amortised cost

Financial liabilities are initially recognised at the fair value of consideration received less directly attributable transaction costs.

Subsequent to initial measurement, financial liabilities are recognised at amortised cost. The difference between the initial carrying amount of the financial liabilities and their redemption value is recognised 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 and other financial liabilities.

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

Financial liabilities are derecognised (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

	2017				2016			
Classes	Loans, receivables and liabilities at amortised cost ^(a)	At fair value to income statement	Available for sale	Total categories	Loans, receivables and liabilities at amortised cost ^(a)	At fair value to income statement	Available for sale	Total categories
Cash at bank and in hand	2 202	—	—	2 202	3 341	—	—	3 341
Commercial paper	—	—	4 600	4 600	—	—	3 677	3 677
Time deposits	—	—	1 331	1 331	—	—	1 318	1 318
Bonds and debt funds	—	396	3 778	4 174	—	379	3 433	3 812
Equity and equity funds	—	428	114	542	—	386	215	601
Other financial assets	723	29	995	1 747	1 235	44	987	2 266
Liquid assets ^(b) and non-current financial assets	2 925	853	10 818	14 596	4 576	809	9 630	15 015
Trade and other receivables	12 422	—	—	12 422	12 411	—	—	12 411
Derivative assets ^(c)	—	231	—	231	—	550	—	550
Total financial assets	15 347	1 084	10 818	27 249	16 987	1 359	9 630	27 976
Trade and other payables	(21 374)	—	—	(21 374)	(21 016)	—	—	(21 016)
Financial debt	(26 468)	—	—	(26 468)	(23 209)	—	—	(23 209)
Derivative liabilities ^(c)	—	(507)	—	(507)	—	(1 068)	—	(1 068)
Total financial liabilities	(47 842)	(507)	—	(48 349)	(44 225)	(1 068)	—	(45 293)
Net financial position	(32 495)	577	10 818	(21 100)	(27 238)	291	9 630	(17 317)
of which at fair value	—	577	10 818	11 395	—	291	9 630	9 921

(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 (categorised 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:

- i) 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 other financial assets such as investments in equity and debt securities.
- ii) 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.
- iii) 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

	2017	2016
Derivative assets	11	63
Bonds and debt funds	735	649
Equity and equity funds	227	297
Other financial assets	42	21
Derivative liabilities	(65)	(100)
Prices quoted in active markets (Level 1)	950	930
Commercial paper	4 600	3 677
Time deposits	1 331	1 318
Derivative assets	220	487
Bonds and debt funds	3 417	3 142
Equity and equity funds	278	265
Other financial assets	783	829
Derivative liabilities	(442)	(968)
Valuation techniques based on observable market data (Level 2)	10 187	8 750
Valuation techniques based on unobservable input (Level 3)	258	241
Total financial instruments at fair value	11 395	9 921

There have been no significant transfers between the different hierarchy levels in 2017 and in 2016.

12.1c Changes in liabilities arising from financing activities

In millions of CHF

	2017	2016
At 1 January	(23 850)	(21 923)
Currency retranslations and exchange differences	125	(315)
Changes in fair values	86	64
Changes arising from acquisition and disposal of businesses	(19)	2
Inflows/(outflows) on interest derivatives	(71)	(45)
Inflows from bonds and other non-current financial debt	(6 406)	(1 695)
Outflows from bonds and other non-current financial debt	2 489	1 430
Inflows/(outflows) from current financial debt	1 009	(1 368)
At 31 December	(26 637)	(23 850)
of which current financial debt	(10 536)	(12 118)
of which non-current financial debt	(15 932)	(11 091)
of which derivatives hedging financial debt	(169)	(641)

12.1d Bonds

In millions of CHF

Issuer		Face value in millions	Coupon	Effective interest rate	Year of issue/ maturity	Comments	2017	2016
Nestlé Holdings, Inc., USA	AUD	200	4.00%	4.11%	2012–2017		—	148
	NOK	1 000	2.25%	2.31%	2012–2017		—	118
	NOK	3 000	2.50%	2.66%	2012–2017		—	354
	USD	900	1.38%	1.46%	2012–2017		—	920
	GBP	250	1.63%	1.71%	2013–2017		—	312
	CHF	250	2.63%	2.66%	2007–2018	(a)	251	259
	USD	500	1.25%	1.32%	2012–2018		488	511
	AUD	175	3.75%	3.84%	2013–2018	(a)	133	131
	AUD	200	3.88%	4.08%	2013–2018	(b)	152	147
	AUD	400	4.13%	4.33%	2013–2018	(c)	305	296
	USD	400	1.38%	1.50%	2013–2018		390	408
	USD	500	2.00%	2.17%	2013–2019		487	509
	USD	500	2.25%	2.41%	2013–2019		487	510
	USD	400	2.00%	2.06%	2014–2019		390	408
	USD	650	2.13%	2.27%	2014–2020		633	662
	AUD	250	4.25%	4.43%	2014–2020	(a)	196	192
	AUD	175	3.63%	3.77%	2014–2020	(a)	138	134
	NOK	1 000	2.75%	2.85%	2014–2020	(a)	122	122
	GBP	500	1.75%	1.79%	2015–2020	(d)	660	630
	USD	550	1.88%	2.03%	2016–2021		535	559
	USD	600	1.38%	1.52%	2016–2021		583	610
	GBP	500	1.00%	1.17%	2017–2021	(b)	654	—
	USD	800	2.38%	2.55%	2017–2022		775	—
	USD	650	2.38%	2.50%	2017–2022		632	—
	USD	300	2.25%	2.35%	2017–2022		292	—
	EUR	850	0.88%	0.92%	2017–2025	(b)	989	—
	CHF	550	0.25%	0.24%	2017–2027	(b)	551	—
	CHF	150	0.55%	0.54%	2017–2032	(b)	150	—
Subtotal							9 993	7 940

12. Financial instruments

In millions of CHF

Issuer		Face value in millions	Coupon	Effective interest rate	Year of issue/ maturity	Comments	2017	2016
Subtotal from previous page							9 993	7 940
Nestlé Finance International Ltd., Luxembourg	AUD	125	4.63%	4.86%	2012–2017		—	92
	EUR	500	1.50%	1.61%	2012–2019		583	536
	EUR	500	1.25%	1.30%	2013–2020		583	537
	EUR	500	2.13%	2.20%	2013–2021		582	536
	EUR	500	0.75%	0.90%	2014–2021		581	534
	EUR	850	1.75%	1.89%	2012–2022		986	907
	GBP	400	2.25%	2.34%	2012–2023	(e)	549	531
	EUR	500	0.75%	0.92%	2015–2023	(f)	586	544
	EUR	500	0.38%	0.54%	2017–2024		578	—
	EUR	750	1.25%	1.32%	2017–2029		869	—
	EUR	750	1.75%	1.83%	2017–2037		865	—
Other bonds							254	278
Total carrying amount (*)							17 009	12 435
of which due within one year							1 720	1 954
of which due after one year							15 289	10 481
Fair value (*) of bonds, based on prices quoted (level 2)							17 350	12 755

(*) 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) Subject to an interest rate and currency swap that creates a liability at fixed rates in the currency of the issuer.

(c) This bond is composed of:

– AUD 300 million subject to an interest rate and currency swap that creates a liability at fixed rates in the currency of the issuer; and

– AUD 100 million subject to an interest rate and currency swap that creates a liability at floating rates in the currency of the issuer.

(d) 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.

(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 144 million (2016: CHF 98 million) and under derivative liabilities for CHF 265 million (2016: CHF 797 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 organises, 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 Centre Treasury, the Regional Treasury Centres 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 Centres are supervised 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 minimise 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). 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		
	2017	2016
Investment grade A– and above	10 552	10 845
Investment grade BBB+, BBB and BBB–	2 047	2 366
Non-investment grade (BB+ and below)	967	1 128
Not rated ^(a)	1 261	1 226
	14 827	15 565

(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 2017 successfully extended the tenor of both its revolving credit facilities by one year:

- A new USD 4.7 billion and EUR 2.5 billion revolving credit facility with an initial maturity date of October 2018. 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 2022.

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
2017						
Trade and other payables	(18 872)	(136)	(118)	(2 250)	(21 376)	(21 374)
Commercial paper ^(a)	(5 727)	—	—	—	(5 727)	(5 716)
Bonds ^(a)	(2 016)	(2 212)	(8 627)	(5 613)	(18 468)	(17 009)
Other financial debt	(3 179)	(418)	(230)	(61)	(3 888)	(3 743)
Total financial debt	(10 922)	(2 630)	(8 857)	(5 674)	(28 083)	(26 468)
Financial liabilities (excluding derivatives)	(29 794)	(2 766)	(8 975)	(7 924)	(49 459)	(47 842)
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)
Net derivatives	(232)	(59)	(282)	(130)	(703)	(276)
of which derivatives under cash flow hedges ^(b)	(111)	(16)	(11)	—	(138)	(138)
2016						
Trade and other payables	(18 629)	(149)	(356)	(1 925)	(21 059)	(21 016)
Commercial paper ^(a)	(7 180)	—	—	—	(7 180)	(7 171)
Bonds ^(a)	(2 210)	(1 956)	(6 938)	(2 204)	(13 308)	(12 435)
Other financial debt	(3 092)	(118)	(478)	(88)	(3 776)	(3 603)
Total financial debt	(12 482)	(2 074)	(7 416)	(2 292)	(24 264)	(23 209)
Financial liabilities (excluding derivatives)	(31 111)	(2 223)	(7 772)	(4 217)	(45 323)	(44 225)
Non-currency derivative assets	96	9	17	5	127	125
Non-currency derivative liabilities	(130)	(27)	(28)	—	(185)	(183)
Gross amount receivable from currency derivatives	14 421	878	1 113	—	16 412	16 307
Gross amount payable from currency derivatives	(14 511)	(1 017)	(1 383)	—	(16 911)	(16 767)
Net derivatives	(124)	(157)	(281)	5	(557)	(518)
of which derivatives under cash flow hedges ^(b)	34	(26)	(28)	—	(20)	(18)

(a) Commercial paper of CHF 4726 million (2016: CHF 6333 million) and bonds of CHF 953 million (2016: CHF 171 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 99 million in 2017 (2016: loss of CHF 147 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 2017 and 2016.

