

Financial Statements 2020

Consolidated Financial Statements of the Nestlé Group 2020

154th Financial Statements of Nestlé S.A.

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Principal exchange rates

| CHF per | | | | | | |
|---------------------------|-----|-------------|--------|------------------|----------------|--|
| | | 2020 | 2019 | 2020 | 2019 | |
| | | Year ending | rates | Weighted average | e annual rates | |
| 1 US Dollar | USD | 0.881 | 0.969 | 0.937 | 0.993 | |
| 1 Euro | EUR | 1.083 | 1.086 | 1.070 | 1.112 | |
| 100 Chinese Yuan Renminbi | CNY | 13.482 | 13.911 | 13.596 | 14.366 | |
| 1 Pound Sterling | GBP | 1.203 | 1.272 | 1.202 | 1.269 | |
| 100 Brazilian Reais | BRL | 16.951 | 24.042 | 18.175 | 25.118 | |
| 100 Philippine Pesos | PHP | 1.834 | 1.912 | 1.893 | 1.920 | |
| 100 Mexican Pesos | MXN | 4.430 | 5.124 | 4.395 | 5.159 | |
| 1 Canadian Dollar | CAD | 0.691 | 0.743 | 0.698 | 0.749 | |
| 100 Japanese Yen | JPY | 0.854 | 0.892 | 0.877 | 0.911 | |
| 100 Indian Rupee | INR | 1.206 | 1.359 | 1.267 | 1.410 | |
| 100 Russian Rubles | RUB | 1.178 | 1.563 | 1.292 | 1.537 | |
| 1 Australian Dollar | AUD | 0.679 | 0.679 | 0.646 | 0.692 | |

Consolidated income statement for the year ended December 31, 2020

| | Notes | 2020 | 2019 |
|---|-------|----------|----------|
| Sales | 3 | 84 343 | 92 568 |
| Other revenue | | 338 | 297 |
| Cost of goods sold | | (42 971) | (46 647) |
| Distribution expenses | | (7 861) | (8 496) |
| Marketing and administration expenses | | (17 370) | (19 790) |
| Research and development costs | | (1 576) | (1 672) |
| Other trading income | 4 | 238 | 163 |
| Other trading expenses | 4 | (908) | (2 749) |
| Trading operating profit | 3 | 14 233 | 13 674 |
| Other operating income | 4 | 1 919 | 3 717 |
| Other operating expenses | 4 | (1 356) | (1 313) |
| Operating profit | | 14 796 | 16 078 |
| Financial income | | 109 | 200 |
| Financial expense | 5 | (983) | (1 216) |
| Profit before taxes, associates and joint ventures | | 13 922 | 15 062 |
| Taxes | 13 | (3 365) | (3 159) |
| Income from associates and joint ventures | 14 | 1 815 | 1 001 |
| Profit for the year | | 12 372 | 12 904 |
| of which attributable to non-controlling interests | | 140 | 295 |
| of which attributable to shareholders of the parent (Net profit) | | 12 232 | 12 609 |
| As percentages of sales | | | |
| Trading operating profit | | 16.9% | 14.8% |
| Profit for the year attributable to shareholders of the parent (Net profit) | | 14.5% | 13.6% |
| Earnings per share (in CHF) | | | |
| Basic earnings per share | 15 | 4.30 | 4.30 |
| Diluted earnings per share | 15 | 4.29 | 4.30 |

Consolidated statement of comprehensive income for the year ended December 31, 2020

| In millions of CHF | | | |
|--|-------|---------|---------|
| | Notes | 2020 | 2019 |
| Profit for the year recognized in the income statement | | 12 372 | 12 904 |
| Currency retranslations, net of taxes | 17 | (2 931) | (1 050) |
| Changes in cash flow hedge and cost of hedge reserves, net of taxes | | (54) | (66) |
| Share of other comprehensive income of associates and joint ventures | 14/17 | (265) | 49 |
| Items that are or may be reclassified subsequently to the income statement | | (3 250) | (1 067) |
| Remeasurement of defined benefit plans, net of taxes | 10/17 | (166) | (320) |
| Fair value changes on equity instruments, net of taxes | 17 | 124 | (4) |
| Share of other comprehensive income of associates and joint ventures | 14/17 | (340) | 337 |
| Items that will never be reclassified to the income statement | | (382) | 13 |
| Other comprehensive income for the year | 17 | (3 632) | (1 054) |
| Total comprehensive income for the year | | 8 740 | 11 850 |
| of which attributable to non-controlling interests | | 76 | 317 |
| of which attributable to shareholders of the parent | | 8 664 | 11 533 |

Consolidated balance sheet as at December 31, 2020

before appropriations

| Notes | 2020 | 2019 |
|-------|--|--|
| | | |
| | | |
| | | |
| 12/16 | 5 235 | 7 469 |
| 12 | 3 374 | 2 794 |
| 6 | 10 101 | 9 343 |
| 7/12 | 10 746 | 11 766 |
| | 477 | 498 |
| 12 | 310 | 254 |
| | 708 | 768 |
| 2 | 3 117 | 2 771 |
| | 34 068 | 35 663 |
| | | |
| 8 | 25 840 | 28 762 |
| 9 | 27 620 | 28 896 |
| 9 | 20 148 | 17 824 |
| 14 | 12 005 | 11 505 |
| 12 | 2 594 | 2 611 |
| 10 | 468 | 510 |
| | _ | 55 |
| 13 | 1 285 | 2 114 |
| | 89 960 | 92 277 |
| | 124 028 | 127 940 |
| | 12 6 7/12 12 2 2 8 9 9 14 12 10 | 12 3 374 6 10 101 7/12 10 746 477 12 310 708 2 3 117 34 068 8 25 840 9 27 620 9 20 148 14 12 005 12 2 594 10 468 — 13 1 285 |

| In millions of CHF | | | |
|---|-------|----------|------------------|
| | Notes | 2020 | 2019 |
| Liabilities and equity | | | |
| | | | |
| Current liabilities | | | |
| Financial debt | 12 | 12 019 | 14 032 |
| Trade and other payables | 7/12 | 18 515 | 18 803 |
| Accruals and deferred income | | 4 917 | 4 492 |
| Provisions | 11 | 508 | 802 |
| Derivative liabilities | 12 | 254 | 420 |
| Current income tax liabilities | | 2 661 | 2 673 |
| Liabilities directly associated with assets held for sale | 2 | 848 | 393 |
| Total current liabilities | | 39 722 | 41 615 |
| | | | |
| Non-current liabilities | | | |
| Financial debt | | 27 928 | 23 132 |
| Employee benefits liabilities | 10 | 5 118 | 6 151 |
| Provisions | 11 | 1 029 | 1 162 |
| Deferred tax liabilities | 13 | 2 636 | 2 589 |
| Other payables | 12 | 1 081 | 429 |
| Total non-current liabilities | | 37 792 | 33 463 |
| Total liabilities | | 77 514 | 75 078 |
| Equity | | | |
| Share capital | | 288 | 298 |
| Treasury shares | | (6 643) | (9 752) |
| Translation reserve | | (24 397) | (21 526) |
| Other reserves | | (365) | (45) |
| Retained earnings | | 76 812 | 83 060 |
| Total equity attributable to shareholders of the parent | | 45 695 | 52 035 |
| Non-controlling interests | | 819 | 827 |
| Total equity | | 46 514 | 52 862 |
| | | | 5 = 3 0 = |
| Total liabilities and equity | | 124 028 | 127 940 |

Consolidated cash flow statement for the year ended December 31, 2020

| In millions of CHF | | | |
|--|-------|----------|----------|
| | Notes | 2020 | 2019 |
| Operating activities | | | |
| Operating profit | 16 | 14 796 | 16 078 |
| Depreciation and amortization | 16 | 3 465 | 3 713 |
| Impairment | | 711 | 2 336 |
| Net result on disposal of businesses | 4 | (1 678) | (3 416) |
| Other non-cash items of income and expense | 16 | 248 | (28) |
| Cash flow before changes in operating assets and liabilities | | 17 542 | 18 683 |
| Decrease/(increase) in working capital | 16 | 314 | 349 |
| Variation of other operating assets and liabilities | 16 | (699) | (94) |
| Cash generated from operations | | 17 157 | 18 938 |
| Interest paid | | (815) | (1 028) |
| Interest and dividend received | | 76 | 162 |
| Taxes paid | | (2 645) | (2 854) |
| Dividends and interest from associates and joint ventures | 14 | 604 | 632 |
| Operating cash flow | 1-7 | 14 377 | 15 850 |
| Language and the control of the cont | | | |
| Investing activities | | (4.076) | (2.605) |
| Capital expenditure | | (4 076) | (3 695) |
| Expenditure on intangible assets | 9 | (288) | (516) |
| Acquisition of businesses, net of cash acquired | | (4 520) | (125) |
| Disposal of businesses, net of cash disposed of | | 3 916 | 9 959 |
| Investments (net of divestments) in associates and joint ventures | 14 | (182) | (540) |
| Inflows/(outflows) from treasury investments | | (749) | 2 978 |
| Other investing activities | | 232 | 295 |
| Investing cash flow | | (5 667) | 8 356 |
| Financing activities | | | |
| Dividend paid to shareholders of the parent | 17 | (7 700) | (7 230) |
| Dividends paid to non-controlling interests | | (268) | (463) |
| Acquisition (net of disposal) of non-controlling interests | | (1) | (16) |
| Purchase (net of sale) of treasury shares ^(a) | | (6 814) | (9 773) |
| Inflows from bonds and other non-current financial debt | 12 | 10 330 | 57 |
| Outflows from bonds and current portion of other non-current financial debt | 12 | (3 182) | (3 287) |
| Inflows/(outflows) from current financial debt | 12 | (2 747) | (444) |
| Financing cash flow | | (10 382) | (21 156) |
| Currency retranslations | | (562) | (221) |
| Increase/(decrease) in cash and cash equivalents | | (2 234) | 2 829 |
| Cash and cash equivalents at beginning of year | | 7 469 | 4 640 |
| Cash and cash equivalents at end of year | 16 | 5 235 | 7 469 |

⁽a) Mostly relates to share buyback programs launched in 2017 and in 2020.

Consolidated statement of changes in equity for the year ended December 31, 2020

| In millions of CHF | | | | | | | | |
|---|-------|--------------------|-------------|-------|----------------------|---|---------------------------|-----------------|
| | Share | Treasury shares | Translation | Other | Retained earnings | Total equity attributable to shareholders of the parent | Non-controlling interests | Total equity |
| Equity as at January 1, 2019 | 306 | (6 948) | (20 432) | (183) | 84 620 | 57 363 | 1 040 | 58 403 |
| Profit for the year | | | | | 12 609 | 12 609 | 295 | 12 904 |
| Other comprehensive income for the year | | _ | (1 094) | (7) | 25 | (1 076) | 22 | (1 054) |
| Total comprehensive income for the year | | | (1 094) | (7) | 12 634 | 11 533 | 317 | 11 850 |
| Dividends | | | | | (7 230) | (7 230) | (463) | (7 693) |
| Movement of treasury shares | | (9 946) | _ | _ | 175 | (9 771) | _ | (9 771) |
| Equity compensation plans | | 280 | _ | _ | (142) | 138 | (1) | 137 |
| Changes in non-controlling interests | | _ | _ | _ | 4 | 4 | (68) | (64) |
| Reduction in share capital (a) | (8) | 6 862 | | | (6 854) | | | _ |
| Total transactions with owners | (8) | (2 804) | | | (14 047) | (16 859) | (532) | (17 391) |
| Other movements (b) | | | | 145 | (147) | (2) | 2 | _ |
| Equity as at December 31, 2019 | 298 | (9 752) | (21 526) | (45) | 83 060 | 52 035 | 827 | 52 862 |
| Equity as at January 1, 2020 | 298 | (9 752) | (21 526) | (45) | 83 060 | 52 035 | 827 | 52 862 |
| Profit for the year | | | | | 12 232 | 12 232 | 140 | 12 372 |
| Other comprehensive income for the year | | _ | (2 871) | (321) | (376) | (3 568) | (64) | (3 632) |
| Total comprehensive income for the year | | | (2 871) | (321) | 11 856 | 8 664 | 76 | 8 740 |
| Dividends | | | | | (7 700) | (7 700) | (268) | (7 968) |
| Movement of treasury shares | | (6 911) | _ | _ | 7 | (6 904) | _ | (6 904) |
| Equity compensation plans | | 360 | _ | _ | (227) | 133 | (3) | 130 |
| Changes in non-controlling interests (c) | | _ | _ | _ | (394) | (394) | 186 | (208) |
| Reduction in share capital ^(a) | (10) | 9 660 | | _ | (9 650) | | _ | _ |
| Total transactions with owners | (10) | 3 109 | | | (17 964) | (14 865) | (85) | (14 950) |
| Other movements (b) | | | _ | 1 | (140) | (139) | 1 | (138) |
| Equity as at December 31, 2020 | 288 | (6 643) | (24 397) | (365) | 76 812 | 45 695 | 819 | 46 514 |

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

⁽b) Other movements in Retained earnings is explained further in Note 14. in the table of movement of carrying value of Associates and joint ventures.

⁽c) Movements reported under Retained earnings include put options for the acquisition of non-controlling interests.

Notes

1. Accounting policies

Accounting convention and accounting standards

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

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

The Consolidated Financial Statements 2020 were approved for issue by the Board of Directors on February 17, 2021, and are subject to approval by the Annual General Meeting on April 15, 2021.

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. The estimates and underlying assumptions are reviewed on an ongoing basis. Actual results may differ from these estimates.

Those areas that involved a higher degree of judgement or uncertainty are explained further in the relevant notes, including:

- assessment of control and estimating the fair value of net assets acquired in business combinations (see Note 2);
- classification and measurement of assets held for sale (see Note 2);
- recognition and estimation of revenue (see Note 3);
- presentation of additional line items and subtotals in the income statement (see Note 4);
- identification of a lease and lease term (see Note 8);
- identification of cash generating units (CGUs) and estimation of recoverable amount for impairment tests (see Note 9);
- assessment of useful lives of intangible assets, including assessment as finite or indefinite (see Note 9);

- measurement of employee benefit obligations (see Note 10);
- recognition and measurement of provisions (see Note 11);
 and
- estimation of current and deferred taxes, including uncertain tax positions (see Note 13).

The impacts of COVID-19 on those judgements and uncertainties have been described in Note 21.

Foreign currencies

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

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

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

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

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

Hyperinflationary economies

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

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

Other revenue

Other revenue are primarily sales-based royalties and license fees from third parties (including associates and joint ventures) which have been earned during the period.

Expenses

Cost of goods sold is determined on the basis of the cost of purchase or of production (comprised of the costs of raw and packaging material, direct labor, energy, manufacturing overheads and depreciation of factory assets, which are allocated to products using activity-based drivers), adjusted for the variation of inventories. It includes the cost of royalties due to third party licensors for the use of their intellectual property, which are accrued in accordance with the respective agreement. Cost of goods sold also includes amortization of intangible assets related to acquired licenses to sell products or to use technology, and as well as maintenance and depreciation of equipment used in the sales process like coffee machines and water coolers.

All other expenses, including those in respect of advertising and promotions, are recognized when the Group receives the risks and rewards of ownership of the goods or when it receives the services. Government grants that are not related to assets are credited to the income statement as a deduction of the related expense when they are received, if there is reasonable assurance that the terms of the grant will be met.

Distribution expenses encompass the costs of storing products and transporting products between factories, warehouses and customer locations. It includes the costs of outsourced transportation services, salaries and wages of drivers, warehouse employees and customer service staff, as well as depreciation and running costs of warehouses and related storage, transportation and handling equipment.

Marketing and administration expenses include the costs of advertising and consumer promotion activities, merchandising, sales teams and head office functions such as finance, human resources, legal, information technology, supply chain and general management. It is primarily comprised of salaries, depreciation and maintenance of real estate, and the costs of third-party services.

Additional details of research and development, other trading income and expenses and other operating income and expenses are provided in the respective notes.

Changes in accounting standards

In May 2020, the IASB issued COVID-19-Related Rent Concessions (Amendments to IFRS 16), which provides a practical expedient to not assess whether specific types of rent concessions related to COVID-19 are lease modifications. The Group has applied this amendment in these Consolidated Financial Statements as from January 1, 2020 (see Note 21.4). There was no impact on the prior period comparative figures.

A number of other standards have been modified on miscellaneous points with effect from January 1, 2020, which have no material impact on the Group's Financial Statements. These include Definition of a Business (Amendments to IFRS 3), Definition of Material (Amendments to IAS 1 and IAS 8) and Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7).

Changes in IFRS that may affect the Group after December 31, 2020

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

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

Scope of consolidation

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

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

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

Business combinations

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

2.1 Modification of the scope of consolidation

Acquisitions

In 2020, the significant acquisitions were:

- Aimmune, North America food allergy treatment products (Nutrition and Health Science) – 100%, October.
- Zenpep, North America nutritional health products (Nutrition and Health Science) 100%, May.
- Freshly, United States healthy prepared meals (Prepared dishes and cooking aids) –
 92%, end of October.