The Group cannot predict the future movements in exchange rates, therefore the above VaR number neither represents actual losses nor considers the effects of favourable 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 59% (2016: 45%).

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 29 million (2016: CHF 49 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 minimise 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 Organisation is responsible for managing commodity price risk on the basis of internal directives and centrally determined limits, generally through the use of 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. As a result of 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 recognised 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, realised and unrealised, recognised 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 recognised 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, using prospective and retrospective testing.

Fair value hedges

The Group uses fair value hedges to mitigate foreign currency and interest rate risks of its recognised assets and liabilities.

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 recognised in the income statement.

Cash flow hedges

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

The effective part of the changes in fair value of hedging instruments is recognised in other comprehensive income, while any ineffective part is recognised immediately in the income statement. When the hedged item results in the recognition of a non-financial asset or liability, including acquired businesses, the gains or losses previously recognised 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 recognised in other comprehensive income are removed and recognised 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 even though hedge accounting is not applied.

By type

In millions of CHF

	2017			2016		
	Contractual or notional amounts	Fair value assets	Fair value liabilities	Contractual or notional amounts	Fair value assets	Fair value liabilities
Fair value hedges						
Currency forwards and swaps	2 376	8	27	4 563	202	2
Interest rate forwards, futures and swaps	964	31	–	905	40	–
Interest rate and currency swaps	4 291	113	265	2 909	58	797
Cash flow hedges						
Currency forwards, swaps and options	6 647	62	89	7 917	161	81
Interest rate forwards, futures and swaps	1 368	–	46	1 432	–	81
Commodity futures and options	1 488	12	77	1 541	85	102
Undesignated derivatives						
Currency forwards, swaps and options	676	4	2	955	4	5
Commodity futures and options	59	1	1	–	–	–
	17 869	231	507	20 222	550	1 068
Conditional offsets ^(a)						
Derivative assets and liabilities		(145)	(145)		(101)	(101)
Use of cash collateral received or deposited		(30)	(210)		(36)	(652)
Balances after conditional offsets		56	152		413	315

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

Impact on the income statement of fair value hedges

In millions of CHF

	2017	2016
on hedged items	377	(254)
on hedging instruments	(375)	257

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. Net financial debt is defined as current and non-current financial liabilities less cash and cash equivalents and short-term investments.

The operating cash flow-to-net financial debt ratio highlights the ability of a business to repay its debts. As at 31 December 2017, the ratio was 75.4% (2016: 112.0%).

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 recognised 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 recognised 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 recognised against equity or other comprehensive income.

Deferred taxes are based on the temporary differences that arise when taxation authorities recognise 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 recognised in the income statement unless related to items directly recognised against equity or other comprehensive income. Deferred tax liabilities are recognised on all taxable temporary differences excluding non-deductible goodwill. Deferred tax assets are recognised on all deductible temporary differences provided that it is probable that future taxable income will be available.

13.1 Taxes recognised in the income statement

In millions of CHF

	2017	2016
Components of taxes		
Current taxes ^(a)	(3 391)	(3 677)
Deferred taxes ^{(b)(c)}	235	(504)
Taxes reclassified to other comprehensive income	361	(234)
Taxes reclassified to equity	16	2
Total taxes	(2 779)	(4 413)
Reconciliation of taxes		
Expected tax expense at weighted average applicable tax rate	(3 163)	(3 331)
Tax effect of non-deductible or non-taxable items	(83)	(97)
Prior years' taxes	248	(36)
Transfers to unrecognised deferred tax assets	(131)	(74)
Transfers from unrecognised deferred tax assets	18	9
Changes in tax rates ^{(b)(c)}	823	(481)
Withholding taxes levied on transfers of income	(491)	(403)
Total taxes	(2 779)	(4 413)

(a) Current taxes related to prior years include a tax income of CHF 212 million (2016: tax income of CHF 4 million).

(b) In 2016, this item included a one-time charge of CHF 0.5 billion related to deferred tax, arising in Switzerland, in accordance with a new cantonal tax law.

(c) 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 recognised 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 1 January 2017	(1 723)	(3 248)	2 049	1 060	340	(294)	(1 816)
Currency retranslations	24	70	(19)	(10)	(10)	6	61
Deferred tax (expense)/income	359	384	(548)	(57)	44	53	235
Modification of the scope of consolidation	13	(101)	–	8	6	2	(72)
At 31 December 2017	(1 327)	(2 895)	1 482	1 001	380	(233)	(1 592)
At 1 January 2016	(1 755)	(2 520)	1 709	1 013	309	(176)	(1 420)
Currency retranslations	(52)	(7)	47	41	40	3	72
Deferred tax (expense)/income	76	(742)	299	12	(14)	(135)	(504)
Reclassification to/from held for sale	4	11	(2)	2	–	16	31
Modification of the scope of consolidation	4	10	(4)	(8)	5	(2)	5
At 31 December 2016	(1 723)	(3 248)	2 049	1 060	340	(294)	(1 816)

In millions of CHF

	2017	2016
Reflected in the balance sheet as follows:		
Deferred tax assets	1 967	2 049
Deferred tax liabilities	(3 559)	(3 865)
Net assets/(liabilities)	(1 592)	(1 816)

13.3 Unrecognised deferred taxes

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

In millions of CHF

	2017	2016
Within one year	177	77
Between one and five years	431	348
More than five years	2 602	1 943
	3 210	2 368

At 31 December 2017, the unrecognised deferred tax assets amount to CHF 655 million (2016: CHF 473 million). In addition, the Group has not recognised deferred tax liabilities in respect of unremitted earnings that are considered indefinitely reinvested in foreign subsidiaries. At 31 December 2017, these earnings amount to CHF 25.7 billion (2016: CHF 22.4 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

	2017				2016			
	L'Oréal	Other associates	Joint ventures	Total	L'Oréal	Other associates	Joint ventures	Total
At 1 January	7 453	1 183	2 073	10 709	7 275	955	445	8 675
Currency retranslations	632	44	125	801	(40)	20	(12)	(32)
Investments	—	148	45	193	—	249	1 769	2 018
Divestments	—	(5)	(52)	(57)	—	—	—	—
Share of results	927	(145)	46	828	787	20	13	820
Impairment	—	—	—	—	—	(50)	—	(50)
Share of other comprehensive income	(298)	—	110	(188)	(68)	(1)	(95)	(164)
Dividends and interest received	(465)	(27)	(90)	(582)	(444)	(28)	(47)	(519)
Other	(65)	—	(11)	(76)	(57)	18	—	(39)
At 31 December	8 184	1 198	2 246	11 628	7 453	1 183	2 073	10 709

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 1841 million at 31 December 2017 (2016: CHF 1695 million).

Income from associates and joint ventures

In millions of CHF

	2017	2016
Share of results	828	820
Impairment	—	(50)
Profit on disposal of other associates	(4)	—
	824	770

14.1 L'Oréal

The Group holds 129 881 021 shares in L'Oréal (which 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 (2016: 129 881 021 shares representing a 23.2% participation).

At 31 December 2017, the market value of the shares held amounts to CHF 28.0 billion (2016: CHF 24.2 billion).

Summarised financial information of L'Oréal

In billions of CHF		
	2017	2016
Total current assets	12.9	10.8
Total non-current assets	28.4	27.5
Total assets	41.3	38.3
Total current liabilities	10.7	9.9
Total non-current liabilities	1.6	2.1
Total liabilities	12.3	12.0
Total equity	29.0	26.3
Total sales	29.0	28.2
Profit from continuing operations	4.3	3.4
Profit from discontinued operations	(0.3)	—
Other comprehensive income	(1.3)	(0.3)
Total comprehensive income	2.7	3.1

Reconciliation of the carrying amount

In billions of CHF		
	2017	2016
Share held by the Group in the equity of L'Oréal	6.7	6.1
Goodwill and other adjustments	1.5	1.4
Carrying amount of L'Oréal	8.2	7.5

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 activities. These joint ventures are individually not material to the Group, the main ones being Froneri (as from end of September 2016) and Cereal Partners Worldwide.

At the end of September 2016, the Group launched a joint venture with Britain's R&R Ice Cream called Froneri. Nestlé and R&R contributed their ice cream businesses across Europe, the Middle East (excluding Israel), Argentina, Australia, Brazil, the Philippines and South Africa to form the new company. Nestlé also contributed part of its European frozen food business, as well as its chilled dairy business in the Philippines (see Note 2.1).

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

	2017	2016
Basic earnings per share (in CHF)	2.32	2.76
Net profit (in millions of CHF)	7 183	8 531
Weighted average number of shares outstanding (in millions of units)	3 092	3 091
Diluted earnings per share (in CHF)	2.32	2.75
Net profit, net of effects of dilutive potential ordinary shares (in millions of CHF)	7 183	8 531
Weighted average number of shares outstanding, net of effects of dilutive potential ordinary shares (in millions of units)	3 098	3 097
Reconciliation of weighted average number of shares outstanding (in millions of units)		
Weighted average number of shares outstanding used to calculate basic earnings per share	3 092	3 091
Adjustment for share-based payment schemes, where dilutive	6	6
Weighted average number of shares outstanding used to calculate diluted earnings per share	3 098	3 097

16. Cash flow statement

16.1 Operating profit

In millions of CHF

	2017	2016
Profit for the year	7 538	8 883
Income from associates and joint ventures	(824)	(770)
Taxes	2 779	4 413
Financial income	(152)	(121)
Financial expense	771	758
	10 112	13 163

16.2 Non-cash items of income and expense

In millions of CHF

	2017	2016
Depreciation of property, plant and equipment	2 853	2 795
Impairment of property, plant and equipment	366	157
Impairment of goodwill	3 033	439
Amortisation of intangible assets	374	337
Impairment of intangible assets	158	44
Net result on disposal of businesses	132	—
Net result on disposal of assets	29	36
Non-cash items in financial assets and liabilities	(380)	(208)
Equity compensation plans	146	165
Other	20	42
	6 731	3 807

16.3 Decrease/(increase) in working capital

In millions of CHF

	2017	2016
Inventories	(838)	(238)
Trade and other receivables	(55)	(46)
Prepayments and accrued income	(51)	(2)
Trade and other payables	520	1 914
Accruals and deferred income	181	173
	(243)	1 801

16.4 Variation of other operating assets and liabilities

In millions of CHF

	2017	2016
Variation of employee benefits assets and liabilities	(71)	(167)
Variation of provisions	244	40
Other	220	181
	393	54

16.5 Net cash flows from treasury activities

In millions of CHF

	2017	2016
Interest paid	(534)	(534)
Interest and dividends received	119	96
Net cash flows from derivatives used to hedge foreign operations	(2)	115
Net cash flows from trading derivatives	(6)	(4)
	(423)	(327)

16.6 Reconciliation of free cash flow and net financial debt

In millions of CHF

	2017	2016
Operating cash flow	13 486	15 582
Capital expenditure	(3 934)	(4 010)
Expenditure on intangible assets	(769)	(682)
Investments (net of divestments) in associates and joint ventures	(140)	(748)
Other investing activities	(134)	(34)
Free cash flow	8 509	10 108
Acquisition of businesses	(696)	(585)
Financial liabilities and short-term investments acquired in business combinations	(19)	–
Disposal of businesses	140	271
Financial liabilities and short-term investments transferred on disposal of businesses	–	2
Acquisition (net of disposal) of non-controlling interests	(526)	(1 208)
Dividend paid to shareholders of the parent	(7 126)	(6 937)
Dividends paid to non-controlling interests	(342)	(432)
Purchase (net of sale) of treasury shares	(3 295)	760
Reclassification of financial investments from non-current financial assets to net financial debt	16	109
Outflows from non-current treasury investments	(26)	(39)
Cash inflows from hedging derivatives on net debt	(644)	74
Currency retranslations and exchange differences	34	(583)
Other movements	13	(28)
(Increase)/decrease of net financial debt	(3 962)	1 512
Net financial debt at beginning of year	(13 913)	(15 425)
Net financial debt at end of year	(17 875)	(13 913)
of which		
Current financial debt	(10 536)	(12 118)
Non-current financial debt	(15 932)	(11 091)
Cash and cash equivalents	7 938	7 990
Short-term investments	655	1 306

16.7 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

	2017	2016
Cash at bank and in hand	2 202	3 341
Time deposits	1 330	1 292
Commercial paper	4 406	3 357
	7 938	7 990

17. Equity

17.1 Share capital issued

The ordinary share capital of Nestlé S.A. authorised, issued and fully paid is composed of 3 112 160 000 registered shares with a nominal value of CHF 0.10 each (2016: 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 2016, the share capital changed as a consequence of the Share Buy-Back Programme launched in 2014. The cancellation of shares was approved at the Annual General Meeting of 7 April 2016. The share capital was reduced by 76 240 000 shares from CHF 319 million to CHF 311 million.

On 27 June 2017, the Group announced that the Board of Directors approved a share buy-back programme of up to CHF 20 billion to be completed by the end of June 2020.

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 in connection with debentures and 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	2017	2016
Purpose of holding		
Trading	4.2	4.3
Share Buy-Back Programme	41.6	—
Long-Term Incentive Plans	8.8	9.9
	54.6	14.2

At 31 December 2017, the treasury shares held by the Group represent 1.8% of the share capital (2016: 0.5%). Their market value amounts to CHF 4576 million (2016: CHF 1033 million).

17.4 Number of shares outstanding

Number of shares in millions of units

	Shares issued	Treasury shares	Outstanding shares
At 1 January 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
At 31 December 2017	3 112.2	(54.6)	3 057.6
At 1 January 2016	3 188.4	(103.9)	3 084.5
Purchase of treasury shares	—	(4.0)	(4.0)
Sale of treasury shares	—	13.8	13.8
Treasury shares delivered in respect of options exercised	—	0.8	0.8
Treasury shares delivered in respect of equity compensation plans	—	2.9	2.9
Treasury shares cancelled	(76.2)	76.2	—
At 31 December 2016	3 112.2	(14.2)	3 098.0

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 comprise the fair value reserve and the hedging reserve of the subsidiaries. The fair value reserve includes the gains and losses on remeasuring available-for-sale financial instruments and 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.

The other reserves also 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).

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
2017								
Currency retranslations								
– Recognised	(726)	–	(1)	95	–	(632)	(18)	(650)
– Reclassified to income statement	–	–	–	–	–	–	–	–
– Taxes	92	–	–	–	–	92	–	92
	(634)	–	(1)	95	–	(540)	(18)	(558)
Fair value adjustments on available-for-sale financial instruments								
– Recognised	–	135	–	–	–	135	–	135
– Reclassified to income statement	–	(136)	–	–	–	(136)	–	(136)
– Taxes	–	(9)	–	–	–	(9)	–	(9)
	–	(10)	–	–	–	(10)	–	(10)
Fair value adjustments on cash flow hedges								
– Recognised	–	–	(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								
– Recognised	–	–	–	–	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								
– Recognised	–	–	–	(240)	52	(188)	–	(188)
– Reclassified to income statement	–	–	–	–	–	–	–	–
	–	–	–	(240)	52	(188)	–	(188)
Other comprehensive income for the year	(634)	(10)	(54)	(145)	1 122	279	(27)	252

17. Equity

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
2016								
Currency retranslations								
– Recognised	721	–	(2)	(7)	–	712	(10)	702
– Reclassified to income statement	390	–	–	–	–	390	–	390
– Taxes	(59)	–	–	–	–	(59)	–	(59)
	1 052	–	(2)	(7)	–	1 043	(10)	1 033
Fair value adjustments on available-for-sale financial instruments								
– Recognised	–	110	–	–	–	110	1	111
– Reclassified to income statement	–	(94)	–	–	–	(94)	–	(94)
– Taxes	–	(1)	–	–	–	(1)	–	(1)
	–	15	–	–	–	15	1	16
Fair value adjustments on cash flow hedges								
– Recognised	–	–	62	–	–	62	(1)	61
– Reclassified to income statement	–	–	(48)	–	–	(48)	–	(48)
– Taxes	–	–	(14)	–	–	(14)	–	(14)
	–	–	–	–	–	–	(1)	(1)
Remeasurement of defined benefit plans								
– Recognised	–	–	–	–	(452)	(452)	1	(451)
– Taxes	–	–	–	–	308	308	–	308
	–	–	–	–	(144)	(144)	1	(143)
Share of other comprehensive income of associates and joint ventures								
– Recognised	–	–	–	(154)	(10)	(164)	–	(164)
– Reclassified to income statement	–	–	–	–	–	–	–	–
	–	–	–	(154)	(10)	(164)	–	(164)
Other comprehensive income for the year	1 052	15	(2)	(161)	(154)	750	(9)	741

17.9 Reconciliation of the other reserves

In millions of CHF

	Fair value reserves	Hedging reserves	Reserves of associates and joint ventures	Total
At 1 January 2017	46	(15)	1 167	1 198
Other comprehensive income for the year	(10)	(54)	(145)	(209)
At 31 December 2017	36	(69)	1 022	989
At 1 January 2016	31	(13)	1 327	1 345
Other comprehensive income for the year	15	(2)	(161)	(148)
Other movements	–	–	1	1
At 31 December 2016	46	(15)	1 167	1 198

17.10 Dividend

In accordance with Swiss law and the Company's Articles of Association, 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 2016 was paid on 12 April 2017 in accordance with the decision taken at the Annual General Meeting on 6 April 2017. Shareholders approved the proposed dividend of CHF 2.30 per share, resulting in a total dividend of CHF 7126 million.