Among several other non-significant acquisitions, Vital Proteins, an American collagen brand and a lifestyle and wellness platform, has been acquired in 2020.

There were no significant acquisitions in 2019.

Disposals

In 2020, there was one significant disposal:

US Ice Cream business, North America – ice cream (Milk products and Ice cream) –
 100%, end of January.

Among several other non-significant disposals, the Herta charcuterie business and the Yinlu business have been disposed of in 2020.

In 2019, there were several disposals but only one was significant:

 Nestlé Skin Health, worldwide – science-based skincare solutions (Nutrition and Health Science) – 100%, beginning of October.

2.2 Acquisitions of businesses

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

| In millions of CHF | | | | | | |
|---|---------|--------|---------|-------|-------|-------|
| | | | | | 2020 | 2019 |
| | Aimmune | Zenpep | Freshly | Other | Total | Total |
| Property, plant and equipment | 34 | _ | 71 | 86 | 191 | 131 |
| Intangible assets (a) | 1 828 | 1 143 | 551 | 668 | 4 190 | 31 |
| Inventories and other assets | 250 | 40 | 66 | 176 | 532 | 17 |
| Financial debt | (135) | | (86) | (109) | (330) | (134) |
| Deferred taxes | (187) | | (109) | (20) | (316) | _ |
| Other liabilities | (43) | (6) | (47) | (78) | (174) | (53) |
| Fair value of identifiable net assets/(liabilities) | 1 747 | 1 177 | 446 | 723 | 4 093 | (8) |

⁽a) Mainly intellectual property rights, customer lists, trademarks and trade names, composed of CHF 1.63 billion (2019: CHF 0.03 billion) of finite life, CHF 0.64 billion of non-commercialized intangibles (2019: CHF nil) and of CHF 1.92 billion (2019: CHF nil) of indefinite life intangible assets.

The goodwill arising on acquisitions and the cash outflow are:

| In millions of CHF | | | | | | |
|---|---------|---------|---------|-------|---------|-------|
| | | | | | 2020 | 2019 |
| | Aimmune | Zenpep | Freshly | Other | Total | Total |
| Fair value of consideration transferred | 1 869 | 1 302 | 947 | 991 | 5 109 | 102 |
| Non-controlling interests | _ | _ | 35 | 146 | 181 | _ |
| Fair value of pre-existing interests (a) | 565 | _ | 201 | _ | 766 | _ |
| Subtotal | 2 434 | 1 302 | 1 183 | 1 137 | 6 056 | 102 |
| Fair value of identifiable net (assets)/liabilities | (1 747) | (1 177) | (446) | (723) | (4 093) | 8 |
| Goodwill | 687 | 125 | 737 | 414 | 1 963 | 110 |

⁽a) Includes a revaluation gain of CHF 326 million on the 26% stake already held in Aimmune and a revaluation gain of CHF 183 million on the 16% stake already held in Freshly (see Note 14).

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

| In millions of CHF | | | | | | |
|--|---------|--------|---------|-------|-------|-------|
| | | | | | 2020 | 2019 |
| | Aimmune | Zenpep | Freshly | Other | Total | Total |
| Fair value of consideration transferred | 1 869 | 1 302 | 947 | 991 | 5 109 | 102 |
| Cash and cash equivalents acquired | (227) | _ | (48) | (10) | (285) | _ |
| Consideration payable | _ | _ | (287) | (38) | (325) | (8) |
| Payment of consideration payable on prior years acquisitions | _ | _ | _ | 21 | 21 | 31 |
| Cash outflow on acquisitions | 1 642 | 1 302 | 612 | 964 | 4 520 | 125 |

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

With regards to Freshly, the consideration payable includes an amount of contingent consideration with an estimated fair value of CHF 287 million at the date of acquisition. The contingent consideration is in the form of an earn-out based on the achievement of sales and EBITDA in 2021, 2022 and 2023 and will be settled in cash to Freshly's former shareholders. The fair value (categorised within Level 3 of the fair value hierarchy) at acquisition was determined using a scenario-based approach which best reflects the characteristics of the earn-out. At 100% achievement of the business plan, the maximum undiscounted consideration over the 3 years would amount to CHF 372 million. However, the earn-out has an upside with a potential incremental payout of 1% each year for every increase of 1% of sales and profit above the business plan. Any future change of the fair value of the consideration will be recorded in Other operating income or expenses under Miscellaneous operating expenses or income.

Aimmune

On October 13, 2020, Nestlé acquired Aimmune a biopharmaceutical company developing and commercializing treatments for potentially life-threatening food allergies (Aimmune). Aimmune's *Palforzia* is the first FDA-approved treatment to help reduce the frequency and severity of allergic reaction to peanuts, including anaphylaxis, in children aged 4 through 17. The acquisition is an extension of Nestlé Health Science's food allergy portfolio, creating a broader spectrum of solutions for children living with food allergies. The goodwill arising on this acquisition includes elements such as creating a leading position in the area of food allergy prevention treatment and its related growth potential in combination with current Nestlé Health Science Medical Nutrition business as well as synergies with the acquisition of Zenpep done earlier in the year 2020. It is not expected to be deductible for tax purposes.

Zenpep

On May 11, 2020, Nestlé acquired the Zenpep gastrointestinal medication business from Allergan. This expands Nestlé Health Science Medical Nutrition business and complements its portfolio of therapeutic products. *Zenpep*, available in the United States, is a medication for people who cannot digest food properly because their pancreas does not provide enough enzymes to break down fat, protein and carbohydrates. The goodwill arising on this acquisition includes elements such as market share and growth potential in the area of digestive diseases through current Nestlé Health Science Medical Nutrition business. It is expected to be deductible for tax purposes.

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

Freshly

On October 30, 2020, Nestlé acquired Freshly. Freshly delivers a menu of fresh, prepared meals to customers across United States. This transaction brings together Nestlé's deep understanding of what and how people eat at home with Freshly's highly specialized consumer analytics platform and distribution network to fuel growth opportunities within the Freshly business and across Nestlé's portfolio. The goodwill arising on this acquisition includes elements such as market share and growth potential in direct-to-consumer food in the US as well as leveraging Nestlé expertise and presence in large-scale prepared meal manufacturing and research and development. It is not expected to be deductible for tax purposes.

Impacts of Aimmune, Zenpep and Freshly on the sales and profit for the year Amounts included in the 2020 Consolidated Financial Statements from the acquired businesses were:

| In millions of CHF | | |
|--------------------|-------|--------|
| | Sales | Profit |
| Aimmune | _ | (58) |
| Zenpep | 182 | 38 |
| Freshly | 71 | (3) |

The Group's total sales and profit for the year would have respectively amounted to CHF 84.8 billion and CHF 12.1 billion if the acquisitions have been effective January 1, 2020.

Acquisition-related costs

Acquisition-related costs have been recognized under other operating expenses in the income statement (see Note 4.2) for an amount of CHF 45 million (2019: CHF 11 million).

2.3 Disposals of businesses

In 2020, the gain on disposals of businesses is mainly composed of the gain on disposal of the US Ice Cream business (part of the Zone AMS operating segment) and the gain on disposal of the businesses of Herta charcuterie and Yinlu, included in Other.

In 2019, the gain on disposals of businesses is mainly composed of the disposal of the Nestlé Skin Health business.

| In millions of CHF | | | | | | |
|---|--------------|-------|-------|-----------------------|-------|---------|
| | | | 2020 | | | 2019 |
| | US Ice Cream | Other | Total | Nestlé Skin Health | Other | Total |
| Property, plant and equipment | 453 | 498 | 951 | 435 | 177 | 612 |
| Goodwill and intangible assets | 1 673 | 211 | 1 884 | 6 754 | 19 | 6 773 |
| Cash, cash equivalents and short-term investments | 1 | 114 | 115 | 376 | 25 | 401 |
| Inventories | 189 | 162 | 351 | 247 | 23 | 270 |
| Trade and other receivables, prepayments, accrued income | | | | | | |
| and other assets | 37 | 193 | 230 | 774 | 117 | 891 |
| Deferred tax assets | | _ | | 267 | 8 | 275 |
| Financial liabilities | (22) | (229) | (251) | (88) | (37) | (125) |
| Employee benefits and provisions | (1) | (100) | (101) | (336) | (9) | (345) |
| Other liabilities | (11) | (557) | (568) | (1 177) | (92) | (1 269) |
| Deferred tax liabilities | (85) | (40) | (125) | (729) | (3) | (732) |
| Non-controlling interests | | | | (70) | | (70) |
| Net assets disposed of or impaired after classification | | | | | | |
| as held for sale | 2 234 | 252 | 2 486 | 6 453 | 228 | 6 681 |
| Cumulative other comprehensive income items, net, | | | | | | |
| reclassified to income statement | 612 | 86 | 698 | 132 | | 132 |
| Profit/(loss) on disposals, net of disposal costs | | | | | | |
| and impairments of assets held for sale | 1 080 | 598 | 1 678 | 3 452 | (36) | 3 416 |
| Total disposal consideration, net of disposal costs | 3 926 | 936 | 4 862 | 10 037 | 192 | 10 229 |
| Cash and cash equivalents disposed of | (1) | (93) | (94) | (376) | (25) | (401) |
| Disposal costs not yet paid | 14 | 57 | 71 | 113 | 15 | 128 |
| Loan granted to Froneri ^(a) | (582) | _ | (582) | _ | _ | _ |
| Shares in Herta associate (a) | _ | (273) | (273) | _ | _ | _ |
| Consideration receivable | | (63) | (63) | _ | (21) | (21) |
| Receipt of consideration receivable on prior years' disposals | | (5) | (5) | _ | 24 | 24 |
| Cash inflow on disposals, net of disposal costs | 3 357 | 559 | 3 916 | 9 774 | 185 | 9 959 |

⁽a) See Note 14 Associates and joint ventures.

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, it is available for immediate sale in its current condition, an active plan of sale has commenced, and in the judgement of Group Management it is highly probable that the sale will be completed within 12 months. Immediately before the initial classification of the assets and disposal groups as held for sale, the carrying amounts of the assets (or all the assets and liabilities in the disposal groups) are measured in accordance with the applicable accounting policy. Assets held for sale and disposal groups are subsequently measured at the lower of their carrying amount and fair value less costs of disposal. Assets held for sale are no longer amortized or depreciated.

As of December 31, 2020, assets held for sale and liabilities directly associated with assets held for sale are mainly composed of the Nestlé Waters North America business which is part of the Zone AMS operating segment. This business was classified as held for sale following the decision of the Group to sharpen water focus on international, premium mineral and functional brands. The sale agreement has been signed on February 16, 2021 with a closing expected in the first semester of 2021. The estimated gain on disposal of CHF 1.1 billion, less recycling of about CHF 1.1 billion of cumulative currency translation losses currently recognized in other comprehensive income, would lead to a result close to nil being recognized under the heading Other operating income in the income statement in 2021. This estimate is based on the USD exchange rate at December 31, 2020 and the net assets held for sale of CHF 2.2 billion.

As of December 31, 2019, assets held for sale and liabilities directly associated with assets held for sale were mainly composed of the US Ice Cream business and the Herta charcuterie business. US Ice Cream and Herta charcuterie businesses have been disposed of in 2020.

The composition of assets held for sale and liabilities directly associated with assets held for sale at the end of 2020 and of 2019 are the following:

| In millions of CHF | | | | | | |
|---|--------------------------------|-------|-------|--------------|-------|-------|
| | | | 2020 | | | 2019 |
| | Nestlé Waters North America | Other | Total | US Ice Cream | Other | Total |
| Property, plant and equipment | 1 837 | 66 | 1 903 | 442 | 301 | 743 |
| Goodwill and intangible assets | 756 | 3 | 759 | 1 670 | | 1 670 |
| Inventories | 114 | 10 | 124 | 162 | 33 | 195 |
| Deferred taxes | | 3 | 3 | | 12 | 12 |
| Trade and other receivables, prepayments, accrued income | | | | | | |
| and other assets | 319 | 9 | 328 | 36 | 115 | 151 |
| Assets held for sale | 3 026 | 91 | 3 117 | 2 310 | 461 | 2 771 |
| Financial liabilities | (348) | _ | (348) | (21) | (17) | (38) |
| Deferred taxes | (98) | _ | (98) | (100) | (26) | (126) |
| Employee benefits and provisions | (222) | (5) | (227) | | (42) | (42) |
| Trade and other payables, accruals and deferred income | (96) | (12) | (108) | (11) | (172) | (183) |
| Other liabilities | (56) | (11) | (67) | | (4) | (4) |
| Liabilities directly associated with assets held for sale | (820) | (28) | (848) | (132) | (261) | (393) |
| Net assets held for sale | 2 206 | 63 | 2 269 | 2 178 | 200 | 2 378 |

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

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.

3. Analyses by segment

Nestlé is organized into three geographic zones as well as 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 (until beginning of October 2019). The Group has factories in 81 countries and sales in 186 countries and employs around 273 000 people.

Segment reporting

Basis for segmentation

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 as well as Globally Managed Businesses (GMB). Zones and GMB that meet the quantitative threshold of 10% of total sales, trading operating profit or assets for all operating segments, are presented on a stand-alone basis as reportable segment. 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).

Other business activities and operating segments, including GMB that do not meet the thresholds, like Nespresso, Nestlé Health Science and Nestlé Skin Health (until it was disposed of at the beginning of October 2019), are combined and presented in Other businesses. Following a change of business structure, effective as from January 1, 2020, Nestlé Waters 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 whereas it had previously been a reportable segment.

As most 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.

Revenue and results by segment

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 performance of the Group.

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

Invested capital and other information by segment

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, and uses the assets directly allocated to the segments to determine if a segment is reportable.

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

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

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

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

Capital additions represent the total cost incurred to acquire property, plant and equipment (including right-of-use assets under leases), intangible assets and goodwill, including those arising from business combinations.

Unallocated items

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

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

Revenue

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

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

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

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

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

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

3.1 Operating segments

Revenue and results

| | | | | | | | 2020 |
|------------------------------------|----------------------------|---|-----------------------------------|--|---|---------------------------------|---------------------------------------|
| | Sales (a) | Underlying Trading operating profit ^(b) | Trading operating profit | Net other trading income/(expenses) © | of which impairment of property, plant and equipment | of which restructuring costs | Depreciation and amortization |
| Zone EMENA | 20 226 | 3 766 | 3 575 | (191) | (43) | (162) | (852) |
| Zone AMS | 34 010 | 6 975 | 6 724 | (251) | (126) | _ | (1 106) |
| Zone AOA | 20 730 | 4 599 | 4 466 | (133) | (82) | (53) | (705) |
| Other businesses (d) | 9 377 | 1 841 | 1 796 | (45) | (28) | (4) | (530) |
| Unallocated items (e) | _ | (2 278) | (2 328) | (50) | (23) | (1) | (272) |
| Total | 84 343 | 14 903 | 14 233 | (670) | (302) | (220) | (3 465) |
| In millions of CUE | | | | | | | |
| In millions of CHF | | | | | | | 2019 * |
| In millions of CHF | Sales (a) | Underlying Trading operating profit ^(b) | Trading operating profit | Net other trading income/(expenses) © | of which impairment of property, plant and equipment | of which restructuring costs | |
| In millions of CHF | © sales 21 464 | Underlying Trading operating profit (b) | 2 Trading Profit Operating profit | Net other trading income/(expenses) (c) | of which impairment of property, plant and equipment | of which restructuring costs | tion |
| | | | | | | | Depreciation and amortization |
| Zone EMENA | 21 464 | 3 878 | 3 662 | (216) | (39) | (173) | Depreciation (648) and amortization |
| Zone EMENA Zone AMS | 21 464 37 828 | 3 878 7 608 | 3 662 6 646 | (216) (962) | (39) (217) | (173) (250) | Depreciation and amortization (1 326) |
| Zone EMENA Zone AMS Zone AOA | 21 464 37 828 22 119 | 3 878 7 608 4 977 | 3 662 6 646 3 724 | (216) (962) (1 253) | (39) (217) (518) | (173) (250) (80) | Depreciation (879) (1 326) (773) |

^{* 2019} adjusted following a change of business structure. Effective as from January 1, 2020, Nestlé Waters 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.

⁽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 in addition Nestlé Skin Health in 2019 (until beginning of October 2019).