Dividend payable is not accounted for until it has been ratified at the Annual General Meeting. At the meeting on 12 April 2018, a dividend of CHF 2.35 per share will be proposed, resulting in an estimated total dividend of CHF 7216 million. For further details, refer to the Financial Statements of Nestlé S.A.

The Financial Statements for the year ended 31 December 2017 do not reflect this proposed distribution, which will be treated as an appropriation of profit in the year ending 31 December 2018.

18. Lease commitments

Leasing agreements which transfer to the Group substantially all the rewards and risks of ownership of an asset are treated as finance leases. All other leases are classified as operating leases.

Assets acquired under finance leases are capitalised and depreciated in accordance with the Group's policy on property, plant and equipment unless the lease term is shorter. The associated finance lease obligations are included under financial debt and the finance charge is presented as part of net financing cost of net debt.

Rentals under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

18.1 Operating leases

In millions of CHF

	2017	2016
Minimum lease payments (Future value)		
Within one year	733	726
In the second year	606	596
In the third to the fifth year	1 180	1 086
After the fifth year	1 014	831
	3 533	3 239

Lease commitments relate mainly to buildings and vehicles. The operating lease charge for the year 2017 amounts to CHF 808 million (2016: CHF 788 million).

18.2 Finance leases

In millions of CHF

	2017		2016	
	Present value	Future value	Present value	Future value
Minimum lease payments				
Within one year	44	46	42	45
In the second year	22	25	42	46
In the third to the fifth year	52	66	58	73
After the fifth year	33	51	39	56
	151	188	181	220

The difference between the future value of the minimum lease payments and their present value represents the discount on the lease obligations.

19. Transactions with related parties

19.1 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: additional CHF 70 000 (Chair CHF 150 000);
- members of the Nomination and Sustainability Committee: additional CHF 40 000 (Chair CHF 100 000); 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 a cash compensation, as well as Nestlé S.A. shares which are blocked for three years.

In millions of CHF

	2017	2016
Chairman's compensation	5	6
Other Board members		
Remuneration – cash	3	3
Shares	2	2
Total (a)	10	11

(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

	2017	2016
Remuneration – cash	15	16
Bonus – cash	8	8
Bonus – shares	5	8
Equity compensation plans ^(a)	14	14
Pension	3	5
Total ^(b)	45	51

(a) Equity compensation plans are equity-settled share-based payment transactions whose cost is recognised 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.

19.2 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);
- in-licensing and intellectual property purchase (see Note 9).

19.3 Other transactions

Nestlé Capital Advisers S.A. (NCA), one of the Group's subsidiaries, is an unregulated investment and actuarial adviser, based in Switzerland. Further to actuarial advice, NCA renders investment consulting services to some of the Group's pension funds, either directly or indirectly via the Robusta mutual fund umbrella, but NCA never executes trading and investment transactions. The fees received by NCA in 2017 for those activities amounted to CHF 9 million (2016: CHF 10 million).

Nestlé Capital Management Ltd (NCM) is a 100% subsidiary of NCA. Until 30 November 2017, NCM was an asset manager authorised and regulated by the Financial Conduct Authority, in the United Kingdom. NCM ceased its activities during 2017 and will be wound-up in 2018. NCM managed some of the assets of the Group's pension funds. In this function, NCM executed trading and investment transactions on behalf of these pension funds directly or for the Robusta mutual funds pension investment vehicles. The fees received by NCM in 2017 for those activities amounted to CHF 6 million (2016: CHF 19 million). The assets under direct management represented CHF 10.4 billion at 31 December 2016.

In addition, Robusta Asset Management Ltd (RAML), a 100% subsidiary of NCA, is in charge of selecting and monitoring investment managers for the Robusta mutual funds pension investment vehicles. RAML has delegated most of its activities to third parties, including NCA and hence no fee income is generated by RAML. Any remaining expenses are covered by means of fees deducted from its assets under management. The assets under supervision of RAML amounted to CHF 7.9 billion at 31 December 2017 (2016: CHF 9.5 billion; of this amount CHF 6.5 billion of assets were under direct management of NCM at 31 December 2016).

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

Furthermore, throughout 2017, no director of the Group had a personal interest in any transaction of significance for the business of the Group.

20. Guarantees

At 31 December 2017 and 31 December 2016, the Group has no significant guarantees given to third parties.

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 14 February 2018, the date of approval for issue of the Consolidated Financial Statements by the Board of Directors, the Group has no subsequent events which warrant a modification of the value of its assets and liabilities. There are no subsequent events which require any additional disclosure except the estimated gain on the disposal of the US confectionery business mentioned in Note 2.4 Assets held for sale.



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 31 December 2017, 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 64 to 142) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, 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 judgement, 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 recognised at the moment when the significant risks and rewards of ownership have been transferred to the buyer; and is measured net of pricing allowances, other trade discounts, and price promotions to customers (collectively 'trade spend').

The judgements 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 incentivised.

The Group focuses on revenue as a key performance measure, which could create an incentive for revenue to be recognised before the risks and rewards have 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 29,748 million and indefinite life intangible assets of CHF 16,188 million as at 31 December 2017 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 judgement 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.

For a sample of CGUs, identified based on quantitative and qualitative factors and including among others the Nestlé Skin Health CGU, 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.

In 2017 an impairment loss of CHF 2,799 million was recognised in respect of Nestlé Skin Health, following a strategy review that triggered substantial changes to the CGU's portfolio and focus.

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.

We also considered the appropriateness of disclosures in relation to impairment sensitivities and disclosures in relation to the impairment recognised in respect of Nestlé Skin Health.

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 recognises provisions that reflect 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. 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 centralised 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 11, "Provisions and contingencies"
- 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

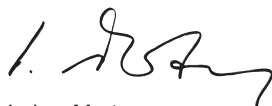
In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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, 14 February 2018

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

KPMG SA is a subsidiary of KPMG Holding AG, which is a member of the KPMG network of independent firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss legal entity. All rights reserved.

Financial information – 5 year review

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

	2017	2016
Results		
Sales	89 791	89 469
Underlying Trading operating profit *	14 729	14 307
as % of sales	16.4%	16.0%
Trading operating profit *	13 233	13 693
as % of sales	14.7%	15.3%
Taxes	2 779	4 413
Profit for the year attributable to shareholders of the parent (Net profit)	7 183	8 531
as % of sales	8.0%	9.5%
Total amount of dividend	7 216 ^(b)	7 126
Depreciation of property, plant and equipment	2 853	2 795
Balance sheet and Cash flow statement		
Current assets	32 190	32 042
Non-current assets	98 190	99 859
Total assets	130 380	131 901
Current liabilities	36 054	37 517
Non-current liabilities	31 549	28 403
Equity attributable to shareholders of the parent	61 504	64 590
Non-controlling interests	1 273	1 391
Net financial debt *	17 875	13 913
Ratio of net financial debt to equity (gearing)	29.1%	21.5%
Operating cash flow	13 486	15 582
as % of net financial debt	75.4%	112.0%
Free cash flow *	8 509	10 108
Capital expenditure	3 934	4 010
as % of sales	4.4%	4.5%
Data per share		
Weighted average number of shares outstanding (in millions of units)	3 092	3 091
Basic earnings per share	2.32	2.76
Underlying earnings per share *	3.55	3.40
Dividend	2.35 ^(b)	2.30
Pay-out ratio based on basic earnings per share	101.3% ^(b)	83.3%
Stock prices (high)	86.40	80.05
Stock prices (low)	71.45	67.00
Yield ^(a)	2.7/3.3 ^(b)	2.9/3.4
Market capitalisation	256 223	226 310
Number of employees (in thousands)	323	328

* 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.