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

Invested capital and other information

| In millions of CHF | | | | | 2020 |
|--|------------------|-----------------------------------|---|---|-------------------|
| | Invested capital | Goodwill and intangible assets | Impairment of goodwill and non-commercialized intangible assets (c) | Impairment of intangible assets ^(d) | Capital additions |
| Zone EMENA | 7 616 | 5 538 | _ | _ | 1 432 |
| Zone AMS | 11 175 | 21 594 | (31) | _ | 3 562 |
| Zone AOA | 4 117 | 11 270 | _ | _ | 941 |
| Other businesses (a) | 1 690 | 9 476 | (377) | (1) | 5 154 |
| Unallocated items (b) and inter-segment eliminations | 1 442 | 649 | _ | _ | 278 |
| Total | 26 040 | 48 527 | (408) | (1) | 11 367 |
| In millions of CHF | | | | | 2019 * |
| | Invested capital | Goodwill and intangible assets | Impairment of goodwill and non-commercialized intangible assets ^(c) | Impairment of intangible assets ^(d) | Capital additions |
| Zone EMENA | 8 390 | 5 545 | (140) | | 1 340 |
| Zone AMS | 12 320 | 24 122 | (64) | (189) | 2 367 |
| Zone AOA | 4 189 | 12 061 | (575) | (565) | 888 |
| Other businesses (a) | 1 781 | 5 949 | _ | (5) | 606 |
| Unallocated items (b) and inter-segment eliminations | 1 604 | 713 | _ | (15) | 281 |
| Total | 28 284 | 48 390 | (779) | (774) | 5 482 |

²⁰¹⁹ adjusted following a change of business structure. Effective as from January 1, 2020, Nestlé Waters 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.

⁽a) Mainly Nespresso, Nestlé Health Science and in addition Nestlé Skin Health in 2019 (until beginning of October 2019).(b) Refer to the Segment reporting accounting policies above for the definition of unallocated items.

⁽c) Included in Operating profit.

⁽d) Included in Trading operating profit.

3.2 Products

Revenue and results

| In millions of CHF | | | | | | 2020 |
|---|--|--|--|---|---|--|
| | 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 | 22 256 | 5 008 | 4 824 | (184) | (93) | (38) |
| Water | 6 421 | 639 | 522 | (117) | (19) | (77) |
| Milk products and Ice cream | 11 007 | 2 652 | 2 615 | (37) | (20) | (5) |
| Nutrition and Health Science | 12 160 | 2 640 | 2 490 | (150) | (55) | (37) |
| Prepared dishes and cooking aids | 11 523 | 2 171 | 2 147 | (24) | (24) | (40) |
| Confectionery | 6 975 | 990 | 874 | (116) | (67) | (28) |
| PetCare | 14 001 | 3 081 | 3 089 | 8 | (1) | 6 |
| Unallocated items (c) | _ | (2 278) | (2 328) | (50) | (23) | (1) |
| Total | 84 343 | 14 903 | 14 233 | (670) | (302) | (220) |
| In millions of CHF | | | | | | 2019 * |
| | | ding t (a) | | (p) (s | | |
| | Sales | Underlying Trading operating profit | 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 | <u>s</u> es S 23 221 | Underlying Trace operating profit | Trading profit operating profit | Net other trading income/(expense: | of which impairment of property, plant and equipment | of which setructuring costs |
| Powdered and Liquid Beverages Water | | | | | | (63) |
| | 23 221 | 5 197 | 4 701 | (496) | (180) | (63) (73) |
| Water | 23 221 7 391 | 5 197 914 | 4 701 748 | (496) (166) | (180) (21) | (63) (73) (106) |
| Water Milk products and Ice cream | 23 221 7 391 13 268 | 5 197 914 2 706 | 4 701 748 1 678 | (496) (166) (1 028) | (180) (21) (415) | (63) (73) (106) (70) |
| Water Milk products and Ice cream Nutrition and Health Science | 23 221 7 391 13 268 14 990 | 5 197 914 2 706 3 314 | 4 701 748 1 678 3 092 | (496) (166) (1 028) (222) | (180) (21) (415) (32) | (63) (73) (106) (70) (124) |
| Water Milk products and Ice cream Nutrition and Health Science Prepared dishes and cooking aids | 23 221 7 391 13 268 14 990 12 188 | 5 197 914 2 706 3 314 2 170 | 4 701 748 1 678 3 092 1 857 | (496) (166) (1 028) (222) (313) | (180) (21) (415) (32) (107) | (63) (73) (106) (70) (124) (47) |
| Water Milk products and Ice cream Nutrition and Health Science Prepared dishes and cooking aids Confectionery | 23 221 7 391 13 268 14 990 12 188 7 888 | 5 197 914 2 706 3 314 2 170 1 332 | 4 701 748 1 678 3 092 1 857 1 241 | (496) (166) (1 028) (222) (313) (91) | (180) (21) (415) (32) (107) (18) | |

^{* 2019} adjusted following a change of business structure. Effective as from January 1, 2020, Nestlé Waters 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.

⁽a) Trading operating profit before Net other trading income/(expenses).(b) Included in Trading operating profit.(c) Refer to the Segment reporting accounting policies above for the definition of unallocated items.

Invested capital and other information

| In millions of CHF | | | | 2020 |
|---|--|---|---|---|
| | Invested capital | Goodwill and intangible assets | Impairment of goodwill and non-commercialized intangible assets ^(b) | Impairment of intangible assets (c) |
| Powdered and Liquid Beverages | 5 245 | 7 519 | (372) | (1) |
| Water | 3 209 | 1 313 | _ | _ |
| Milk products and Ice cream | 2 356 | 1 336 | _ | _ |
| Nutrition and Health Science | 4712 | 19 242 | (5) | _ |
| Prepared dishes and cooking aids | 2 988 | 5 275 | (31) | _ |
| Confectionery | 2 596 | 717 | _ | _ |
| PetCare | 4 698 | 9 786 | _ | _ |
| Unallocated items (a) and intra-group eliminations | 1 781 | 1 975 | _ | _ |
| Total | 27 585 | 47 163 | (408) | (1) |
| In millions of CHE | | | | |
| In millions of CHF | | | | 2019 * |
| In millions of CHF | Invested capital | Goodwill and intangible assets | Impairment of goodwill and non-commercialized intangible assets ^(b) | Impairment of total contrangible assets (c) |
| In millions of CHF Powdered and Liquid Beverages | Invested capital | © Goodwill and intangible assets | Impairment of goodwill and non-commercialized intangible assets (b) | Impairment of intangible assets ^(c) |
| | | | | 1) Impairment of intangible assets (c) |
| Powdered and Liquid Beverages | 6 223 | 8 300 | (34) | (1) Impairment of (2) Intrangible assets (4) |
| Powdered and Liquid Beverages Water | 6 223 3 351 | 8 300 1 464 | (34) (102) | (1) Impairment of (2) Intrangible assets (4) |
| Powdered and Liquid Beverages Water Milk products and Ice cream Nutrition and Health Science | 6 223 3 351 3 295 | 8 300 1 464 2 818 | (34) (102) | (394) Impairment of intangible assets |
| Powdered and Liquid Beverages Water Milk products and Ice cream | 6 223 3 351 3 295 5 445 | 8 300 1 464 2 818 23 960 | (34) (102) (33) — | (34) Impairment of intangible assets (a) |
| Powdered and Liquid Beverages Water Milk products and Ice cream Nutrition and Health Science Prepared dishes and cooking aids | 6 223 3 351 3 295 5 445 3 258 | 8 300 1 464 2 818 23 960 5 345 | (34) (102) (33) — (10) | (34) (4) (5) (6) (6) (7) (7) (7) (8) (7) (9) (9) (9) (9) (9) (9) (9) (9) (9) (9 |
| Powdered and Liquid Beverages Water Milk products and Ice cream Nutrition and Health Science Prepared dishes and cooking aids Confectionery | 6 223 3 351 3 295 5 445 3 258 2 693 | 8 300 1 464 2 818 23 960 5 345 1 242 | (34) (102) (33) — (10) (595) | |

^{* 2019} adjusted following a change of business structure. Effective as from January 1, 2020, Nestlé Waters 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.

⁽a) Refer to the Segment reporting accounting policies above for the definition of unallocated items.(b) Included in Operating profit.(c) Included in Trading operating profit.

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

| In millions of CHF | | |
|--|--------|---------|
| | 2020 | 2019 |
| Underlying Trading operating profit (a) as per Note 3.1 | 14 903 | 16 260 |
| Net other trading income/(expenses) | (670) | (2 586) |
| Trading operating profit | 14 233 | 13 674 |
| Impairment of goodwill and non-commercialized intangible assets | (408) | (779) |
| Net other operating income/(expenses) excluding impairment of goodwill | | |
| and non-commercialized intangible assets | 971 | 3 183 |
| Operating profit | 14 796 | 16 078 |
| Net financial income/(expense) | (874) | (1 016) |
| Profit before taxes, associates and joint ventures | 13 922 | 15 062 |

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

3.3b Reconciliation from invested capital and goodwill and intangible assets to total assets

| In millions of CHF | | |
|--|---------|---------|
| | 2020 | 2019 |
| Invested capital as per Note 3.1 | 26 040 | 28 284 |
| Liabilities included in invested capital | 23 123 | 23 364 |
| Subtotal | 49 163 | 51 648 |
| Intangible assets and goodwill as per Note 3.1 (a) | 48 527 | 48 390 |
| Other assets | 26 338 | 27 902 |
| Total assets | 124 028 | 127 940 |

⁽a) Including Intangible assets and goodwill classified as assets held for sale of CHF 759 million (2019: CHF 1670 million), see Note 2.4.

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

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

| EMENA 24 541 26 499 France 3 946 4 423 United Kingdom 2 883 2 917 Germany 2 445 2 632 Russia 1 555 1 703 Italy 1 508 1 674 Spain 1 409 1 512 Switzerland 1 134 1 164 Rest of EMENA 9 661 10 474 AMS 37728 42 281 United States 26 014 28 831 Brazil 2 709 3 647 Wexico 2 564 2 934 Canada 2 122 2 182 Rest of AMS 4 238 4 687 AOA 2 2074 2 3 788 Greater China Region 5 986 6 913 Philippines 2 769 2 643 Japan 1 607 1 616 India 1 607 1 616 Australia 1 394 1 468 Rest of AOA 8 713 9 281 | In millions of CHF | 2020 | 2019 |
|---|----------------------------|--------|--------|
| France 3 946 4 423 United Kingdom 2 883 2 917 Germany 2 445 2 632 Russia 1 555 1 703 Italy 1 508 1 674 Spain 1 409 1 512 Switzerland 1 134 1 164 Rest of EMENA 9 661 10 474 AMS 37 728 42 281 United States 26 014 28 831 Brazil 2 60 14 28 831 Brazil 2 790 3 647 Mexico 2 564 2934 Alox 2 122 2 182 Rest of AMS 4 238 4 687 AOA 2 2074 23 788 Greater China Region 5 986 6 913 Philippines 2 769 2 643 Japan 1 607 1 816 India 1 607 1 816 India 1 607 1 816 Australia 1 8713 9 281 Total sales </th <th>EMENA</th> <th></th> <th></th> | EMENA | | |
| Germany 2 445 2 632 Russia 1 555 1 703 Italy 1 508 1 674 Spain 1 409 1 512 Switzerland 1 134 1 164 Rest of EMENA 9 661 10 474 AMS 37 728 42 281 United States 26 014 28 831 Brazil 2 790 3 647 Mexico 2 564 2 934 Canada 2 122 2 182 Rest of AMS 4 238 4 687 AOA 22 074 23 788 Greater China Region 5 986 6 913 Philippines 2 769 2 643 Japan 1 607 1 816 India 1 605 1 605 Australia 1 394 1 488 Rest of AOA 8 713 9 281 Total sales 84 343 92 568 of which developed markets 49 379 53 732 | France | | 4 423 |
| Germany 2 445 2 632 Russia 1 555 1 703 Italy 1 508 1 674 Spain 1 409 1 512 Switzerland 1 134 1 164 Rest of EMENA 9 661 10 474 AMS 37 728 42 281 United States 26 014 28 831 Brazil 2 790 3 647 Mexico 2 564 2 934 Canada 2 122 2 182 Rest of AMS 4 238 4 687 AOA 22 074 23 788 Greater China Region 5 986 6 913 Philippines 2 769 2 643 Japan 1 607 1 816 India 1 605 1 605 Australia 1 394 1 488 Rest of AOA 8 713 9 281 Total sales 84 343 92 568 of which developed markets 49 379 53 732 | United Kingdom | 2 883 | 2 917 |
| Italy 1508 1674 Spain 1409 1512 Switzerland 1134 1164 Rest of EMENA 9661 10 474 AMS 37728 42 281 United States 26 014 28 31 Brazil 2790 3 647 Mexico 2 564 2 934 Canada 2 122 2 182 Rest of AMS 4 238 4 687 AOA 22 074 23 788 Greater China Region 5 98 6 913 Philippines 2 769 2 643 Japan 1 607 1 816 India 1 607 1 816 Australia 1 905 1 667 Australia 3 731 9 281 Total sales 84 343 92 568 of which developed markets 49 379 53 732 | Germany | 2 445 | 2 632 |
| Spain 1 409 1 512 Switzerland 1 134 1 164 Rest of EMENA 9 661 10 474 AMS 37 728 42 281 United States 26 014 28 831 Brazil 2 790 3 647 Mexico 2 564 2 934 Canada 2 122 2 182 Rest of AMS 4 238 4 687 AOA 2 074 23 788 Greater China Region 5 986 6 913 Philippines 2 769 2 643 Japan 1 607 1 816 India 1 607 1 816 Australia 1 394 1 468 Rest of AOA 8 713 9 281 Total sales 84 343 92 568 of which developed markets 49 379 53 732 | Russia | 1 555 | 1 703 |
| Switzerland 1 134 1 164 Rest of EMENA 9 661 10 474 AMS 37 728 42 281 United States 26 014 28 331 Brazil 2 790 3 647 Mexico 2 564 2 934 Canada 2 122 2 182 Rest of AMS 4 238 4 687 AOA 22 074 23 788 Greater China Region 5 986 6 913 Philippines 2 769 2 643 Japan 1 607 1 816 India 1 605 1 667 Australia 1 394 1 468 Rest of AOA 8 713 9 281 Total sales 84 343 92 568 of which developed markets 49 379 53 732 | Italy | 1 508 | 1 674 |
| Rest of EMENA 9 661 10 474 AMS 37 728 42 281 United States 26 014 28 331 Brazil 2 790 3 647 Mexico 2 564 2 934 Canada 2 122 2 182 Rest of AMS 4 238 4 687 AOA 22 074 23 788 Greater China Region 5 986 6 913 Philippines 2 769 2 643 Japan 1 607 1 816 India 1 605 1 667 Australia 1 394 1 468 Rest of AOA 8 713 9 281 Total sales 84 343 92 568 of which developed markets 49 379 53 732 | Spain | 1 409 | 1 512 |
| AMS 37728 42 281 United States 26 014 28 831 Brazil 2 790 3 647 Mexico 2 564 2 934 Canada 2 122 2 182 Rest of AMS 4 238 4 687 AOA 22 074 23 788 Greater China Region 5 986 6 913 Philippines 2 769 2 643 Japan 1 607 1 816 India 1 605 1 667 Australia 1 394 1 468 Rest of AOA 8 713 9 281 Total sales 84 343 92 568 of which developed markets 49 379 53 732 | Switzerland | 1 134 | 1 164 |
| United States 26 014 28 831 Brazil 2 790 3 647 Mexico 2 564 2 934 Canada 2 122 2 182 Rest of AMS 4 238 4 687 AOA 22 074 23 788 Greater China Region 5 986 6 913 Philippines 2 769 2 643 Japan 1 607 1 816 India 1 605 1 667 Australia 1 394 1 468 Rest of AOA 8 713 9 281 Total sales 84 343 92 568 of which developed markets 49 379 53 732 | Rest of EMENA | 9 661 | 10 474 |
| Brazil 2790 3 647 Mexico 2 564 2 934 Canada 2 122 2 182 Rest of AMS 4 238 4 687 AOA 22 074 23 788 Greater China Region 5 986 6 913 Philippines 2 769 2 643 Japan 1 607 1 816 India 1 605 1 667 Australia 1 394 1 468 Rest of AOA 8 713 9 281 Total sales 84 343 92 568 of which developed markets 49 379 53 732 | AMS | 37 728 | 42 281 |
| Mexico 2 564 2 934 Canada 2 122 2 182 Rest of AMS 4 238 4 687 AOA 22 074 23 788 Greater China Region 5 986 6 913 Philippines 2 769 2 643 Japan 1 607 1 816 India 1 605 1 667 Australia 1 394 1 468 Rest of AOA 8 713 9 281 Total sales 84 343 92 568 of which developed markets 49 379 53 732 | United States | 26 014 | 28 831 |
| Canada 2 122 2 182 Rest of AMS 4 238 4 687 AOA 22 074 23 788 Greater China Region 5 986 6 913 Philippines 2 769 2 643 Japan 1 607 1 816 India 1 605 1 667 Australia 1 394 1 468 Rest of AOA 8 713 9 281 Total sales 84 343 92 568 of which developed markets 49 379 53 732 | Brazil | 2 790 | 3 647 |
| Rest of AMS 4 238 4 687 AOA 22 074 23 788 Greater China Region 5 986 6 913 Philippines 2 769 2 643 Japan 1 607 1 816 India 1 605 1 667 Australia 1 394 1 468 Rest of AOA 8 713 9 281 Total sales 84 343 92 568 of which developed markets 49 379 53 732 | Mexico | 2 564 | 2 934 |
| AOA 22 074 23 788 Greater China Region 5 986 6 913 Philippines 2 769 2 643 Japan 1 607 1 816 India 1 605 1 667 Australia 1 394 1 468 Rest of AOA 8 713 9 281 Total sales 84 343 92 568 of which developed markets 49 379 53 732 | Canada | 2 122 | 2 182 |
| Greater China Region 5 986 6 913 Philippines 2 769 2 643 Japan 1 607 1 816 India 1 605 1 667 Australia 1 394 1 468 Rest of AOA 8 713 9 281 Total sales 84 343 92 568 of which developed markets 49 379 53 732 | Rest of AMS | 4 238 | 4 687 |
| Philippines 2 769 2 643 Japan 1 607 1 816 India 1 605 1 667 Australia 1 394 1 468 Rest of AOA 8 713 9 281 Total sales 84 343 92 568 of which developed markets 49 379 53 732 | AOA | 22 074 | 23 788 |
| Japan 1 607 1 816 India 1 605 1 667 Australia 1 394 1 468 Rest of AOA 8 713 9 281 Total sales 84 343 92 568 of which developed markets 49 379 53 732 | Greater China Region | 5 986 | 6 913 |
| India 1 605 1 667 Australia 1 394 1 468 Rest of AOA 8 713 9 281 Total sales 84 343 92 568 of which developed markets 49 379 53 732 | Philippines | 2 769 | 2 643 |
| Australia 1 394 1 468 Rest of AOA 8 713 9 281 Total sales 84 343 92 568 of which developed markets 49 379 53 732 | Japan | 1 607 | 1 816 |
| Rest of AOA 8 713 9 281 Total sales 84 343 92 568 of which developed markets 49 379 53 732 | India | 1 605 | 1 667 |
| Total sales 84 343 92 568 of which developed markets 49 379 53 732 | Australia | 1 394 | 1 468 |
| of which developed markets 49 379 53 732 | Rest of AOA | 8 713 | 9 281 |
| | Total sales | 84 343 | 92 568 |
| of which emerging markets 34 964 38 836 | of which developed markets | 49 379 | 53 732 |
| | of which emerging markets | 34 964 | 38 836 |

3.5 Geography

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

The analysis of sales is stated by customer location.