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

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

2015	2014	2013	
			Results
88 785	91 612	92 158	Sales
14 032	14 816	14 892	Underlying Trading operating profit *
15.8%	16.2%	16.2%	as % of sales
13 382	14 019	14 047	Trading operating profit *
15.1%	15.3%	15.2%	as % of sales
3 305	3 367	3 256	Taxes
9 066	14 456	10 015	Profit for the year attributable to shareholders of the parent (Net profit)
10.2%	15.8%	10.9%	as % of sales
6 937	6 950	6 863	Total amount of dividend
2 861	2 782	2 864	Depreciation of property, plant and equipment
			Balance sheet and Cash flow statement
29 434	33 961	30 066	Current assets
94 558	99 489	90 376	Non-current assets
123 992	133 450	120 442	Total assets
33 321	32 895	32 917	Current liabilities
26 685	28 671	23 386	Non-current liabilities
62 338	70 130	62 575	Equity attributable to shareholders of the parent
1 648	1 754	1 564	Non-controlling interests
15 425	12 325	14 690	Net financial debt *
24.7%	17.6%	23.5%	Ratio of net financial debt to equity (gearing)
14 302	14 700	14 992	Operating cash flow
92.7%	119.3%	102.1%	as % of net financial debt
9 945	14 137	10 486	Free cash flow *
3 872	3 914	4 928	Capital expenditure
4.4%	4.3%	5.3%	as % of sales
			Data per share
3 129	3 188	3 191	Weighted average number of shares outstanding (in millions of units)
2.90	4.54	3.14	Basic earnings per share
3.31	3.44	3.50	Underlying earnings per share *
2.25	2.20	2.15	Dividend
77.6%	48.5%	68.5%	Pay-out ratio based on basic earnings per share
77.00	73.30	70.00	Stock prices (high)
64.55	63.85	59.20	Stock prices (low)
2.9/3.5	3.0/3.4	3.1/3.6	Yield ^(a)
229 947	231 136	208 279	Market capitalisation
335	339	333	Number of employees (in thousands)

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
Europe					
Austria					
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
Azerbaijan					
Nestlé Azerbaijan LLC	Baku	100%	100%	USD	200 000
Belarus					
LLC Nestlé Bel	° Minsk	100%	100%	BYN	410 000
Belgium					
Centre de Coordination Nestlé S.A.	◊ Bruxelles	91.5%	100%	EUR	4 298 971 818
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
Bosnia and Herzegovina					
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
Bulgaria					
Nestlé Bulgaria A.D.	Sofia	100%	100%	BGN	10 234 933
Croatia					
Nestlé Adriatic d.o.o.	Zagreb	100%	100%	HRK	14 685 500
Czech Republic					
Nestlé Cesko s.r.o.	Praha	100%	100%	CZK	300 000 000
Tivall CZ, s.r.o.	Krupka		100%	CZK	400 000 000
Cereal Partners Czech Republic, s.r.o.	¹⁾ Praha		50%	CZK	23 100 000
Denmark					
Nestlé Danmark A/S	Copenhagen	100%	100%	DKK	44 000 000
Nestlé Professional Food A/S	Rønnede		100%	DKK	12 000 000
Glycom A/S	³⁾ Copenhagen	35.7%	35.7%	DKK	1 383 655
Finland					
Puljonki Oy	Juuka		100%	EUR	85 000
Suomen Nestlé Oy	Helsinki	100%	100%	EUR	6 000 000
France					
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 Q-Med S.A.S.	Nanterre		100%	EUR	3 769 870
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.	⁰ Noisiel	84%	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.	⁰ Issy-les-Moulineaux		100%	EUR	254 825 042
Nestlé Waters France S.A.S.	⁰ 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.	⁰ Noisiel		100%	EUR	22 753 550
Société Industrielle de Transformation de Produits Agricoles S.A.S.	Noisiel		100%	EUR	9 718 000

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
France (continued)					
Cereal Partners France SNC	¹⁾ Noisiel		50%	EUR	3 000 000
L'Oréal S.A. ^(a)	^{Δ3)} Paris	23.2%	23.2%	EUR	112 103 818
<i>Listed on the Paris stock exchange, market capitalisation EUR 103.7 billion, quotation code (ISIN) FR0000120321</i>					
Lactalis Nestlé Produits Frais S.A.S.	³⁾ Laval	40%	40%	EUR	69 208 832
Georgia					
Nestlé Georgia LLC	[°] Tbilisi	100%	100%	CHF	700 000
Germany					
Bübchen-Werk Ewald Hermes Pharmazeutische Fabrik GmbH	Soest		100%	EUR	25 565
Galderma Laboratorium GmbH	Düsseldorf		100%	EUR	800 000
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
Greece					
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
Hungary					
Nestlé Hungária Kft.	Budapest	100%	100%	HUF	6 000 000 000
Cereal Partners Hungária Kft.	¹⁾ Budapest		50%	HUF	22 000 000
Italy					
Fastlog S.p.A.	Assago		100%	EUR	154 935
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
Kazakhstan					
Nestlé Food Kazakhstan LLP	Almaty	100%	100%	KZT	91 900

^(a) Voting powers amount to 23.2%

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Lithuania					
UAB „Nestlé Baltics“	Vilnius	100%	100%	EUR	31 856
Luxembourg					
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
Macedonia					
Nestlé Adriatik Makedonija d.o.o.e.l.	Skopje-Karpos	100%	100%	MKD	31 065 780
Malta					
Nestlé Malta Ltd	Lija	99.9%	100%	EUR	116 470
Moldova					
LLC Nestlé	° Chisinau	100%	100%	USD	1 000
Netherlands					
East Springs International N.V.	◊ Amsterdam		100%	EUR	25 370 000
Galderma BeNeLux B.V.	Rotterdam		100%	EUR	18 002
Nespresso Nederland B.V.	Amsterdam		100%	EUR	680 670
Nestlé Nederland B.V.	Amsterdam	100%	100%	EUR	11 346 000
Tivall Netherlands B.V.	Zeist		100%	EUR	18 000
Norway					
A/S Nestlé Norge	Lysaker		100%	NOK	81 250 000
Poland					
Galderma Polska Z o.o.	Warszawa		100%	PLN	93 000
Nestlé Polska S.A.	Warszawa	100%	100%	PLN	42 800 000
Nestlé Waters Polska S.A.	Warszawa		100%	PLN	196 100 000
Cereal Partners Poland Torun-Pacific Sp. Z o.o.	¹⁾ Torun	50%	50%	PLN	14 572 838
Portugal					
Nestlé Business Services Lisbon, S.A.	° Oeiras	100%	100%	EUR	50 000
Nestlé Portugal S.A.	Oeiras		100%	EUR	30 000 000
ProLacto-Lactínios de São Miguel S.A.	Ponta Delgada		100%	EUR	700 000
Cereal Associados Portugal A.E.I.E.	¹⁾ Oeiras		50%	EUR	99 760
Republic of Ireland					
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
Republic of Serbia					
Nestlé Adriatic S d.o.o., Beograd-Surcin	Beograd-Surcin	100%	100%	RSD	12 222 327 814
Romania					
Nestlé Romania S.R.L.	Bucharest	100%	100%	RON	132 906 800
Russia					
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	¹⁾ Moscow	35%	50%	RUB	39 730 861
Slovak Republic					
Nestlé Slovensko s.r.o.	Prievidza	100%	100%	EUR	13 277 568
Slovenia					
Nestlé Adriatic Trgovina d.o.o.	^o Ljubljana	100%	100%	EUR	8 763
Spain					
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.	^o 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.	¹⁾ Esplugues de Llobregat (Barcelona)		50%	EUR	120 202
Sweden					
Galderma Nordic AB	Uppsala		100%	SEK	31 502 698
Nestlé Sverige AB	Helsingborg		100%	SEK	20 000 000
Q-Med AB	Uppsala		100%	SEK	24 845 500
Tivall Sweden AB	Malmö		100%	SEK	100 000
Switzerland					
DPA (Holding) S.A.	^o Vevey	100%	100%	CHF	100 000
Entreprises Maggi S.A.	^o Cham	100%	100%	CHF	100 000
Galderma S.A.	Cham		100%	CHF	178 100
Galderma Pharma S.A.	^o Lausanne		100%	CHF	48 900 000
Galderma Schweiz AG	Egerkingen		100%	CHF	100 000
Intercona Re AG	^o Châtel-St-Denis		100%	CHF	35 000 000
Materna-Nestlé GmbH	^o Zug	100%	100%	CHF	20 000
Nespresso IS Services S.A.	^o Lausanne	100%	100%	CHF	100 000

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Switzerland (continued)					
Nestec S.A.	Vevey	100%	100%	CHF	5 000 000
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 Institute of Health Sciences S.A.	Ecublens		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
Servcom S.A.	◊ La Tour-de-Peilz	100%	100%	CHF	50 000
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
The Proactiv Company Sàrl	Lausanne		75%	CHF	20 000
Vetropa S.A.	◊ Fribourg	100%	100%	CHF	2 500 000
Beverage Partners Worldwide (Europe) AG	◊ ¹⁾ Zürich	50%	50%	CHF	1 000 000
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
Turkey					
Erikli Dağıtım ve Pazarlama A.S.	Bursa		100%	TRY	3 849 975
Erikli Su ve Mesrubat Sanayi ve Ticaret A.S.	Bursa		100%	TRY	12 700 000
Nestlé Türkiye Gıda Sanayi A.S.	Istanbul	99.9%	99.9%	TRY	35 000 000
Nestlé Waters Gıda ve Mesrubat Sanayi Ticaret A.S.	Bursa		100%	TRY	8 000 000
Cereal Partners Gıda Ticaret Limited Sirketi	¹⁾ Istanbul		50%	TRY	87 020 000
Ukraine					
LLC Nestlé Ukraine	Kyiv	100%	100%	USD	150 000
PJSC „Lviv Confectionery Factory Svitoch“	Lviv	97%	97%	UAH	88 111 060
PRJSC Volynholding	Torchyn	90.5%	100%	UAH	100 000
United Kingdom					
Galderma (UK) Ltd	Watford		100%	GBP	1 500 000
Nespresso UK Ltd	Gatwick		100%	GBP	275 000
Nestec York Ltd	Gatwick		100%	GBP	500 000
Nestlé Capital Management Ltd	Gatwick		100%	GBP	2 000 000

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
United Kingdom (continued)						
Nestlé Holdings (UK) PLC	◊	Gatwick	93.7%	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
Proactiv Skin Health Ltd		London		75%	GBP	101
Vitaflo (International) Ltd		Liverpool		100%	GBP	625 379
Cereal Partners UK	1)	Herts		50%	GBP	—
Froneri Ltd ^(b)	1)	Northallerton	22.2%	44.9%	EUR	13 000
Phagenesis Ltd	°3)	Manchester	29.2%	29.2%	GBP	16 146

^(b) Excluding non voting preference shares. Voting powers amount to 50%

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Africa					
Algeria					
Nestlé Algérie SpA	Alger	<0.1%	49%	DZD	2 600 000 000
Nestlé Industrie Algérie SpA	Alger	49%	49%	DZD	1 100 000 000
Nestlé Waters Algérie SpA	Blida		49%	DZD	377 606 250
Angola					
Nestlé Angola Lda	Luanda	100%	100%	AOA	1 443 600 000
Burkina Faso					
Nestlé Burkina Faso S.A.	Ouagadougou		100%	XOF	50 000 000
Cameroon					
Nestlé Cameroun S.A.	Douala	100%	100%	XAF	4 323 960 000
Chad					
Nestlé Chad S.A.	N'Djamena	100%	100%	XAF	50 000 000
Côte d'Ivoire					
Centre de Recherche et de Développement					
Nestlé Abidjan S.A.	Abidjan		100%	XOF	10 000 000
Nestlé Côte d'Ivoire S.A.	△ Abidjan	79.6%	86.5%	XOF	5 517 600 000
<i>Listed on the Abidjan stock exchange, market capitalisation XOF 41.9 billion, quotation code (ISIN) CI0009240728</i>					
Democratic Republic of the Congo					
Nestlé Congo S.A.R.L	Kinshasa	100%	100%	USD	33 200 000
Egypt					
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
Ethiopia					
Nestlé Waters Ethiopia Share Company	Addis Ababa		51%	ETB	223 450 770
Gabon					
Nestlé Gabon, S.A.	Libreville	90%	90%	XAF	344 000 000
Ghana					
Nestlé Central and West Africa Ltd	Accra	100%	100%	GHS	95 796 000
Nestlé Ghana Ltd	Accra	76%	76%	GHS	20 100 000
Guinea					
Nestlé Guinée S.A.	Conakry	99%	99%	GNF	3 424 000 000

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Kenya					
Nestlé Equatorial African Region Ltd	Nairobi	100%	100%	KES	132 000 000
Nestlé Kenya Ltd	Nairobi	100%	100%	KES	226 100 400
Mali					
Nestlé Mali S.A.U.	Bamako		100%	XOF	10 000 000
Mauritius					
Nestlé's Products (Mauritius) Ltd	Port Louis	100%	100%	BSD	71 500
Morocco					
Nestlé Maghreb S.A.	° Casablanca	100%	100%	MAD	300 000
Nestlé Maroc S.A.	El Jadida	94.5%	94.5%	MAD	156 933 000
Mozambique					
Nestlé Moçambique Lda	° Maputo	100%	100%	MZN	2 474 909 200
Niger					
Nestlé Niger S.A.	Niamey		99.6%	XOF	50 000 000
Nigeria					
Nestlé Nigeria Plc	△ Ilupeju	66.2%	66.2%	NGN	396 328 126
<i>Listed on the Nigerian Stock Exchange, market capitalisation NGN 1233.0 billion, quotation code (ISIN) NGNESTLE0006</i>					
Senegal					
Nestlé Sénégal S.A.	Dakar	100%	100%	XOF	1 620 000 000
South Africa					
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	³⁾ Johannesburg		30%	ZAR	56 021 890
Tunisia					
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
Zambia					
Nestlé Zambia Trading Ltd	Lusaka	99.8%	100%	ZMW	2 317 500
Zimbabwe					
Nestlé Zimbabwe (Private) Ltd	Harare	100%	100%	USD	2 100 000

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Americas					
Argentina					
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
Bolivia					
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
Brazil					
Chocolates Garoto S.A.	Vila Velha		100%	BRL	161 450 000
Dairy Partners Americas Manufacturing Brasil Ltda	São Paulo		100%	BRL	39 468 974
Galderma Brasil Ltda	São Paulo		100%	BRL	39 741 602
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	227 606 368
Dairy Partners Americas Nordeste – Produtos Alimentícios Ltda	³⁾ Garanhuns		49%	BRL	100 000
Canada					
G. Production Canada Inc.	Baie D'Urfé (Québec)		100%	CAD	100
Galderma Canada Inc.	Saint John (New Brunswick)		100%	CAD	100
Nestlé Canada Inc.	Toronto (Ontario)	65.7%	100%	CAD	47 165 540
Nestlé Capital Canada Ltd	° Toronto (Ontario)		100%	CAD	1 010
Cayman Islands					
Hsu Fu Chi International Limited	° Grand Cayman	60%	60%	SGD	7 950 000
Chile					
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
Colombia					
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
Costa Rica					
Compañía Nestlé Costa Rica S.A.	Heredia	100%	100%	CRC	18 000 000
Cuba					
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
Dominican Republic					
Nestlé Dominicana S.A.	Santo Domingo	98.7%	99.9%	DOP	1 657 445 000
Silva Dominicana S.A.	Santo Domingo		99.9%	USD	50 000
Ecuador					
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
El Salvador					
Nestlé El Salvador, S.A. de C.V.	San Salvador	100%	100%	USD	4 457 200
Guatemala					
Compañía de Servicios de Distribución, 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	5 000
TESOCORP, S.A.	° Guatemala City	100%	100%	GTQ	5 000
Honduras					
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
Jamaica					
Nestlé Jamaica Ltd	Kingston	100%	100%	JMD	49 200 000

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Mexico					
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. (c)	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.		100%	MXN	9 257 112
Waters Partners Services México, S.A.P.I. de C.V. (c)	México, D.F.		40%	MXN	620 000
CPW México, S. de R.L. de C.V.	1) México, D.F.		50%	MXN	43 138 000
Nicaragua					
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
Panama					
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
Paraguay					
Nestlé Paraguay S.A.	Asunción	100%	100%	PYG	100 000 000
Peru					
Nestlé Marcas Perú, S.A.C.	Lima	50%	100%	PEN	5 536 832
Nestlé Perú, S.A.	Lima	99.5%	99.5%	PEN	88 998 365
Puerto Rico					
Nestlé Puerto Rico, Inc.	San Juan	100%	100%	USD	500 000
Payco Foods Corporation	Bayamon		100%	USD	890 000
Trinidad and Tobago					
Nestlé Caribbean, Inc.	Valsayn	95%	100%	USD	100 000
Nestlé Trinidad and Tobago Ltd	Valsayn	100%	100%	TTD	35 540 000

(c) Voting powers amount to 51%

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
United States					
BBC New Holdings, LLC	◊ Wilmington (Delaware)		67.9%	USD	0
Blue Bottle Coffee, Inc.	Wilmington (Delaware)		67.9%	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
Gerber Life Insurance Company	◊ New York		100%	USD	148 500 000
Gerber Products Company	Fremont (Michigan)		100%	USD	1 000
Lieberman Productions LLC	Sacramento (California)		75%	USD	—
Malher, Inc.	Stafford (Texas)	67%	100%	USD	1 000
Merrick Pet Care, Inc.	Dallas (Texas)		100%	USD	1 000
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 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%	100%	USD	1
NSH Services Inc.	Fort Worth (Texas)		100%	USD	981
Prometheus Laboratories Inc.	Los Angeles (California)		100%	USD	100
Red Maple Insurance Company	◊ Williston (Vermont)		100%	USD	1 200 000
Sweet Earth Inc.	Wilmington (Delaware)		100%	USD	0
The Häagen-Daaz 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

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
United States (continued)					
Tribe Mediterranean Foods, Inc.	Wilmington (Delaware)		100%	USD	1
TSC Holdings, Inc.	⁰ 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)		14.9%	USD	5 086
Seres Therapeutics, Inc.	³⁾ Cambridge (Massachusetts)		17%	USD	40 530
Uruguay					
Nestlé del Uruguay S.A.	Montevideo	100%	100%	UYU	9 495 189
Venezuela					
Nestlé Cadipro, S.A.	Caracas		100%	VEF	50 633 501
Nestlé Venezuela, S.A.	Caracas	100%	100%	VEF	516 590