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

| In millions of CHF | | | | |
|--------------------|--------|--------------------|--------|--------------------|
| | | 2020 | | 2019 |
| | Sales | Non-current assets | | Non-current assets |
| United States | 26 014 | 27 376 | 28 831 | 30 344 |
| Switzerland | 1 134 | 18 360 | 1 164 | 15 251 |
| Rest of the world | 57 195 | 27 872 | 62 573 | 29 887 |
| Total | 84 343 | 73 608 | 92 568 | 75 482 |

3.6 Customers

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

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

Other trading income/(expenses)

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

Restructuring costs are restricted to dismissal indemnities and employee benefits paid to terminated employees upon the reorganization of a business or function.

Other operating income/(expenses)

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

4.1 Net other trading income/(expenses)

| In millions of CHF | | | |
|---|-------|-------|---------|
| | Notes | 2020 | 2019 |
| Other trading income | | 238 | 163 |
| | | | |
| Restructuring costs | | (220) | (553) |
| Impairment of property, plant and equipment and intangible assets (a) | 8/9 | (303) | (1 557) |
| Litigations and onerous contracts | | (239) | (483) |
| Miscellaneous trading expenses | | (146) | (156) |
| Other trading expenses | | (908) | (2 749) |
| | | | |
| Total net other trading income/(expenses) | | (670) | (2 586) |

⁽a) Excluding non-commercialized intangible assets.

In 2019, other trading expenses were mainly composed of:

- CHF 1024 million of impairment of property, plant and equipment and intangible assets related to the Yinlu cash generating unit (see Note 9); and
- CHF 461 million of one-off costs representing impairment charges related to property, plant, restructuring costs, and onerous contracts and other expenses related to the exit in 2019 of the Direct-Store-Delivery (DSD) network in the USA for Frozen Pizza and Ice Cream.

4.2 Net other operating income/(expenses)

| Total net other operating income/(expenses) | | 563 | 2 404 |
|---|-------|---------|---------|
| | | | |
| Other operating expenses | | (1 356) | (1 313) |
| Miscellaneous operating expenses (a) | | (822) | (359) |
| Impairment of goodwill and non-commercialized intangible assets | 9 | (408) | (779) |
| Loss on disposal of businesses | 2 | (126) | (175) |
| | | | |
| Other operating income | | 1 919 | 3 717 |
| Miscellaneous operating income | | 115 | 126 |
| Profit on disposal of businesses | 2 | 1 804 | 3 591 |
| | Notes | 2020 | 2019 |
| In millions of CHF | | | |

⁽a) In 2020, miscellaneous operating expenses include mainly expenses of transitional services provided to disposed businesses, and costs related to COVID-19 (see Note 21.4).

In 2020, profit on disposal of businesses mainly relates to the result of disposal of the US Ice Cream business of CHF 1080 million and in 2019 to the result of disposal of the Nestlé Skin Health business of CHF 3452 million (see Note 2.3).

In 2019, impairment of goodwill and non-commercialized intangible assets mainly included a goodwill impairment of the Hsu Fu Chi cash generating unit of CHF 502 million (see Note 9).

5. Net financial income/(expense)

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

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

| Net financial income/(expense) | | (874) | (1 016) |
|--|-------|-------|---------|
| Other financial income/(expense) | | 3 | (2) |
| | | | |
| Net interest income/(expense) on defined benefit plans | 10 | (123) | (149) |
| Interest expense on defined benefit plans | , | (152) | (188) |
| Interest income on defined benefit plans | | 29 | 39 |
| | | | |
| Net financing cost of net financial debt | | (754) | (865) |
| Interest expense | | (831) | (1 026) |
| Interest income | | 77 | 161 |
| | Notes | 2020 | 2019 |
| In millions of CHF | | | |
| | | | |

6. Inventories

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

| In millions of CHF | | |
|---|--------|-------|
| | 2020 | 2019 |
| Raw materials, work in progress and sundry supplies | 4 521 | 4 116 |
| Finished goods | 5 822 | 5 472 |
| Allowance for write-down to net realizable value | (242) | (245) |
| | 10 101 | 9 343 |

Inventories amounting to CHF 283 million (2019: CHF 278 million) are pledged as security for financial liabilities.

Inventories amounting to CHF 41 443 million (2019: CHF 45 108 million) were recognized as an expense during the year and included in Cost of goods sold.

7. Trade and other receivables/payables

7.1 Trade and other receivables

Recognition and measurement

Trade and other receivables are recognized initially at their transaction price and subsequently measured at amortized cost less loss allowances. Other receivables are comprised mainly of receivables for indirect taxes.

Expected credit losses

The Group applies the IFRS 9 simplified approach to measuring expected credit losses (ECLs) for trade receivables at an amount equal to lifetime ECLs. The ECLs on trade receivables are calculated based on actual credit loss experience over the preceding three to five years on the total balance of non-credit impaired trade receivables, adjusted considering forward-looking information where relevant (such as a significant deterioration in the economic environment). The Group's credit loss experience has shown that aging of receivable balances is primarily due to negotiations about variable consideration.

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

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

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

| In millions of CHF | | | | | | |
|---|-----------------------------|--------------------------------|--------|-----------------------------|--------------------------------|--------|
| | | | 2020 | | | 2019 |
| | Gross carrying amount | Expected credit loss allowance | Total | Gross carrying amount | Expected credit loss allowance | Total |
| Trade receivables (not credit impaired) | 8 146 | (59) | 8 087 | 9 463 | (55) | 9 408 |
| Other receivables (not credit impaired) | 2 682 | (34) | 2 648 | 2 375 | (34) | 2 341 |
| Credit impaired trade and other receivables | 224 | (213) | 11 | 238 | (221) | 17 |
| Total | 11 052 | (306) | 10 746 | 12 076 | (310) | 11 766 |

The five major customers represent 13% (2019: 13%) of trade and other receivables, none of them individually exceeding 7% (2019: 7%).

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

7.2 Trade and other payables by type

Recognition and measurement

Trade and other payables are recognized initially at their transaction price and subsequently measured at amortized cost.

Supplier finance arrangements

The Group participates in supplier finance arrangements under which suppliers may elect to receive early payment from financial institutions by factoring their receivables from the Group. The arrangements avoid concentration of liquidity risk, since the due dates of the payments by the Group are based on the agreed trade terms with the suppliers, are compliant with the applicable regulations and remain consistent with the normal operating cycle of its business.

The Group continues to present invoices eligible to be settled through these programs as Trade payables considering that the original liability is neither legally released nor substantially modified on entering into such arrangements. Related payments are included within operating cash flows because they remain operational in nature.

| In millions of CHF | | |
|---|--------|--------|
| | 2020 | 2019 |
| Due within one year | | |
| Trade payables | 13 802 | 14 017 |
| Social security and sundry taxes and levies | 1 946 | 1 900 |
| Other payables | 2 767 | 2 886 |
| | 18 515 | 18 803 |

8. Property, plant and equipment

Property, plant and equipment comprises owned and leased assets.

| In millions of CHF | | | |
|---------------------------------------|-------|--------|--------|
| | Notes | 2020 | 2019 |
| Property, plant and equipment – owned | 8.1 | 23 230 | 25 552 |
| Right-of-use assets – leased | 8.2b | 2 610 | 3 210 |
| | | 25 840 | 28 762 |

8.1 Owned assets

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

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

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

Land is not depreciated.

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

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

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

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

In millions of CHF

| | Land and buildings | Machinery and equipment | Tools, furniture and other equipment | Vehicles | Total |
|--|-----------------------|-------------------------------|---|----------|----------|
| Net carrying amount | | | | | |
| At January 1, 2020 | 10 895 | 12 427 | 2 091 | 139 | 25 552 |
| Capital expenditure (a) | 1 124 | 2 217 | 700 | 27 | 4 068 |
| Acquisitions through business combinations | 52 | 54 | 10 | 1 | 117 |
| Depreciation | (420) | (1 366) | (637) | (33) | (2 456) |
| Impairments | (87) | (160) | (22) | (11) | (280) |
| Disposals | (22) | (38) | (23) | (3) | (86) |
| Classification (to)/from held for sale and disposals of businesses | (892) | (737) | (240) | (13) | (1 882) |
| Currency retranslations | (894) | (841) | (52) | (16) | (1 803) |
| At December 31, 2020 | 9 756 | 11 556 | 1 827 | 91 | 23 230 |
| Gross value | 15 500 | 27 745 | 6 623 | 316 | 50 184 |
| Accumulated depreciation and impairments | (5 744) | (16 189) | (4 796) | (225) | (26 954) |
| Net carrying amount | | | | | |
| At January 1, 2019 | 11 469 | 12 959 | 2 248 | 161 | 26 837 |
| Capital expenditure (a) | 1 066 | 1 929 | 654 | 43 | 3 692 |
| Acquisitions through business combinations | _ | (5) | 1 | 1 | (3) |
| Depreciation | (433) | (1 505) | (736) | (58) | (2 732) |
| Impairments (b) | (358) | (265) | (36) | (1) | (660) |
| Disposals | (67) | (47) | (28) | (9) | (151) |
| Classification (to)/from held for sale and disposals of businesses | (371) | (361) | (54) | 3 | (783) |
| Currency retranslations | (411) | (278) | 42 | (1) | (648) |
| At December 31, 2019 | 10 895 | 12 427 | 2 091 | 139 | 25 552 |
| Gross value | 17 395 | 30 904 | 7 352 | 427 | 56 078 |
| Accumulated depreciation and impairments | (6 500) | (18 477) | (5 261) | (288) | (30 526) |

⁽a) Including borrowing costs.

At December 31, 2020, property, plant and equipment include CHF 3285 million of assets under construction (2019: CHF 1988 million). Net property, plant and equipment of CHF 150 million are pledged as security for financial liabilities (2019: CHF 163 million).

At December 31, 2020, the Group was committed to expenditure amounting to CHF 2182 million (2019: CHF 695 million).

⁽b) Total includes CHF 459 million related to the Yinlu CGU (see Note 4.1 and 9.1.1).

Impairment of property, plant and equipment

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

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

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

8.2 Leases - Group as a lessee

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

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

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

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

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

8.2a Description of lease activities

Real estate leases

The Group leases land and buildings for its office and warehouse space and retail stores. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leases are typically made for a fixed period of 5–15 years and may include extension options which provide operational flexibility. If the Group exercised all extension options not currently included in the lease liability, the additional payments would amount to CHF 0.7 billion (undiscounted) at December 31, 2020.

Vehicles leases

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

Other leases

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

8.2b Right-of-use assets

| In millions of CHF | | | | |
|---|--------------------|----------|-------|-------|
| | Land and buildings | Vehicles | Other | Total |
| Net carrying amount | | _ | | |
| At January 1, 2020 | 2 727 | 291 | 192 | 3 210 |
| Additions | 448 | 150 | 69 | 667 |
| Depreciation | (481) | (116) | (74) | (671) |
| Impairments | (7) | (15) | _ | (22) |
| Classification (to)/from held for sale and change of scope of | | | | |
| consolidation, net | (260) | (108) | (16) | (384) |
| Currency retranslations and others | (163) | (16) | (11) | (190) |
| At December 31, 2020 | 2 264 | 186 | 160 | 2 610 |
| Net carrying amount | | | | |
| At January 1, 2019 | 2 523 | 428 | 168 | 3 119 |
| Additions | 710 | 176 | 116 | 1 002 |
| Depreciation | (535) | (142) | (79) | (756) |
| Impairments | (21) | (102) | _ | (123) |
| Classification (to)/from held for sale and change of scope of | | | | |
| consolidation, net | 91 | (66) | (8) | 17 |
| Currency retranslations and others | (41) | (3) | (5) | (49) |
| At December 31, 2019 | 2 727 | 291 | 192 | 3 210 |

8.2c Other lease disclosures

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

The Group incurred interest expense on lease liabilities of CHF 79 million (2019: CHF 98 million). The expense relating to short-term leases and variable lease payments not included in the measurement of lease liabilities is not significant. The total cash outflow for leases amounted to CHF 961 million (2019: CHF 1141 million).

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

9. Goodwill and intangible assets

Goodwill

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

Intangible assets

This heading includes intangible assets that are internally generated or acquired, either separately or in a business combination, when they are identifiable and can be reliably measured. Internally generated intangible assets (mainly management information system software) are capitalized provided that there is an identifiable asset that will be useful in generating future benefits in terms of savings, economies of scale, etc. Payments made to third parties in order to in-license or acquire intellectual property rights, compounds and products are capitalized as non-commercialized intangible assets, as they are separately identifiable and are expected to generate future benefits.

Non-commercialized intangible assets are not amortized, but tested for impairment (see Impairment of goodwill and intangible assets below). Any impairment charge is recorded in the consolidated income statement under Other operating expenses. They are reclassified as commercialized intangible assets once development is complete, usually when approval for sales has been granted by the relevant regulatory authority.

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

Finite life intangible assets are amortized over the shorter of their contractual or useful economic lives. They comprise mainly management information systems, and commercialized patents and rights to carry on an activity (e.g. exclusive rights to sell products or to perform a supply activity). They are amortized assuming a zero residual value, either on a straight-line basis or in limited cases using an output method if this better reflects the pattern in which the asset's future economic benefits are expected to be consumed. Useful lives are as follows: management information systems over 3 to 8 years; other finite intangible assets over shorter of the estimated useful life or the related contractual period, from 5 to 25 years. Useful lives and residual values are reviewed annually. Amortization of finite life intangible assets starts when they are available for use and is allocated to the appropriate headings of expenses by function in the income statement. Any impairment charge is recorded in the consolidated income statement under Other trading expenses.

Research and development

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

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

| In millions of CHF | | | | | | |
|--|----------|---|-----------------------------------|--------------------------------------|-------------------------------|-------------------------------------|
| | Goodwill | Brands and intellectual property rights | Operating rights and others | Management information systems | Total intangible assets | of which internally generated |
| Net carrying amount | | | | | | |
| At January 1, 2020 | 28 896 | 11 306 | 5 328 | 1 190 | 17 824 | 1 080 |
| Expenditure | | 5 | 51 | 232 | 288 | 191 |
| Acquisitions through business combinations | 1 963 | 3 505 | 678 | 7 | 4 190 | _ |
| Amortization | | (26) | (59) | (253) | (338) | (220) |
| Impairments ^(a) | (402) | | (6) | (1) | (7) | (1) |
| Disposals | | (7) | (2) | (2) | (11) | _ |
| Classification (to)/from held for sale and disposals of businesses | (706) | (130) | (152) | (94) | (376) | (69) |
| Currency retranslations | (2 131) | (875) | (512) | (35) | (1 422) | (32) |
| At December 31, 2020 | 27 620 | 13 778 | 5 326 | 1 044 | 20 148 | 949 |
| of which indefinite useful life (b) | _ | 12 231 | 4 261 | _ | 16 492 | _ |
| of which non-commercialized intangible assets | | 626 | 199 | | 825 | |
| At December 31, 2020 | | | | | | |
| Gross value | 31 607 | 13 900 | 5 668 | 4 957 | 24 525 | 4 588 |
| Accumulated amortization and impairments | (3 987) | (122) | (342) | (3 913) | (4 377) | (3 639) |
| Net carrying amount | | | | | | |
| At January 1, 2019 | 31 702 | 12 195 | 5 349 | 1 090 | 18 634 | 913 |
| Expenditure | | 50 | 112 | 354 | 516 | 321 |
| Acquisitions through business combinations | 110 | 3 | 27 | 1 | 31 | _ |
| Amortization | _ | (2) | (44) | (179) | (225) | (141) |
| Impairments (c) | (779) | (705) | (14) | (55) | (774) | (54) |
| Disposals | | (3) | (13) | (1) | (17) | (1) |
| Classification (to)/from held for sale and disposals of businesses | (1 713) | (40) | 3 | (13) | (50) | (7) |
| Currency retranslations | (424) | (192) | (92) | (7) | (291) | 49 |
| At December 31, 2019 | 28 896 | 11 306 | 5 328 | 1 190 | 17 824 | 1 080 |
| of which indefinite useful life (b) | | 11 276 | 4 690 | | 15 966 | |
| of which non-commercialized intangible assets | | 25 | 187 | | 212 | |
| At December 31, 2019 | | | | | | |
| Gross value | 33 596 | 12 109 | 5 717 | 5 301 | 23 127 | 4 872 |
| Accumulated amortization and impairments | (4 700) | (803) | (389) | (4 111) | (5 303) | (3 792) |

⁽a) Of which CHF 6 million of non-commercialized intangible assets.(b) Of which CHF 4243 million (2019: CHF 4651 million) are perpetual rights to market, sell and distribute certain Starbucks' consumer and foodservice products globally, classified under the caption Operating rights and others.

⁽c) Total impairment of goodwill of CHF 779 million includes CHF 502 million related to Hsu Fu Chi in Zone AOA (see Note 4.2). Total impairment of brands and intellectual property rights of CHF 705 million includes CHF 565 million related to the Yinlu CGU (see Note 4.1 and 9.1.1).

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

As of December 31, 2020, the Group's committed payments (undiscounted and not risk-adjusted) and their estimated timing are:

| In millions of CHF | | | | | | |
|------------------------------|---------------------------|------------------------------|-------|---------------------------|------------------------------------|-------|
| | | | 2020 | | | 2019 |
| | Unconditional commitments | Potential milestone payments | Total | Unconditional commitments | Potential milestone payments | Total |
| Within one year | | 80 | 80 | _ | 74 | 74 |
| In the second year | _ | 85 | 85 | _ | 33 | 33 |
| In the third and fourth year | _ | 222 | 222 | _ | 91 | 91 |
| Thereafter | _ | 870 | 870 | _ | 557 | 557 |
| Total | _ | 1 257 | 1 257 | | 755 | 755 |
| of which related parties | | 48 | 48 | | 487 | 487 |

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

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

The annual impairment tests are performed at the same time each year and at the cash generating unit (CGU) level. The Group defines its CGU for goodwill impairment testing based on the way that it monitors and derives economic benefits from the acquired goodwill. In 2020, the Group reviewed the CGUs identified for testing goodwill to re-align them with the way in which management monitors goodwill and manages the operations. This as a result of the change in business organization and operating segments related to Nestlé Waters described in Note 3 which was announced in mid-October 2019 and took effect on January 1, 2020, and similar changes to formerly Globally Managed Businesses (GMB) over the past several years. As a consequence of this review, with effect from January 1, 2020, the CGUs are generally defined at the level of the product category per Zone, or at the level of the GMB if the products are managed on a global basis. The number of CGUs identified for testing goodwill declined from more than 50 in 2019 to more than 30 in 2020.

For indefinite life intangible assets, the Group defines its CGU as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Finally, the CGU for impairment testing of non-commercialized intangible assets is defined at the level of the intangible asset itself.

The impairment tests are performed by comparing the carrying value of the assets of these CGU with their recoverable amount, usually based on their fair value less costs of disposal, but occasionally on their value in use.

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

9.1 Impairment

9.1.1 Impairment charge during the year

In 2020, non-significant impairments of goodwill (mainly in Other businesses) have been recognized, primarily as a result of revisions to projected cash flows after taking into consideration the impact of the COVID-19 pandemic (see Note 21.2).

The 2019 impairment charge mainly related to Zone AOA and more specifically the Yinlu (peanut milk and canned rice porridge) business in China for which an impairment of CHF 1024 million was recognized under the heading Other trading expenses in the income statement (see Note 4.1).

Other 2019 impairment charge related to various non-significant impairments of goodwill (mainly in Zone AOA) and intangible assets (mainly in Zone AMS).

Impairment reviews have been conducted for more than 30 Cash Generating Units (CGU).

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

| | Carrying amount | Period of cash flow projections | Average annual sales growth | Annual margin evolution | Terminal growth rate | Discount rate * |
|---|--------------------|---------------------------------|-----------------------------------|-------------------------------|----------------------------|--------------------|
| Goodwill CGU | | | | | | |
| PetCare Zone AMS | 7 042 | 5 years | 5.1% | Declining | 1.5% | 6.0% |
| Nutrition Zone AOA | 5 501 | 5 years | 0.4% | Stable | 2.8% | 8.0% |
| Food Zone AMS | 3 233 | 5 years | 5.6% | Stable | 1.6% | 5.7% |
| Nestlé Health Science | 3 050 | 5 years | 10.4% | Improvement | 2.5% | 5.9% |
| Subtotal | 18 826 | | | | | |
| Other CGUs | 8 794 | | | | | |
| Total Goodwill | 27 620 | | | | | |
| Intangible assets with indefinite useful life CGU | | - | | | | |
| Nestlé Nutrition Worldwide | 5 307 | 5 years | 1.3% | Stable | 2.3% | 8.3% |
| Nestlé Starbucks North America | 3 823 | 5 years | 4.0% | Improvement | 1.4% | 5.8% |
| Subtotal | 9 130 | | | | | |
| Other CGUs | 7 362 | | | | | |
| Total Intangible assets with indefinite useful life | 16 492 | | | | | |
| Goodwill CGU | | | | | | |
| PetCare Zone AMS | 7 749 | 5 years | 6.3% | Declining | 2.7% | 8.4% |
| Nutrition Zone AOA | 5 886 | 5 years | 4.9% | Stable | 3.6% | 9.9% |
| Subtotal | 13 635 | | | | | |
| Other CGUs | 15 261 | | | | | |
| Total Goodwill | 28 896 | | | | | |
| Intangible assets with indefinite useful life CGU | | | | | | |
| Nestlé Nutrition Worldwide | 5 593 | 5 years | 4.0% | Improvement | 3.4% | 10.3% |
| Nestlé Starbucks North America | 4 251 | 5 years | 5.0% | Improvement | 2.3% | 7.5% |
| Subtotal | 9 844 | | | | | |
| Other CGUs | 6 122 | | | | | |
| Total Intangible assets with indefinite useful life | 15 966 | | | | | |

^{*} Cash flows have been discounted at a post-tax weighted average rate in 2020 and at a pre-tax weighted average rate in 2019.

For each significant CGU the recoverable amount is higher than its carrying amount. In 2020, the recoverable amount has been determined based upon a fair value less costs of disposal calculation (2019: value in use calculation). Generally, no directly observable market inputs are available to assess the fair value less costs of disposal. Therefore, the calculation is based on net present value techniques (fair value measurements categorized within Level 3 of the fair value hierarchy). Cash flows have been projected over 5 years. They have been extrapolated using a steady or declining terminal growth rate.

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

- The discount rates have been computed based on external sources of information and reflect the time value of money and the risks specific to the CGU (including country risk).
- The cash flows 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 business risk is included in the determination of the cash flows.
- The terminal growth rates have been determined to reflect the long-term view of the nominal evolution of the business.
- The cash flows, the discount rates and the terminal growth rates include inflation.

The Group assesses the uncertainty of these estimates by performing sensitivity analyses. 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.

10. Employee benefits

10.1 Employee remuneration

The Group's salaries of CHF 10 880 million (2019: CHF 11 811 million) and welfare expenses of CHF 3618 million (2019: CHF 3983 million) represent a total of CHF 14 498 million (2019: CHF 15 794 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 269 million (2019: CHF 307 million). Employee remuneration is allocated to the appropriate headings of expenses by function.

10.2 Post-employment benefits

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

Pension cost charged to the income statement consists of service cost (current and past service cost, gains and losses arising from curtailment and settlement) and

administration costs (other than costs of managing plan assets), which are allocated to the appropriate heading by function, and net interest expense or income, which is presented as part of net financial income/(expense). The actual return less interest income on plan assets, changes in actuarial assumptions, and differences between actuarial assumptions and what has actually occurred are reported in other comprehensive income. Some benefits are also provided by defined contribution plans. Contributions to such plans are charged to the income statement as incurred.

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

Pensions and retirement benefits

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

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

In Switzerland, Nestle's pension plan is a cash balance plan where contributions are expressed as a percentage of the pensionable salary. The pension plan guarantees the amount accrued on the members' savings accounts, as well as a minimum interest on those savings accounts. At retirement date, the savings accounts are converted into pensions. However, members may opt to receive a part of the pension as a lump sum. Increases of pensions in payment are granted on a discretionary basis by the Board of Trustees, subject to the financial situation of the plan. To be noted that there is also a defined benefit plan that has been closed to new entrants in 2013 and whose members below age 55 as of that date were transferred to the cash balance plan. This heritage plan is a hybrid between a cash balance plan and a plan based on a final pensionable salary. Finally, the Group has committed to make additional contributions in coordination with a decrease in conversion rates applicable since July 1, 2018. CHF 155 million had been contributed as at December 31, 2020, and CHF 168 million is expected to be paid until 2038.

In the United Kingdom, Nestlé's pension plan is a hybrid arrangement combining a defined benefit career average section plus a defined contribution section. The defined benefit section was closed to new entrants during 2016. In the defined benefit section, from August 2017 onwards, members accrue a pension defined on their capped salary each year, plus defined contribution provision above the capped salary. Accrued pensions are automatically revalued according to inflation, subject to caps. Similarly, pensions in payment are increased annually in line with inflation, subject to caps as applicable. At retirement, there is a lump sum option. Finally, the funding of the shortfall of the Nestlé UK Pension Fund is defined on the basis of a triennial independent actuarial valuation in accordance with local regulations. As a result, an amount of GBP 87.5 million has been paid by Nestlé UK Ltd during the year in accordance with the agreed schedule of contributions dated from 2018. The next schedule of contributions is expected to be agreed during the first

half of 2021 with an anticipated estimated payment of GBP 259 million being made upon agreement in addition to GBP 86 million paid already in January 2021. No further funding shortfall payments will be due after that date. The next triennial valuation is planned as at December 31, 2021, and is due to be completed by the end March 2023.

Nestle'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 since 2006. In 2020, in order to lower the local pension discount rate, an extraordinary contribution of EUR 289 million has been paid.

In the USA, Nestlé's primary pension 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 and members do not contribute to the plan. This plan was closed to new entrants at the end of 2015 and replaced by a defined contribution scheme. The pension plan is sufficiently funded on a local statutory basis such that no contributions were required in 2020.

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:

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

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

Plan amendments and restructuring events

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

During the year, there were individually non-significant plan amendments and restructuring activities leading to curtailments and settlements amounting to net negative related past service costs (income) of CHF 8 million (2019: CHF 121 million).

Asset-liability management and funding arrangement

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

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

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

| In millions of CHF | | | | | | |
|--|-------------------------------------|---|----------|-------------------------------------|---|----------|
| | | | 2020 | | | 2019 |
| | 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 | 26 018 | 70 | 26 088 | 26 176 | 66 | 26 242 |
| Fair value of plan assets | (24 775) | (37) | (24 812) | (24 498) | (32) | (24 530) |
| Excess of liabilities/(assets) over funded obligations | 1 243 | 33 | 1 276 | 1 678 | 34 | 1 712 |
| Present value of unfunded obligations | 845 | 1 726 | 2 571 | 772 | 2 078 | 2 850 |
| Unrecognized assets | 18 | _ | 18 | 30 | _ | 30 |
| Net defined benefit liabilities/(assets) | 2 106 | 1 759 | 3 865 | 2 480 | 2 112 | 4 592 |
| Other employee benefit liabilities | | | 785 | | | 1 049 |
| Net liabilities | | | 4 650 | | | 5 641 |
| Reflected in the balance sheet as follows: | | | | | | |
| Employee benefit assets | | | (468) | | | (510) |
| Employee benefit liabilities | | | 5 118 | | | 6 151 |
| Net liabilities | | | 4 650 | | | 5 641 |

10.2b Funding situation by geographic area of defined benefit plans

| In millions of CHF | | | | | | | | |
|--|----------|---------|---------|----------|----------|---------|---------|----------|
| | | | | 2020 | | | | 2019 |
| | EMENA | AMS | AOA | Total | EMENA | AMS | AOA | Total |
| Present value of funded obligations | 20 264 | 4 619 | 1 205 | 26 088 | 19 899 | 5 091 | 1 252 | 26 242 |
| Fair value of plan assets | (19 094) | (4 659) | (1 059) | (24 812) | (18 024) | (5 356) | (1 150) | (24 530) |
| Excess of liabilities/(assets) over funded | | | | | | | | |
| obligations | 1 170 | (40) | 146 | 1 276 | 1 875 | (265) | 102 | 1 712 |
| Present value of unfunded obligations | 361 | 1 842 | 368 | 2 571 | 376 | 2 099 | 375 | 2 850 |

10.2c Movement in the present value of defined benefit obligations

| In millions of CHF | | | 2020 | | | 2019 |
|--|-------------------------------------|---|---------|-------------------------------------|---|---------|
| | Defined benefit retirement plans | Post-employment medical benefits and other benefits | Total | Defined benefit retirement plans | Post-employment medical benefits and other benefits | Total |
| At January 1 | 26 948 | 2 144 | 29 092 | 25 101 | 1 932 | 27 033 |
| of which funded defined benefit plans | 26 176 | 66 | 26 242 | 24 364 | 58 | 24 422 |
| of which unfunded defined benefit plans | 772 | 2 078 | 2 850 | 737 | 1 874 | 2 611 |
| Currency retranslations | (1 116) | (337) | (1 453) | (185) | (73) | (258) |
| Service cost | 496 | 36 | 532 | 408 | 26 | 434 |
| of which current service cost | 499 | 41 | 540 | 505 | 50 | 555 |
| of which past service cost and (gains)/losses arising from settlements | (3) | (5) | (8) | (97) | (24) | (121) |
| Interest expense | 442 | 78 | 520 | 622 | 104 | 726 |
| Actuarial (gains)/losses | 1 463 | 94 | 1 557 | 2 778 | 316 | 3 094 |
| Employees' contributions | 115 | _ | 115 | 126 | _ | 126 |
| Benefits paid on funded defined benefit plans | (1 527) | (5) | (1 532) | (1 424) | (10) | (1 434) |
| Benefits paid on unfunded defined benefit plans | (52) | (101) | (153) | (63) | (136) | (199) |
| Classification (to)/from held for sale and change of scope | | | | | | |
| of consolidation, net | 15 | (25) | (10) | (85) | (12) | (97) |
| Reclassification from other benefits to defined benefit retirement plans | 84 | (84) | _ [| _ | _ | _ |
| Transfer from/(to) defined contribution plans | (5) | (4) | (9) | (330) | (3) | (333) |
| At December 31 | 26 863 | 1 796 | 28 659 | 26 948 | 2 144 | 29 092 |
| of which funded defined benefit plans | 26 018 | 70 | 26 088 | 26 176 | 66 | 26 242 |
| of which unfunded defined benefit plans | 845 | 1 726 | 2 571 | 772 | 2 078 | 2 850 |

10.2d Movement in fair value of defined benefit plan assets

| In millions of CHF | | | | | | |
|--|-------------------------------------|---|----------|-------------------------------------|---|----------|
| | | | 2020 | | | 2019 |
| | Defined benefit retirement plans | Post-employment medical benefits and other benefits | Total | Defined benefit retirement plans | Post-employment medical benefits and other benefits | Total |
| At January 1 | (24 498) | (32) | (24 530) | (22 625) | (33) | (22 658) |
| Currency retranslations | 1 016 | _ | 1 016 | 127 | _ | 127 |
| Interest income | (399) | _ | (399) | (577) | (1) | (578) |
| Actual return on plan assets, excluding interest income | (1 542) | (3) | (1 545) | (2 635) | (1) | (2 636) |
| Employees' contributions | (115) | _ | (115) | (126) | _ | (126) |
| Employer contributions | (786) | (7) | (793) | (476) | (7) | (483) |
| Benefits paid on funded defined benefit plans | 1 527 | 5 | 1 532 | 1 424 | 10 | 1 434 |
| Administration expenses | 22 | _ | 22 | 24 | _ | 24 |
| Classification (to)/from held for sale and change of scope | | | | | | |
| of consolidation, net | _ | _ | _ | 41 | _ | 41 |
| Transfer (from)/to defined contribution plans | _ | _ | _ | 325 | _ | 325 |
| At December 31 | (24 775) | (37) | (24 812) | (24 498) | (32) | (24 530) |

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

| | 2020 | 2019 |
|--|------|------|
| Equities (a) | 24% | 25% |
| of which US equities | 6% | 6% |
| of which European equities | 14% | 14% |
| of which other equities | 4% | 5% |
| Debts | 50% | 49% |
| of which government debts ^(a) | 35% | 35% |
| of which corporate debts ^(b) | 15% | 14% |
| Real estate (b) | 11% | 11% |
| Alternative investments (b) | 7% | 7% |
| of which hedge funds | 4% | 5% |
| of which private equities | 3% | 2% |
| Cash/Deposits | 8% | 8% |

⁽a) Almost all have a quoted market price in an active market.