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Asia					
Afghanistan					
Nestlé Afghanistan Ltd	Kabul	100%	100%	USD	1 000 000
Bahrain					
Nestlé Bahrain Trading WLL	Manama	49%	49%	BHD	200 000
Al Manhal Water Factory (Bahrain) WLL	Manama		63%	BHD	300 000
Bangladesh					
Nestlé Bangladesh Limited	Dhaka	100%	100%	BDT	100 000 000
Greater China Region					
Anhui Yinlu Foods Co., Limited	Chuzhou	80%	80%	CNY	303 990 000
Chengdu Hsu Chi Foods Co., Limited	Chengdu		60%	CNY	40 000 000
Chengdu Yinlu Foods Co., Limited	Chengdu	80%	80%	CNY	215 800 000
Dongguan Andegu Plastic Packaging Material Limited	Dongguan		60%	HKD	10 000 000
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	80%	80%	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) Ltd	Taizhou City		100%	USD	32 640 000
Nestlé Hong Kong Limited	Hong Kong	100%	100%	HKD	250 000 000
Nestlé Hulunbeir Limited	Hulunbeir	100%	100%	CNY	158 000 000
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	80%	80%	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
Greater China Region (continued)					
Wyeth (Hong Kong) Holding Co., Limited	⁰ 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	80%	80%	CNY	496 590 000
Yunnan Dashan Drinks Co., Limited	Kunming	100%	100%	CNY	35 000 000
CPW Tianjin Limited	¹⁾ Tianjin		50%	CNY	305 000 000
India					
Galderma India Private Ltd	Mumbai		100%	INR	24 156 000
Nestlé India Ltd	^Δ New Delhi	34.3%	62.8%	INR	964 157 160
<i>Listed on the Bombay Stock Exchange (BSE Ltd), market capitalisation INR 756.4 billion, quotation code (ISIN) INE239A01016</i>					
Nestlé R&D Centre India Private Ltd	New Delhi	100%	100%	INR	2 101 380 000
Purina Petcare India Private Ltd	^o New Delhi	97%	100%	INR	20 000 000
SMA Nutrition India Private Limited	^o New Delhi	97%	100%	INR	22 000 000
Indonesia					
P.T. Nestlé Indonesia	Jakarta	90.2%	90.2%	IDR	152 753 440 000
P.T. Nestlé Trading Indonesia	^o Jakarta	1%	90.3%	IDR	60 000 000 000
P.T. Wyeth Nutrition Sduaenam	Jakarta		90%	IDR	2 000 000 000
P.T. Nestlé Indofood Citarasa Indonesia	¹⁾ Jakarta	50%	50%	IDR	200 000 000 000
Iran					
Nestlé Iran (Private Joint Stock Company)	Tehran	89.7%	89.7%	IRR	358 538 000 000
Nestlé Waters Iranian	Tehran		100%	IRR	35 300 000 000
Israel					
Assamim Gift Parcels Ltd	Shoam		73.8%	ILS	103
Beit Hashita-Asis Food Industries Limited Partnership	Kibbutz Beit Hashita		100%	ILS	100
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
Japan					
Blue Bottle Coffee Japan, G.K.	Tokyo		67.9%	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
Jordan					
Ghadeer Mineral Water Co. WLL	Amman		75%	JOD	1 785 000
Nestlé Jordan Trading Company Ltd	Amman	77.8%	77.8%	JOD	410 000
Kuwait					
Nestlé Kuwait General Trading Company WLL	Safat	49%	49%	KWD	300 000
Lebanon					
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
Malaysia					
Nestlé (Malaysia) Bhd.	^Δ Petaling Jaya	72.6%	72.6%	MYR	234 500 000
<i>Listed on the Kuala Lumpur stock exchange, market capitalisation MYR 24.2 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	25 000 000
Nestlé Regional Service Centre (Malaysia) Sdn. Bhd.	[◊] 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.	¹⁾ Petaling Jaya	50%	50%	MYR	2 500 000
Myanmar					
Nestlé Myanmar Limited	[◊] Yangon	95%	95%	USD	5 000 000
Oman					
Nestlé Oman Trading LLC	Muscat	49%	49%	OMR	300 000
Pakistan					
Nestlé Pakistan Ltd	^Δ Lahore	59%	59%	PKR	453 495 840
<i>Listed on the Pakistan Stock Exchange, market capitalisation PKR 522.0 billion, quotation code (ISIN) PK0025101012</i>					
Palestinian Territories					
Nestlé Trading Private Limited Company	Bethlehem	97.5%	97.5%	JOD	200 000
Philippines					
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. ^(d)	[◊] Makati City		88.5%	PHP	630 000 000
Wyeth Philippines, Inc.	Manila	100%	100%	PHP	610 418 100
CPW Philippines, Inc.	¹⁾ Makati City	50%	50%	PHP	7 500 000

^(d) Voting powers amount to 40%

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Qatar					
Al Manhal Water Factory Co. Ltd WLL	Doha		51%	QAR	5 500 000
Nestlé Qatar Trading LLC	Doha	49%	49%	QAR	1 680 000
Republic of Korea					
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	^{°1)} Cheongju	50%	50%	KRW	52 783 120 000
Saudi Arabia					
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
Singapore					
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	[◊] Singapore	100%	100%	JPY	10 000 000 000
				SGD	2
Wyeth Nutritionals (Singapore) Pte Ltd	Singapore	100%	100%	SGD	2 059 971 715
Sri Lanka					
Nestlé Lanka PLC	[△] Colombo	90.8%	90.8%	LKR	537 254 630
<i>Listed on the Colombo stock exchange, market capitalisation LKR 87.4 billion, quotation code (ISIN) LK0128N00005</i>					
Syria					
Nestlé Syria S.A.	Damascus	100%	100%	SYP	800 000 000
Thailand					
Arun Saeng Ltd	[◊] 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	[◊] 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	400 000 000

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
United Arab Emirates					
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
Uzbekistan					
Namangansut-Nafosat MChJ	° Namangan	53.9%	100%	UZS	46 227 969
Nestlé Uzbekistan MChJ	Namangan	96.4%	100%	USD	38 715 463
Vietnam					
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
Oceania					
Australia					
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	¹⁾ Sydney		50%	AUD	107 800 000
Fiji					
Nestlé (Fiji) Ltd	Lami	33%	100%	FJD	3 000 000
French Polynesia					
Nestlé Polynésie S.A.S.	Papeete	100%	100%	XPF	5 000 000
New Caledonia					
Nestlé Nouvelle-Calédonie S.A.S.	Nouméa	100%	100%	XPF	64 000 000
New Zealand					
Nestlé New Zealand Limited	Auckland	100%	100%	NZD	300 000
CPW New Zealand	¹⁾ Auckland		50%	NZD	—
Papua New Guinea					
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, specialised 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, specialised 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		
Switzerland				
Clinical Development Unit		Lausanne	R	
Galderma R&D Centre		Egerkingen	R&D	
Nestec Ltd		Vevey	TA	
Nestlé Development Centre		Broc	D	
Nestlé Institute of Health Sciences S.A.		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	
Australia				
CPW R&D Centre	¹⁾	Rutherglen	R&D	
Chile				
Nestlé Development Centre		Santiago de Chile	D	
Côte d'Ivoire				
Nestlé R&D Centre		Abidjan	R&D	
France				
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	

		City of operations	
France (continued)			
Nestlé R&D Centre		Tours	R&D
Froneri Development Center Glaces S.A.S.	1)	Beauvais	PTC
Germany			
Nestlé Product Technology Centre Food		Singen	PTC
Greater China Region			
Nestlé R&D Centre		Beijing	R&D
Nestlé R&D Centre		Shanghai	R&D
India			
Nestlé Development Centre		Gurgaon	D
Italy			
Nestlé R&D Centre		Sansepolcro	R&D
Mexico			
Nestlé R&D Centre		Queretaro	R&D
Republic of Ireland			
Nestlé Development Centre		Askeaton	D
Singapore			
Nestlé Development Centre		Singapore	D
Sweden			
Galderma R&D Centre		Uppsala	R&D
United Kingdom			
Nestlé Product Technology Centre Confectionery		York	PTC
United States			
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

151st Financial Statements of Nestlé S.A.

177	Income statement for the year ended 31 December 2017
178	Balance sheet as at 31 December 2017
179	Notes to the annual accounts
179	1. Accounting policies
180	2. Income from Group companies
	3. Profit on disposal of assets
	4. Financial income
	5. Expenses recharged from Group companies
	6. Write-downs and amortisation
181	7. Financial expense
	8. Taxes
	9. Cash and cash equivalents
	10. Other current receivables
	11. Financial assets
182	12. Shareholdings
	13. Interest-bearing liabilities
	14. Other current liabilities
	15. Provisions
183	16. Share capital
	17. Changes in equity
184	18. Treasury shares
	19. Contingencies
185	20. Performance Share Units and shares for members of the Board and employees granted during the year
	21. Full-time equivalents
	22. Events after the balance sheet date
186	23. Shares and stock options
188	Proposed appropriation of profit
190	Statutory Auditor's Report – Report on the Audit of the Financial Statements

Income statement for the year ended 31 December 2017

In millions of CHF

	Notes	2017	2016
Income from Group companies	2	12 316	10 626
Profit on disposal of assets	3	155	716
Other income		96	114
Financial income	4	407	220
Total income		12 974	11 676
Expenses recharged from Group companies	5	(2 514)	(2 501)
Personnel expenses		(107)	(120)
Other expenses		(155)	(195)
Write-downs and amortisation	6	(889)	(1 835)
Financial expense	7	(93)	(35)
Taxes	8	(631)	(542)
Total expenses		(4 389)	(5 228)
Profit for the year		8 585	6 448

Balance sheet as at 31 December 2017

before appropriations

In millions of CHF			2017	2016
	Notes			
Assets				
Current assets				
Cash and cash equivalents	9		339	1 115
Other current receivables	10		724	737
Prepayments and accrued income			32	77
Total current assets			1 095	1 929
Non-current assets				
Financial assets	11		7 761	8 763
Shareholdings	12		32 006	31 175
Property, plant and equipment			1	1
Intangible assets			95	142
Total non-current assets			39 863	40 081
Total assets			40 958	42 010
Liabilities and equity				
Current liabilities				
Interest-bearing liabilities	13		2 734	2 050
Other current liabilities	14		2 162	1 645
Accruals and deferred income			17	48
Provisions	15		514	760
Total current liabilities			5 427	4 503
Non-current liabilities				
Interest-bearing liabilities	13		138	132
Provisions	15		507	501
Total non-current liabilities			645	633
Total liabilities			6 072	5 136
Equity				
Share capital	16/17		311	311
Legal retained earnings				
– General legal reserve	17		1 924	1 924
Voluntary retained earnings				
– Special reserve	17		23 319	23 288
– Profit brought forward	17		5 111	5 821
– Profit for the year	17		8 585	6 448
Treasury shares	17/18		(4 364)	(918)
Total equity			34 886	36 874
Total liabilities and equity			40 958	42 010

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

Income statement

In accordance with Swiss law and the Company's Articles of Association, 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 realised on the sale of financial assets, trademarks and other industrial property rights previously written down.