Equities and government debts represent 59% (2019: 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 33% (2019: 32%) of the plan assets. Almost all of them are either not quoted or quoted in a market which is not active.

⁽b) Almost all are either not quoted or are quoted in a market which is not active.

The plan assets of funded defined benefit plans include property occupied by subsidiaries with a fair value of CHF 8 million (2019: CHF 22 million). Furthermore, funded defined benefit plans may invest in Nestlé S.A. (or related) shares. There was no direct investment at end of 2020 and 2019. 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 420 million to its funded defined benefit plans in 2021.

10.2e Expenses recognized in the income statement

| In millions of CHF | | | | | | |
|-------------------------------|-------------------------------------|---|-------|-------------------------------------|---|-------|
| | _ | | 2020 | | | 2019 |
| | 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 | 496 | 36 | 532 | 408 | 26 | 434 |
| Net interest (income)/expense | 45 | 78 | 123 | 46 | 103 | 149 |
| Administration expenses | 22 | _ | 22 | 24 | _ | 24 |
| Defined benefit expenses | 563 | 114 | 677 | 478 | 129 | 607 |
| Defined contribution expenses | | | 294 | | | 330 |
| Total | | | 971 | | | 937 |

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

| In millions of CHF | | | | | | |
|---|-------------------------------------|---|---------|-------------------------------------|---|---------|
| | | | 2020 | | | 2019 |
| | 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 | 1 542 | 3 | 1 545 | 2 635 | 1 | 2 636 |
| Experience adjustments on plan liabilities | (101) | (40) | (141) | (49) | (29) | (78) |
| Change in demographic assumptions on plan liabilities | 187 | (1) | 186 | 82 | 47 | 129 |
| Change in financial assumptions on plan liabilities | (1 549) | (53) | (1 602) | (2 811) | (334) | (3 145) |
| Transfer from/(to) unrecognized assets and other | 9 | _ | 9 | (1) | 1 | _ |
| Remeasurement of defined benefit plans | 88 | (91) | (3) | (144) | (314) | (458) |

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.

| | | | | 2020 | | | | 2019 |
|---------------------------------------|-------|------|------|-------|-------|------|------|-------|
| | EMENA | AMS | AOA | Total | EMENA | AMS | AOA | Total |
| Discount rates | 0.7% | 3.2% | 4.2% | 1.5% | 1.0% | 4.0% | 4.4% | 1.9% |
| Expected rates of salary increases | 2.0% | 3.1% | 5.2% | 2.5% | 1.9% | 2.7% | 5.5% | 2.3% |
| Expected rates of pension adjustments | 1.2% | 0.3% | 1.6% | 1.0% | 1.2% | 0.4% | 1.7% | 1.0% |
| Medical cost trend rates (a) | | 6.2% | | 6.2% | | 6.7% | | 6.7% |

⁽a) Medical cost trend rates represent the expected medical cost trend rates for next year. For plans in USA and Canada, medical cost trend rate is assumed to decrease to 4.5% by 2026 and respectively 4% by 2040. Some non-material post-employment medical plans in EMENA and AOA have not been considered in the average.

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

| Expressed in years | | | | | |
|--------------------|--------------------------|---|------|------|---|
| | | 2020 | 2019 | 2020 | 2019 |
| Country | Mortality table | Life expectancy at age 65 for a male member currently aged 65 | | | expectancy at age 65 or a female member currently aged 65 |
| EMENA | | | | | |
| Switzerland | LPP 2020 | 21.7 | 21.6 | 23.4 | 23.6 |
| United Kingdom | S3NA | 21.2 | 21.2 | 23.6 | 23.4 |
| Germany | Heubeck Richttafeln 2018 | 21.0 | 20.6 | 23.4 | 24.1 |
| AMS | | | | | |
| USA | Pri-2012 | 20.8 | 20.7 | 22.8 | 22.7 |

Life expectancy is reflected in the defined benefit obligations by using the best estimate of the mortality of plan members. When appropriate, base tables are adjusted to take into consideration expected changes in mortality e.g. allowing for future longevity improvements.

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 | | | | | | | | |
|---------------------------------------|--------|-------|-------|--------|--------|-------|-------|--------|
| | | | | 2020 | | | | 2019 |
| | EMENA | AMS | AOA | Total | EMENA | AMS | AOA | Total |
| As reported | 20 625 | 6 461 | 1 573 | 28 659 | 20 275 | 7 190 | 1 627 | 29 092 |
| Discount rates | | | | | | | | |
| Increase of 50 basis points | 19 101 | 6 061 | 1 490 | 26 652 | 18 777 | 6 770 | 1 544 | 27 091 |
| Decrease of 50 basis points | 22 356 | 6 904 | 1 666 | 30 926 | 21 977 | 7 665 | 1 732 | 31 374 |
| Expected rates of salary increases | | | | | | | | |
| Increase of 50 basis points | 20 765 | 6 534 | 1 606 | 28 905 | 20 420 | 7 242 | 1 661 | 29 323 |
| Decrease of 50 basis points | 20 492 | 6 439 | 1 543 | 28 474 | 20 144 | 7 138 | 1 597 | 28 879 |
| Expected rates of pension adjustments | | | | | | | | |
| Increase of 50 basis points | 21 712 | 6 485 | 1 623 | 29 820 | 21 405 | 7 225 | 1 688 | 30 318 |
| Decrease of 50 basis points | 20 015 | 6 450 | 1 549 | 28 014 | 19 211 | 7 180 | 1 604 | 27 995 |
| Medical cost trend rates | | | | | | | | |
| Increase of 50 basis points | 20 626 | 6 514 | 1 579 | 28 719 | 20 276 | 7 266 | 1 628 | 29 170 |
| Decrease of 50 basis points | 20 624 | 6 412 | 1 572 | 28 608 | 20 274 | 7 121 | 1 625 | 29 020 |
| Mortality assumption | | | | | | | | |
| Setting forward the tables by 1 year | 19 840 | 6 357 | 1 542 | 27 739 | 19 574 | 7 023 | 1 594 | 28 191 |
| Setting back the tables by 1 year | 21 405 | 6 638 | 1 603 | 29 646 | 20 989 | 7 357 | 1 667 | 30 013 |
| | | | . 000 | | | . 557 | . 507 | _ |

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 | | | | | | | | |
|--------------------|-------|------|------|-------|-------|------|------|-------|
| | | | | 2020 | | | | 2019 |
| | EMENA | AMS | AOA | Total | EMENA | AMS | AOA | Total |
| At December 31 | 16.0 | 13.4 | 11.5 | 15.2 | 15.9 | 13.1 | 11.2 | 15.0 |

11. Provisions and contingencies

Provisions

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

Contingent assets and liabilities

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

11.1 Provisions

| In millions of CHF | | | | | |
|--|---------------|---------------|--------------|-------|-------|
| | | | Legal and | | |
| | Restructuring | Environmental | indirect Tax | Other | Total |
| At January 1, 2020 | 816 | 30 | 696 | 422 | 1 964 |
| Currency retranslations | (16) | (2) | (69) | (60) | (147) |
| Provisions made during the year (a) | 287 | 2 | 204 | 75 | 568 |
| Amounts used | (446) | (3) | (62) | (57) | (568) |
| Reversal of unused amounts | (91) | (1) | (78) | (77) | (247) |
| Classification (to)/from held for sale | 15 | | _ | (1) | 14 |
| Modification of the scope of consolidation | (12) | _ | (83) | 48 | (47) |
| At December 31, 2020 | 553 | 26 | 608 | 350 | 1 537 |
| of which expected to be settled within 12 months | | | | | 508 |
| At January 1, 2019 | 835 | 29 | 573 | 376 | 1 813 |
| Currency retranslations | (17) | (1) | (24) | (7) | (49) |
| Provisions made during the year (a) | 596 | 5 | 347 | 230 | 1 178 |
| Amounts used | (586) | (3) | (195) | (165) | (949) |
| Reversal of unused amounts | (88) | _ | (102) | (83) | (273) |
| Classification (to)/from held for sale | 71 | | (1) | 12 | 82 |
| Modification of the scope of consolidation | 5 | | 98 | 59 | 162 |
| At December 31, 2019 | 816 | 30 | 696 | 422 | 1 964 |
| of which expected to be settled within 12 months | | | | | 802 |

⁽a) Including discounting of provisions.

Restructuring

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

Legal and indirect tax

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

Other

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

11.2 Contingencies

The Group is exposed to contingent liabilities amounting to a maximum potential payment of CHF 1443 million (2019: CHF 1352 million) representing potential litigations of CHF 1373 million (2019: CHF 1256 million) and other items of CHF 70 million (2019: CHF 96 million). Potential litigations relate mainly to labor, civil and tax litigations in Latin America.

Contingent assets for litigation claim in favor of the Group amount to a maximum potential recoverable amount of CHF 289 million (2019: CHF 534 million), mainly in Latin America.

12. Financial instruments

Financial assets - Classes and categories

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

- measured at amortized cost;
- measured at fair value through the income statement (abbreviated as FVTPL, fair value through profit or loss); and
- measured at fair value through Other comprehensive income (abbreviated as FVOCI).
 For an equity investment that is not held for trading, the Group may irrevocably elect to classify it as measured at FVOCI. This election is made at initial recognition on an investment by investment basis.

Financial assets - Recognition and derecognition

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

Financial assets - Measurement

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

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

Investments in equities, debt funds, equity funds as well as other financial assets not giving rise on specified dates to cash flows that are solely payments of principal and interest are classified at FVTPL. These investments are mainly related to liquidity management and self-insurance activities.

Financial assets - Impairment

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

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

The Group considers a debt security to have low credit risk when the credit rating is 'investment grade' according to internationally recognized rating agencies. To assess whether there is a significant increase in credit risk since initial recognition, the Group considers available reasonable and supportive information such as changes in the credit rating of the counterparty. If there is a significant increase in credit risk the loss allowance is measured at an amount equal to lifetime expected losses.

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

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

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

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

Financial liabilities at amortized cost

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

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

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

12.1 Financial assets and liabilities

12.1a By class and by category

| In millions of CHF | | | | 2020 | | | | 2010 |
|-----------------------------------|-----------------------|--------------------------------------|---|---------------------|-----------------------|--------------------------------------|---|---------------------|
| | | | | 2020 | | | | 2019 |
| Classes | At amortized cost (a) | At fair value to income statement | At fair value to Other comprehensive income | Total categories | At amortized cost (a) | At fair value to income statement | At fair value to Other comprehensive income | Total categories |
| Cash at bank and in hand | 2 139 | | | 2 139 | 2 884 | | | 2 884 |
| Commercial paper | 3 271 | | _ | 3 271 | 4 999 | | | 4 999 |
| Time deposits | 687 | | _ | 687 | 1 951 | | | 1 951 |
| Bonds and debt funds | 87 | 3 078 | 2 | 3 167 | 104 | 1 070 | 2 | 1 176 |
| Equity and equity funds | _ | 347 | 347 | 694 | _ | 458 | 71 | 529 |
| Other financial assets | 569 | 676 | _ | 1 245 | 602 | 733 | | 1 335 |
| Liquid assets (b) and non-current | | | | | | | | |
| financial assets | 6 753 | 4 101 | 349 | 11 203 | 10 540 | 2 261 | 73 | 12 874 |
| Trade and other receivables | 10 746 | _ | _ | 10 746 | 11 766 | _ | _ | 11 766 |
| Derivative assets (c) | _ | 310 | _ | 310 | _ | 254 | _ | 254 |
| Total financial assets | 17 499 | 4 411 | 349 | 22 259 | 22 306 | 2 515 | 73 | 24 894 |
| Trade and other payables | (19 319) | (277) | | (19 596) | (19 232) | | | (19 232) |
| Financial debt | (39 947) | _ | _ | (39 947) | (37 164) | _ | _ | (37 164) |
| Derivative liabilities (c) | | (254) | _ | (254) | | (420) | _ | (420) |
| Total financial liabilities | (59 266) | (531) | _ | (59 797) | (56 396) | (420) | | (56 816) |
| Net financial position | (41 767) | 3 880 | 349 | (37 538) | (34 090) | 2 095 | 73 | (31 922) |
| of which at fair value | | 3 880 | 349 | 4 229 | | 2 095 | 73 | 2 168 |

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

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

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

12.1b Fair value hierarchy of financial instruments

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

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

| In millions of CHF | | |
|--|-------|-------|
| | 2020 | 2019 |
| Derivative assets | 119 | 135 |
| Bonds and debt funds | 2 558 | 573 |
| Equity and equity funds | 339 | 211 |
| Other financial assets | 62 | 3 |
| Derivative liabilities | (4) | (22) |
| Prices quoted in active markets (Level 1) | 3 074 | 900 |
| Derivative assets | 191 | 119 |
| Bonds and debt funds | 509 | 488 |
| Equity and equity funds | 296 | 248 |
| Other financial assets | 597 | 720 |
| Derivative liabilities | (250) | (398) |
| Valuation techniques based on observable market data (Level 2) | 1 343 | 1 177 |
| Financial assets | 89 | 91 |
| Financial liabilities (a) | (277) | _ |
| Valuation techniques based on unobservable input (Level 3) | (188) | 91 |
| Total financial instruments at fair value | 4 229 | 2 168 |

⁽a) Contingent consideration on acquisition (see Note 2.2 Acquisitions of businesses for description).

There have been no significant transfers between the different hierarchy levels in 2020 and in 2019.

12.1c Changes in liabilities arising from financing activities

| In millions of CHF | | |
|---|----------|----------|
| | 2020 | 2019 |
| At January 1 | (37 401) | (40 630) |
| Currency retranslations and exchange differences | 2 351 | 767 |
| Changes in fair values | (80) | 67 |
| Changes arising from acquisition and disposal of businesses | (81) | (109) |
| (Inflows)/outflows on interest derivatives | (12) | (153) |
| Increase in lease liabilities | (660) | (1 006) |
| Inflows from bonds and other non-current financial debt | (10 330) | (57) |
| Outflows from bonds and current portion of other non-current financial debt | 3 182 | 3 287 |
| (Inflows)/outflows from current financial debt | 2 747 | 444 |
| Classification to liabilities held for sale | 342 | (11) |
| At December 31 | (39 942) | (37 401) |
| of which current financial debt | (12 019) | (14 032) |
| of which non-current financial debt | (27 928) | (23 132) |
| of which derivatives hedging financial debt | 5 | (237) |

12.1d Bonds

| In millions of CHF | | | | | | | | |
|----------------------------|-----|---------------------------|--------|-------------------------------|-------------------------------|----------|--------|--------|
| lssuer | | Face value in millions | Coupon | Effective interest rate | Year of issue/ maturity | Comments | 2020 | 2019 |
| Nestlé S.A., Switzerland | CHF | 600 | 0.75% | 0.69% | 2018–2028 | | 603 | 603 |
| | CHF | 900 | 0.25% | 0.26% | 2018–2024 | | 900 | 900 |
| Nestlé Holdings, Inc., USA | USD | 650 | 2.13% | 2.27% | 2014–2020 | | _ | 630 |
| | AUD | 250 | 4.25% | 4.43% | 2014–2020 | | _ | 169 |
| | AUD | 175 | 3.63% | 3.77% | 2014–2020 | | _ | 121 |
| | NOK | 1 000 | 2.75% | 2.85% | 2014–2020 | | _ | 110 |
| | GBP | 500 | 1.75% | 1.79% | 2015–2020 | | _ | 637 |
| | USD | 550 | 1.88% | 2.03% | 2016–2021 | | 484 | 532 |
| | USD | 600 | 1.38% | 1.52% | 2016–2021 | | 528 | 580 |
| | GBP | 500 | 1.00% | 1.17% | 2017–2021 | (a) | 601 | 635 |
| | USD | 800 | 2.38% | 2.55% | 2017–2022 | | 702 | 771 |
| | USD | 650 | 2.38% | 2.50% | 2017–2022 | | 572 | 628 |
| | USD | 300 | 2.25% | 2.35% | 2017–2022 | | 264 | 290 |
| | EUR | 850 | 0.88% | 0.92% | 2017–2025 | (a) | 919 | 921 |
| | CHF | 550 | 0.25% | 0.24% | 2017–2027 | (a) | 550 | 551 |
| | CHF | 150 | 0.55% | 0.54% | 2017–2032 | (a) | 150 | 150 |
| | USD | 600 | 3.13% | 3.28% | 2018–2023 | | 527 | 579 |
| | USD | 1 000 | 3.10% | 3.17% | 2018–2021 | (b) | 880 | 968 |
| | USD | 1 500 | 3.35% | 3.41% | 2018–2023 | (b) | 1 319 | 1 451 |
| | USD | 900 | 3.50% | 3.59% | 2018–2025 | (b) | 790 | 868 |
| | USD | 1 250 | 3.63% | 3.72% | 2018–2028 | (b) | 1 094 | 1 203 |
| | USD | 1 250 | 3.90% | 4.01% | 2018–2038 | (b) | 1 085 | 1 193 |
| | USD | 2 100 | 4.00% | 4.11% | 2018–2048 | (b) | 1 815 | 1 996 |
| | USD | 1 150 | 0.38% | 0.49% | 2020–2024 | (b) | 1 009 | |
| | USD | 750 | 0.63% | 0.77% | 2020–2026 | (b) | 656 | |
| | USD | 1 100 | 1.00% | 1.06% | 2020–2027 | (b) | 965 | _ |
| | USD | 1 000 | 1.25% | 1.37% | 2020–2030 | (b) | 872 | _ |
| Subtotal | | | | | | | 17 285 | 16 486 |
| | | | | | | | | |

| In millions of CHF | | | | | | | | |
|---|-----|---------------------------|--------|-------------------------------|-------------------------------|----------|--------|--------|
| lssuer | | Face value in millions | Coupon | Effective interest rate | Year of issue/ maturity | Comments | 2020 | 2019 |
| Subtotal from previous page | | | | | | | 17 285 | 16 486 |
| Nestlé Finance International Ltd., Luxembourg | EUR | 500 | 1.25% | 1.30% | 2013–2020 | | _ | 543 |
| | EUR | 500 | 2.13% | 2.20% | 2013–2021 | | 541 | 542 |
| | EUR | 500 | 0.75% | 0.90% | 2014–2021 | | 541 | 541 |
| | EUR | 850 | 1.75% | 1.89% | 2012–2022 | | 919 | 920 |
| | GBP | 400 | 2.25% | 2.34% | 2012–2023 | (c) | 505 | 527 |
| | EUR | 500 | 0.75% | 0.92% | 2015–2023 | (d) | 549 | 551 |
| | EUR | 500 | 0.38% | 0.54% | 2017–2024 | | 539 | 539 |
| | EUR | 750 | 1.25% | 1.32% | 2017–2029 | | 808 | 809 |
| | EUR | 750 | 1.75% | 1.83% | 2017–2037 | | 804 | 805 |
| | EUR | 1 000 | 1.13% | 1.27% | 2020-2026 | | 1 075 | _ |
| | EUR | 1 000 | 1.50% | 1.63% | 2020–2030 | | 1 071 | _ |
| | EUR | 850 | 0.13% | 0.25% | 2020–2027 | | 913 | _ |
| | EUR | 650 | 0.00% | 0.05% | 2020–2024 | | 703 | _ |
| | EUR | 1 000 | 0.38% | 0.56% | 2020–2032 | | 1 062 | _ |
| | EUR | 500 | 0.00% | (0.26%) | 2020–2025 | | 549 | _ |
| | EUR | 500 | 0.00% | 0.16% | 2020–2033 | | 531 | _ |
| | EUR | 500 | 0.38% | 0.40% | 2020–2040 | | 539 | _ |
| Other bonds | | | | | | | 216 | 242 |
| Total carrying amount (*) | | | | | | | 29 150 | 22 505 |
| of which due within one year | | | | | | | 3 632 | 2 210 |
| of which due after one year | | | | | | | 25 518 | 20 295 |
| Fair value (*) of bonds, based on prices quoted (level 2) | | - | | | | | 31 532 | 23 941 |

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

Several bonds are hedged by currency and/or interest derivatives. The fair value of these derivatives is shown under derivative assets for CHF 71 million (2019: CHF 33 million) and under derivative liabilities for CHF 2 million (2019: CHF 264 million).

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

⁽b) Sold in the United States only to qualified institutional buyers and outside the United States to non-US persons.

⁽c) Subject to an interest rate swap.

⁽d) Out of which EUR 375 million is subject to an interest rate swap.

12.2 Financial risks

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

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

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

12.2a Credit risk

Credit risk management

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

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

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

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

Credit rating of financial assets

This includes liquid assets, non-current financial assets and derivative assets. The credit risk of the financial assets is assessed based on the risk of the counterparties including the associated country risk. The Group uses an internationally recognized credit scale to present the information. The Group deals mainly with financial institutions located in Switzerland, the European Union and North America.

| In millions of CHF | | |
|--------------------------------------|--------|--------|
| | 2020 | 2019 |
| Investment grade A– and above | 8 836 | 10 165 |
| Investment grade BBB+, BBB and BBB- | 986 | 984 |
| Non-investment grade (BB+ and below) | 778 | 1 002 |
| Not rated (a) | 913 | 977 |
| | 11 513 | 13 128 |

⁽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 2020 successfully extended the tenor of both its revolving credit facilities by around one year:

- A new USD 3.7 billion and EUR 3.4 billion revolving credit facility with an initial maturity date of October 2021. The Group has the ability to convert the facility into a one year term loan.
- A USD 2.7 billion and EUR 2.0 billion revolving credit facility with a new maturity date of October 2025.

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 | Carrying amount |
|---|-------------------|--------------------|-----------------------------------|----------------------|-------------|-----------------|
| Trade and other payables | (18 518) | (611) | (437) | (30) | (19 596) | (19 596) |
| Commercial paper (a) | (4 995) | _ | _ | _ | (4 995) | (4 992) |
| Bonds (a) | (4 131) | (2 960) | (9 318) | (17 583) | (33 992) | (29 150) |
| Lease liabilities | (615) | (554) | (935) | (1 082) | (3 186) | (2 779) |
| Other financial debt | (2 886) | (49) | (157) | (13) | (3 105) | (3 026) |
| Total financial debt | (12 627) | (3 563) | (10 410) | (18 678) | (45 278) | (39 947) |
| Financial liabilities (excluding derivatives) | (31 145) | (4 174) | (10 847) | (18 708) | (64 874) | (59 543) |
| Non-currency derivative assets | 138 | 14 | 12 | | 164 | 164 |
| Non-currency derivative liabilities | (12) | _ | _ | _ | (12) | (12) |
| Gross amount receivable from currency derivatives | 18 565 | 10 | 951 | 709 | 20 235 | 20 288 |
| Gross amount payable from currency derivatives | (18 709) | (44) | (986) | (697) | (20 436) | (20 384) |
| Net derivatives | (18) | (20) | (23) | 12 | (49) | 56 |
| of which derivatives under cash flow hedges (b) | 29 | 1 | | | 30 | 30 |
| Trade and other payables | (18 803) | (154) | (248) | (32) | (19 237) | (19 232) |
| Commercial paper (a) | (8 072) | | | _ | (8 072) | (8 053) |
| Bonds (a) | (2 726) | (4 336) | (7 342) | (13 223) | (27 627) | (22 505) |
| Lease liabilities | (709) | (610) | (1 101) | (1 376) | (3 796) | (3 375) |
| Other financial debt | (3 167) | (101) | (30) | (13) | (3 311) | (3 231) |
| Total financial debt | (14 674) | (5 047) | (8 473) | (14 612) | (42 806) | (37 164) |
| Financial liabilities (excluding derivatives) | (33 477) | (5 201) | (8 721) | (14 644) | (62 043) | (56 396) |
| Non-currency derivative assets | 145 | 10 | 14 | | 169 | 169 |
| Non-currency derivative liabilities | (37) | (5) | _ | _ | (42) | (42) |
| Gross amount receivable from currency derivatives | 14 830 | 653 | 30 | 1 642 | 17 155 | 17 127 |
| Gross amount payable from currency derivatives | (15 118) | (701) | (147) | (1 755) | (17 721) | (17 420) |
| Net derivatives | (180) | (43) | (103) | (113) | (439) | (166) |
| of which derivatives under cash flow hedges (b) | 58 | (5) | | | 53 | 53 |
| | | | | | | |

⁽a) Commercial paper of CHF 3639 million (2019: CHF 7102 million) and bonds of CHF 671 million (2019: CHF 1011 million) have maturities of less than three months.

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.

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

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 126 million in 2020 (2019: loss of CHF 81 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 15 million in 2020 and 2019.

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

Interest rate risk

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

Taking into account the impact of interest derivatives, the proportion of financial debt subject to fixed interest rates for a period longer than one year represents 67% (2019: 60%).

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 20 million (2019: CHF 44 million).

Price risk

Commodity price risk

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

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

Equity price risk

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

12.2d Derivative assets and liabilities and hedge accounting

Derivative financial instruments

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

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

Hedge accounting

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

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

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

Fair value hedges

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

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

Cash flow hedges

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

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

Undesignated derivatives

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

Derivatives by hedged risks

| In millions of CHF | | | | | | |
|---|---------------------------------------|----------------------|---------------------------|---------------------------------------|----------------------|---------------------------|
| | | | 2020 | | | 2019 |
| | Contractual or notional amounts | Fair value assets | Fair value liabilities | Contractual or notional amounts | Fair value assets | Fair value liabilities |
| Fair value hedges (a) | | | | | | |
| Foreign currency and interest rate risk on net financial debt | 9 271 | 96 | 83 | 8 045 | 57 | 278 |
| Cash flow hedges | | | | | | |
| Foreign currency risk on future purchases or sales | 7 052 | 71 | 155 | 8 009 | 47 | 88 |
| Commodity price risk on future purchases | 917 | 124 | 3 | 1 798 | 135 | 26 |
| Interest rate risk on net financial debt | 440 | _ | 7 | 872 | _ | 15 |
| Designated in a hedging relationship | 17 680 | 291 | 248 | 18 724 | 239 | 407 |
| Undesignated derivatives | | 19 | 6 | | 15 | 13 |
| | | 310 | 254 | | 254 | 420 |
| Conditional offsets (b) | | | | | | |
| Derivative assets and liabilities | | (40) | (40) | | (35) | (35) |
| Use of cash collateral received or deposited | | (36) | | | (33) | (122) |
| Balances after conditional offsets | | 234 | 214 | | 186 | 263 |

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

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

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

Impact on the income statement of fair value hedges

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

| In millions of CHF | | |
|------------------------|------|------|
| | 2020 | 2019 |
| on hedged items | 24 | (47) |
| on hedging instruments | (24) | 49 |

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

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

12.2e Capital risk management

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

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

The operating cash flow-to-net financial debt ratio highlights the ability of a business to repay its debts. As at December 31, 2020, the ratio was 45.9% (2019: 58.4%). The Group's subsidiaries have complied with local statutory capital requirements as appropriate.

13. Taxes

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

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

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

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

13.1 Components of taxes recognized in the income statement

| In millions of CHF | | |
|--|---------|---------|
| | 2020 | 2019 |
| Current taxes (a) | (2 814) | (3 084) |
| Deferred taxes | (661) | 35 |
| Taxes reclassified to other comprehensive income | 140 | (134) |
| Taxes reclassified to equity | (30) | 24 |
| Total taxes | (3 365) | (3 159) |

⁽a) Current taxes related to prior years include a tax income of CHF 629 million (2019: tax income of CHF 5 million).

13.2 Reconciliation of taxes recognized in the income statement

| In millions of CHF | | | | |
|--|--------|---------|--------|---------|
| | | 2020 | | 2019 |
| Profit before taxes | | 13 922 | | 15 062 |
| Expected tax expense at weighted average applicable tax rate (a) | 19.8% | (2 760) | 16.8% | (2 525) |
| Tax effect of permanent differences on disposal of businesses | 1.3% | (180) | (1.9%) | 288 |
| Tax effect of permanent differences on impairment of goodwill | 0.7% | (97) | 0.6% | (94) |
| Tax effect of other permanent differences | 0.8% | (103) | (0.4%) | 57 |
| Prior years' taxes (b) | (4.3%) | 592 | 0.6% | (84) |
| Transfers to unrecognized deferred tax assets | 1.9% | (262) | 1.9% | (292) |
| Transfers from unrecognized deferred tax assets | (0.2%) | 22 | (0.8%) | 123 |
| Changes in tax rate on deferred taxes | 0.2% | (23) | 0.4% | (60) |
| Withholding taxes on transfers of income | 4.1% | (563) | 2.5% | (371) |
| Other | (0.1%) | 9 | 1.3% | (201) |
| Tax expense at effective tax rate | 24.2% | (3 365) | 21.0% | (3 159) |

⁽a) The weighted average applicable tax rate in 2020 increased compared to 2019 as a result of the Swiss tax reform in 2020 and a change in the geographical mix of profits (mainly caused by the disposal of Nestlé Skin Health in 2019).

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.

⁽b) In 2020, the prior years' tax income result from a revision of prior year tax exposure due to progress on resolving audits and agreeing the tax treatment of major intercompany transactions with the tax authorities in certain jurisdictions.

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

| | Property, plant and equipment | Goodwill and intangible assets | Employee benefits | Working capital, provisions and other | Unused tax losses and unused tax credits | Total |
|---|----------------------------------|-----------------------------------|-------------------|--|---|---------|
| At January 1, 2020 | (1 400) | (2 074) | 1 458 | 1 219 | 322 | (475) |
| Currency retranslations | 104 | 211 | (124) | (159) | (45) | (13) |
| (Expense)/income in income statement | (92) | 344 | (190) | (289) | (279) | (506) |
| (Expense)/income in other comprehensive income and equity | _ | _ | (163) | 8 | _ | (155) |
| Classification (to)/from held for sale | 167 | 35 | (77) | (112) | (22) | (9) |
| Modification of the scope of consolidation | 15 | (513) | 9 | 71 | 225 | (193) |
| At December 31, 2020 | (1 206) | (1 997) | 913 | 738 | 201 | (1 351) |
| At January 1, 2019 | (1 362) | (1 951) | 1 372 | 901 | 316 | (724) |
| Currency retranslations | 53 | 51 | (35) | (55) | (12) | 2 |
| (Expense)/income in income statement | (174) | (256) | (15) | 412 | 1 | (32) |
| (Expense)/income in other comprehensive income and equity | | _ | 138 | (71) | _ | 67 |
| Classification (to)/from held for sale | 84 | 82 | (2) | 19 | 17 | 200 |
| Modification of the scope of consolidation | (1) | _ | _ | 13 | _ | 12 |
| At December 31, 2019 | (1 400) | (2 074) | 1 458 | 1 219 | 322 | (475) |

| In millions of CHF | | |
|--|---------|---------|
| | 2020 | 2019 |
| Reflected in the balance sheet as follows: | | |
| Deferred tax assets | 1 285 | 2 114 |
| Deferred tax liabilities | (2 636) | (2 589) |
| Net assets/(liabilities) | (1 351) | (475) |

13.4 Unrecognized deferred taxes

At December 31, 2020, the unrecognized deferred tax assets amount to CHF 1001 million (2019: CHF 587 million).

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

| In millions of CHF | | |
|----------------------------|-------|-------|
| | 2020 | 2019 |
| Within one year | 79 | 111 |
| Between one and five years | 376 | 396 |
| More than five years | 3 294 | 2 229 |
| | 3 749 | 2 736 |

In addition, the Group has unremitted earnings that are either considered indefinitely reinvested in foreign subsidiaries or not. For the component of unremitted earnings which are expected to be repatriated in the foreseeable future and which are subject to withholding and other taxes on remittance, a deferred tax liability has been recorded. The unrecognized deferred tax liability on unremitted earnings that are considered indefinitely reinvested is not significant for the Group as the major part of these earnings is not 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 | | | | | | | | |
|-------------------------------------|---------|------------------|----------------|--------|---------|------------------|----------------|--------|
| | | | | 2020 | | | | 2019 |
| | L'Oréal | Other associates | Joint ventures | Total | L'Oréal | Other associates | Joint ventures | Total |
| At January 1 | 8 791 | 1 584 | 1 130 | 11 505 | 8 459 | 1 183 | 1 150 | 10 792 |
| Currency retranslations | (25) | (37) | (77) | (139) | (318) | (87) | (30) | (435) |
| Investments | _ | 520 | 765 | 1 285 | _ | 563 | _ | 563 |
| Divestments and reclassifications | _ | (345) | (46) | (391) | _ | (4) | (23) | (27) |
| Share of results | 886 | 126 | 149 | 1 161 | 968 | (31) | 68 | 1 005 |
| Impairment | _ | (4) | (16) | (20) | _ | _ | _ | _ |
| Share of other comprehensive income | (523) | 2 | (84) | (605) | 399 | (9) | (4) | 386 |
| Dividends and interest received | (534) | (80) | (37) | (651) | (571) | (31) | (30) | (632) |
| Other (a) | 45 | (9) | (176) | (140) | (146) | _ | (1) | (147) |
| At December 31 | 8 640 | 1 757 | 1 608 | 12 005 | 8 791 | 1 584 | 1 130 | 11 505 |

⁽a) In 2020, under Joint ventures, mainly the impact of an equity reduction at Froneri following partial buyback and redistribution of management shareholding.