4. Financial income

In millions of CHF

	2017	2016
Income on loans to Group companies	407	220
Other financial income	—	—
	407	220

5. Expenses recharged from Group companies

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

6. Write-downs and amortisation

In millions of CHF

	2017	2016
Shareholdings and loans	735	1 429
Trademarks and other industrial property rights	154	406
	889	1 835

7. Financial expense

In millions of CHF

	2017	2016
Expenses related to loans from Group companies	6	5
Other financial expenses	87	30
	93	35

8. Taxes

In millions of CHF

	2017	2016
Direct taxes	191	171
Prior year's adjustments	—	—
Withholding taxes on income from foreign sources	440	371
	631	542

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

	2017	2016
Amounts owed by Group companies (current accounts)	693	707
Other receivables	31	30
	724	737

11. Financial assets

In millions of CHF

	2017	2016
Loans to Group companies	7 752	8 757
Other investments	9	6
	7 761	8 763

12. Shareholdings

In millions of CHF

	2017	2016
At 1 January	31 175	32 488
Net increase/(decrease)	1 527	103
Write-downs	(696)	(1 416)
At 31 December	32 006	31 175

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. Interest-bearing liabilities

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

14. Other current liabilities

In millions of CHF

	2017	2016
Amounts owed to Group companies	1 847	1 605
Other liabilities	315	40
	2 162	1 645

15. Provisions

In millions of CHF

					2017	2016
	Uninsured risks	Exchange risks	Swiss and foreign taxes	Other	Total	Total
At 1 January	475	451	174	161	1 261	1 325
Provisions made in the period	—	—	191	53	244	232
Amounts used	—	—	(162)	(78)	(240)	(210)
Unused amounts reversed	—	(244)	—	—	(244)	(86)
At 31 December	475	207	203	136	1 021	1 261
of which expected to be settled within 12 months					514	760

16. Share capital

	2017	2016
Number of registered shares of nominal value CHF 0.10 each	3 112 160 000	3 112 160 000
In millions of CHF	311	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 31 December 2017, the share register showed 157 753 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.

17. Changes in equity

In millions of CHF

	Share capital	General legal reserve	Special reserve	Retained earnings	Treasury shares	Total
At 1 January 2017	311	1 924	23 288	12 268	(918)	36 874
Profit for the year	—	—	—	8 585	—	8 585
Dividend for 2016	—	—	—	(7 126)	—	(7 126)
Movement of treasury shares	—	—	—	—	(3 446)	(3 446)
Dividend on treasury shares held on the payment date of 2016 dividend	—	—	31	(31)	—	—
At 31 December 2017	311	1 924	23 319	13 696	(4 364)	34 886

18. Treasury shares

In millions of CHF

	2017		2016	
	Number	Amount	Number	Amount
Share Buy-Back Programme	41 578 764	3 487	—	—
Long-term incentive plans	8 789 045	567	9 900 885	608
For trading purposes	4 238 445	310	4 238 445	310
	54 606 254	4 364	14 139 330	918

During the year 41 578 764 shares were purchased as part of the Share Buy-Back Programme for CHF 3487 million.

The Company held 8 789 045 shares to cover long-term incentive plans. During the year 3 135 109 shares were delivered as part of the Nestlé Group remuneration plans for a total value of CHF 190 million. In addition, 2 023 269 shares have been acquired at a cost of CHF 149 million. All treasury shares are valued at acquisition cost.

The total of own shares of 54 606 254 held by Nestlé S.A. at 31 December 2017 represents 1.8% of the Nestlé S.A. share capital (14 139 330 own shares held at 31 December 2016 by Nestlé S.A. representing 0.5% of the Nestlé S.A. share capital).

19. Contingencies

At 31 December 2017, the total of the guarantees mainly for credit facilities granted to Group companies and commercial paper programmes, together with the buy-back agreements relating to notes issued, amounted to a maximum of CHF 47 771 million (2016: CHF 43 155 million).

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

In millions of CHF

	2017		2016	
	Number	Amount	Number	Amount
Performance Share Units granted to Nestlé S.A. employees ^(a)	272 418	15	484 488	32
Share plan for short-term bonus Executive Board ^(b)	112 515	7	100 451	6
Share plan for Board members ^(c)	85 919	5	91 255	5
	470 852	27	676 194	43

(a) Performance Share Units are disclosed at fair value at grant which corresponds to CHF 55.96 in 2017

(2016: CHF 65.85). Includes 193 280 Performance Share Units granted to Executive Board (2016: 219 020).

(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% account for the blocking period of three years.

21. 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.

22. 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.

23. Shares and stock options

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

	2017		2016	
	Number of shares held ^(a)	Number of options held ^(b)	Number of shares held ^(a)	Number of options held ^(b)
Paul Bulcke, Chairman	1 263 185	420 000	(c)	(c)
Andreas Koopmann, Vice Chairman	101 079	—	97 176	—
Henri de Castries	18 940	—	14 442	—
Beat W. Hess	41 429	—	37 262	—
Renato Fassbind	22 921	—	18 754	—
Steven G. Hoch	167 727	—	164 475	—
Nāina Lal Kidwai	16 956	—	14 442	—
Jean-Pierre Roth	14 531	—	12 216	—
Ann M. Veneman	16 961	—	14 844	—
Eva Cheng	12 769	—	10 255	—
Ruth K. Oniang'o	5 743	—	3 891	—
Patrick Aebischer	2 315	—	—	—
Ursula M. Burns	1 852	—	—	—
Members who retired from the Board during 2017	—	—	3 581 827	127 000
Total as at 31 December	1 686 408	420 000	3 969 584	127 000

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

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

(c) For 2016 included under shares and stock options ownership of the members of the Executive Board.

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

	2017		2016	
	Number of shares held ^(a)	Number of options held ^(b)	Number of shares held ^(a)	Number of options held ^(b)
Ulf Mark Schneider	7 795	—	—	—
Laurent Freixe	17 587	—	48 805	—
Chris Johnson	62 376	104 100	51 072	125 400
Patrice Bula	159 121	101 800	136 487	101 800
Wan Ling Martello	101 507	121 100	71 522	121 100
Stefan Catsicas	10 347	—	5 400	—
Marco Settembri	31 837	—	21 750	—
François-Xavier Roger	14 544	—	3 604	—
Magdi Batato	9 152	—	9 330	—
Peter R. Vogt	49 960	—	46 681	—
Heiko Schipper	—	—	2 800	—
Maurizio Patarnello	13 043	—	—	—
Grégory Behar	1 188	—	—	—
David P. Frick	53 199	—	48 586	—
Members who retired from the Executive Board during 2017	—	—	1 123 053	924 170
Total as at 31 December	531 656	327 000	1 569 090	1 272 470

(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	2017	2016
Retained earnings		
Profit brought forward	5 111 232 705	5 820 737 716
Profit for the year	8 584 500 298	6 448 462 989
	13 695 733 003	12 269 200 705
We propose the following appropriation:		
Dividend for 2017, CHF 2.35 per share on 3 070 581 236 shares ^(a) (2016: CHF 2.30 on 3 112 160 000 shares) ^(b)	7 215 865 905	7 157 968 000
	7 215 865 905	7 157 968 000
Profit to be carried forward	6 479 867 098	5 111 232 705

(a) Depending on the number of shares issued as of the last trading day with entitlement to receive the dividend (13 April 2018). 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 31 852 088, representing the dividend on 13 848 734 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 2.35 per share, representing a net amount of CHF 1.5275 per share after payment of the Swiss withholding tax of 35%. The last trading day with entitlement to receive the dividend is 13 April 2018. The shares will be traded ex-dividend as of 16 April 2018. The net dividend will be payable as from 18 April 2018.

The Board of Directors

Cham and Vevey, 14 February 2018



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 31 December 2017, 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 177 to 187) for the year ended 31 December 2017 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, 14 February 2018

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

KPMG SA is a subsidiary of KPMG Holding AG, which is a member of the KPMG network of independent firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss legal entity. All rights reserved.

Notes

© 2018, Nestlé S.A., Cham and Vevey
(Switzerland)

Concept

Nestlé S.A., Group Governance and
Group Accounting and Reporting

Photography

Aude Sirvain/Interlinks Image