Investments in Other associates in 2020 mainly relate to *Herta* charcuterie business of CHF 280 million (of which CHF 273 million as a contribution in kind, see Note 2.3) and Aimmune of CHF 188 million. In 2019, it mainly related to the acquisition of a 20% stake in IVC Evidensia (see Note 14.2).

Investments in Joint ventures in 2020 mainly relate to an increase of capital of Froneri (see Note 14.3) of CHF 183 million as well as a loan granted of CHF 582 million to finance the acquisition by Froneri of the US Ice Cream business (see Note 2.2).

Divestments under Other associates in 2020 mainly relate to CHF 257 million with regards to the full acquisitions of Aimmune and Freshly (see Note 2.2), in which the Group held respectively about 26% and 16%.

As part of the investment, loans granted by the Group to Joint ventures amount to CHF 1481 million at December 31, 2020 (2019: CHF 958 million).

Income from associates and joint ventures

| In millions of CHF | | |
|----------------------|-------|----------|
| | 2020 | 2019 |
| Share of results | 1 161 | 1 005 |
| Impairment | (20 | <u> </u> |
| Gain on disposals | 222 | _ |
| Loss on disposals | _ | (4) |
| Revaluation gain (a) | 452 | _ |
| | 1 815 | 1 001 |

⁽a) Includes a revaluation gain of CHF 509 million on the shareholding already held in Aimmune and Freshly, respectively 26% and 16% (see Note 2.2) as well as a total of CHF 57 million of cumulative currency translation loss reclassified to income statement related to Aimmune and Freshly.

14.1 Associate – L'Oréal

The Group holds 129 881 021 shares in L'Oréal (whose ultimate parent company is domiciled in France), the world leader in cosmetics, representing a 23.2% participation in its equity after elimination of its treasury shares (2019: 129 881 021 shares representing a 23.3% participation).

At December 31, 2020, the market value of the shares held amounts to CHF 43.7 billion (2019: CHF 37.2 billion).

Summarized financial information of L'Oréal

| In billions of CHF | | |
|-----------------------------------|-------|------|
| | 2020 | 2019 |
| Total current assets | 15.8 | 15.1 |
| Total non-current assets | 31.4 | 32.5 |
| Total assets | 47.2 | 47.6 |
| Total current liabilities | 12.0 | 11.8 |
| Total non-current liabilities | 3.8 | 3.8 |
| Total liabilities | 15.8 | 15.6 |
| Total equity | 31.4 | 32.0 |
| Total sales | 30.0 | 33.2 |
| Profit from continuing operations | 3.8 | 4.2 |
| Other comprehensive income | (2.3) | 1.7 |
| Total comprehensive income | 1.5 | 5.9 |

Reconciliation of the carrying amount

| Carrying amount of L'Oréal | 8.6 | 8.8 |
|--|------|------|
| Goodwill and other adjustments | 1.3 | 1.4 |
| Share held by the Group in the equity of L'Oréal | 7.3 | 7.4 |
| | 2020 | 2019 |
| In billions of CHF | | |

14.2 Other associates

The Group holds a number of other associates that are individually not material, the main ones being IVC Evidensia (veterinary services provider in Europe), an associate acquired in 2019, Lactalis Nestlé Produits Frais (chilled dairy business in Europe) and Herta (cold cuts and meat-based products).

14.3 Joint ventures

The Group holds a number of joint ventures operating in the food and beverage sectors. These joint ventures are individually not significant to the Group, the main ones being Froneri and Cereal Partners Worldwide from which the Group earned CHF 225 million (2019: CHF 134 million) of royalties (see Note 18.2) for the use of its brands, trademarks and other intellectual property.

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

| | 2020 | 2019 |
|---|--------|--------|
| Basic earnings per share (in CHF) | 4.30 | 4.30 |
| Net profit (in millions of CHF) | 12 232 | 12 609 |
| Weighted average number of shares outstanding (in millions of units) | 2 845 | 2 929 |
| Diluted earnings per share (in CHF) | 4.29 | 4.30 |
| Net profit, net of effects of dilutive potential ordinary shares (in millions of CHF) | 12 232 | 12 609 |
| Weighted average number of shares outstanding, net of effects of dilutive potential ordinary shares | | |
| (in millions of units) | 2 849 | 2 934 |
| 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 | 2 845 | 2 929 |
| Adjustment for share-based payment schemes, where dilutive | 4 | 5 |
| Weighted average number of shares outstanding used to calculate diluted earnings per share | 2 849 | 2 934 |

16. Cash flow statement

16.1 Operating profit

| In millions of CHF | | |
|---|---------|---------|
| | 2020 | 2019 |
| Profit for the year | 12 372 | 12 904 |
| Income from associates and joint ventures | (1 815) | (1 001) |
| Taxes | 3 365 | 3 159 |
| Financial income | (109) | (200) |
| Financial expense | 983 | 1 216 |
| | 14 796 | 16 078 |

16.2 Non-cash items of income and expense

| In millions of CHF | | |
|--|---------|---------|
| | 2020 | 2019 |
| Depreciation of property, plant and equipment | 3 127 | 3 488 |
| Impairment of property, plant and equipment | 302 | 783 |
| Impairment of goodwill | 402 | 779 |
| Amortization of intangible assets | 338 | 225 |
| Impairment of intangible assets | 7 | 774 |
| Net result on disposal of businesses | (1 678) | (3 416) |
| Net result on disposal of assets | (85) | 2 |
| Non-cash items in financial assets and liabilities | 202 | (150) |
| Equity compensation plans | 123 | 124 |
| Other | 8 | (4) |
| | 2 746 | 2 605 |

16.3 Decrease/(increase) in working capital

| In millions of CHF | | |
|--------------------------------|---------|---------|
| | 2020 | 2019 |
| Inventories | (1 740) | (712) |
| Trade and other receivables | 36 | (1 028) |
| Prepayments and accrued income | (4) | (47) |
| Trade and other payables | 1 193 | 1 661 |
| Accruals and deferred income | 829 | 475 |
| | 314 | 349 |

16.4 Variation of other operating assets and liabilities

| In millions of CHF | | |
|---|-------|-------|
| | 2020 | 2019 |
| Variation of employee benefits assets and liabilities | (460) | (100) |
| Variation of provisions | (248) | (42) |
| Other | 9 | 48 |
| | (699) | (94) |

16.5 Reconciliation of free cash flow and net financial debt

| In millions of CHF | 2020 | 2019 |
|--|----------|----------|
| Operating cash flow | 14 377 | 15 850 |
| Capital expenditure | (4 076) | (3 695) |
| Expenditure on intangible assets | (288) | (516) |
| Other investing activities | 232 | 295 |
| Free cash flow | 10 245 | 11 934 |
| Acquisition of businesses | (4 520) | (125) |
| Financial liabilities and short-term investments acquired in business combinations | (310) | (134) |
| Disposal of businesses | 3 916 | 9 959 |
| Financial liabilities and short-term investments transferred on disposal of businesses | 229 | 25 |
| Acquisition (net of disposal) of non-controlling interests | (1) | (16) |
| Investments (net of divestments) in associates and joint ventures | (182) | (540) |
| Dividend paid to shareholders of the parent | (7 700) | (7 230) |
| Dividends paid to non-controlling interests | (268) | (463) |
| Purchase (net of sale) of treasury shares | (6 814) | (9 773) |
| Increase in lease liabilities | (660) | (1 006) |
| Currency retranslations and exchange differences | 1 574 | 513 |
| Other movements | 310 | 48 |
| (Increase)/decrease of net financial debt | (4 181) | 3 192 |
| Net financial debt at beginning of year | (27 138) | (30 330) |
| Net financial debt at end of year | (31 319) | (27 138) |
| of which | | |
| Current financial debt | (12 019) | (14 032) |
| Non-current financial debt | (27 928) | (23 132) |
| Cash and cash equivalents | 5 235 | 7 469 |
| Short-term investments | 3 374 | 2 794 |
| Derivatives (a) | 19 | (237) |
| | | |

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

16.6 Cash and cash equivalents at end of year

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

| In millions of CHF | | |
|--------------------------|-------|-------|
| | 2020 | 2019 |
| Cash at bank and in hand | 2 139 | 2 884 |
| Time deposits | 676 | 1 935 |
| Commercial paper | 2 420 | 2 650 |
| | 5 235 | 7 469 |

17. Equity

17.1 Share capital issued

The ordinary share capital of Nestlé S.A. issued and fully paid is composed of 2 881 000 000 registered shares with a nominal value of CHF 0.10 each (2019: 2 976 000 000 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.

The share capital changed in 2020 and 2019 as a consequence of the share buyback program launched in July 2017 and completed in 2019 and the ongoing share buyback program launched in January 2020. The cancellation of shares was approved at the Annual General Meetings on April 23, 2020 and April 11, 2019. The share capital was reduced by 95 000 000 shares from CHF 298 million to CHF 288 million in 2020 and by 87 000 000 shares from CHF 306 million to CHF 298 million in 2019.

The Group started a share buyback program of up to CHF 20 billion in January 2020 which is expected to be completed by the end of December 2022. The volume of monthly share buybacks depends on market conditions. Should any extraordinary dividend payments or sizeable acquisitions take place during the period of the share buyback, the amount of the share buyback will be reduced accordingly.

17.2 Conditional share capital

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

17.3 Treasury shares

| Number of shares in millions of units | | |
|---------------------------------------|------|------|
| | 2020 | 2019 |
| Purpose of holding | | |
| Share buyback program | 59.7 | 88.9 |
| Long-Term Incentive Plans | 4.8 | 7.1 |
| | 64.5 | 96.0 |

At December 31, 2020, the treasury shares held by the Group represent 2.2% of the share capital (2019: 3.2%). Their market value amounts to CHF 6729 million (2019: CHF 10 054 million).

17.4 Number of shares outstanding

| Number of shares in millions of units | | | |
|---|---------------|-----------------|--------------------|
| | Shares issued | Treasury shares | Outstanding shares |
| At January 1, 2020 | 2 976.0 | (96.0) | 2 880.0 |
| Purchase of treasury shares | _ | (67.1) | (67.1) |
| Treasury shares delivered in respect of options exercised | <u> </u> | _ | _ |
| Treasury shares delivered in respect of equity compensation plans | <u> </u> | 3.6 | 3.6 |
| Treasury shares cancelled | (95.0) | 95.0 | _ |
| At December 31, 2020 | 2 881.0 | (64.5) | 2 816.5 |
| At January 1, 2019 | 3 063.0 | (88.5) | 2 974.5 |
| Purchase of treasury shares | _ | (97.7) | (97.7) |
| Treasury shares delivered in respect of options exercised | | 0.2 | 0.2 |
| Treasury shares delivered in respect of equity compensation plans | | 3.0 | 3.0 |
| Treasury shares cancelled | (87.0) | 87.0 | _ |
| At December 31, 2019 | 2 976.0 | (96.0) | 2 880.0 |

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

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

17.6 Retained earnings

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

17.7 Non-controlling interests

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

17.8 Other comprehensive income

| In millions of CHF | | | | | | | |
|---|---------------------|---------------------|---|----------------------|---|------------------------------|-----------------|
| | Translation reserve | Hedging reserves | Reserves of associates and joint ventures | Retained earnings | Total equity attributable to shareholders of the parent | Non-controlling interests | Total equity |
| Currency retranslations | | | | | | | |
| - Recognized | (3 668) | 1 | (3) | | (3 670) | (58) | (3 728) |
| Reclassified to income statement | 758 | | | | 758 | | 758 |
| – Taxes | 39 | | | | 39 | | 39 |
| | (2 871) | 1 | (3) | _ | (2 873) | (58) | (2 931) |
| Fair value changes on equity instruments | | | | | | | |
| – Recognized | _ | _ | _ | 163 | 163 | _ | 163 |
| – Taxes | _ | _ | _ | (39) | (39) | _ | (39) |
| | _ | _ | _ | 124 | 124 | _ | 124 |
| Changes in cash flow hedge and cost of hedge reserves | | | | | | | |
| - Recognized | _ | (101) | _ | _ | (101) | (1) | (102) |
| – Reclassified to income statement | _ | 25 | _ | _ | 25 | _ | 25 |
| – Taxes | _ | 22 | _ | _ | 22 | 1 | 23 |
| | | (54) | _ | _ | (54) | _ | (54) |
| Remeasurement of defined benefit plans | | | | | | | |
| – Recognized | _ | _ | _ | 5 | 5 | (8) | (3) |
| – Taxes | _ | _ | _ | (165) | (165) | 2 | (163) |
| | | _ | _ | (160) | (160) | (6) | (166) |
| Share of other comprehensive income of associates | | | | | | | |
| and joint ventures | | | | | | | |
| - Recognized | | _ | (265) | (340) | (605) | _ | (605) |
| | _ | | (265) | (340) | (605) | _ | (605) |
| Other comprehensive income for the year | (2 871) | (53) | (268) | (376) | (3 568) | (64) | (3 632) |

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|---|-----|-------|----|--------|-----|
| n | mil | lions | OT | | I - |

| | Translation reserve | Hedging reserves | Reserves of associates and joint ventures | Retained earnings | Total equity attributable to shareholders of the parent | Non-controlling interests | Total equity |
|--|------------------------|---------------------|---|----------------------|---|------------------------------|-----------------|
| Currency retranslations | | | | | | | |
| – Recognized | (1 217) | 4 | 3 | _ | (1 210) | 37 | (1 173) |
| - Reclassified to income statement | 129 | _ | _ | _ | 129 | _ | 129 |
| – Taxes | (6) | | | | (6) | | (6) |
| | (1 094) | 4 | 3 | | (1 087) | 37 | (1 050) |
| Fair value changes on equity instruments | | | | | | | |
| - Recognized | | | | (4) | (4) | | (4) |
| – Taxes | | | | | | | |
| | | | | (4) | (4) | | (4) |
| Changes in cash flow hedge and cost of hedge reserv | /es | | | | | | |
| - Recognized | | (90) | | | (90) | (2) | (92) |
| Reclassified to income statement | | 27 | | | 27 | (2) | 25 |
| – Taxes | | | | | | 1 | 1 |
| | | (63) | | | (63) | (3) | (66) |
| Remeasurement of defined benefit plans | | | | | | | |
| – Recognized | <u> </u> | | | (443) | (443) | (15) | (458) |
| - Taxes | | | | 135 | 135 | 3 | 138 |
| | | | | (308) | (308) | (12) | (320) |
| Share of other comprehensive income of associates and joint ventures | | | | | | | |
| – Recognized | | | 49 | 337 | 386 | | 386 |
| | | | 49 | 337 | 386 | | 386 |
| Other comprehensive income for the year | (1 094) | (59) | 52 | 25 | (1 076) | 22 | (1 054) |

17.9 Reconciliation of the other reserves

| In millions of CHF | | | |
|---|---------------------|---|-------|
| | Hedging reserves | Reserves of associates and joint ventures | Total |
| At January 1, 2020 | 69 | (114) | (45) |
| Other comprehensive income for the year | (53) | (268) | (321) |
| Other movements | 1 | _ | 1 |
| At December 31, 2020 | 17 | (382) | (365) |
| At January 1, 2019 | (17) | (166) | (183) |
| Other comprehensive income for the year | (59) | 52 | (7) |
| Other movements | 145 | _ | 145 |
| At December 31, 2019 | 69 | (114) | (45) |

17.10 Dividend

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

The dividend related to 2019 was paid on April 29, 2020, in accordance with the decision taken at the Annual General Meeting on April 23, 2020. Shareholders approved the proposed dividend of CHF 2.70 per share, resulting in a total dividend of CHF 7700 million.

Dividend payable is not accounted for until it has been ratified at the Annual General Meeting. At the Annual General Meeting on April 15, 2021, a dividend of CHF 2.75 per share will be proposed, resulting in an estimated total dividend of CHF 7923 million. For further details, refer to the Financial Statements of Nestlé S.A.

The Consolidated Financial Statements for the year ended December 31, 2020, do not reflect this proposed distribution, which will be treated as an appropriation of profit in the year ending December 31, 2021.

18. Transactions with related parties

18.1 Compensation of the Board of Directors and the Executive Board

Board of Directors

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

- Board members: CHF 280 000;
- members of the Chair's and Corporate Governance Committee: additional CHF 200 000 (Chair CHF 300 000);
- members of the Compensation Committee as well as members of the Nomination and Sustainability Committee: additional CHF 70 000 (Chair CHF 150 000); and
- members of the Audit Committee: additional CHF 100 000 (Chair CHF 150 000).

The fees for the Chair of the Board and the CEO 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. The full compensation is paid in arrears.

With the exception of the Chair 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 Chair of the Board is entitled to cash compensation, as well as Nestlé S.A. shares which are blocked for three years.

| In millions of CHF | | |
|----------------------|------|------|
| | 2020 | 2019 |
| Chair's compensation | 3 | 3 |
| Other Board members | | |
| Remuneration – cash | 3 | 3 |
| Shares | 3 | 3 |
| Total (a) | 9 | 9 |

⁽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 achievement of the Group's, functional and business 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 | | |
|-------------------------------|------|------|
| | 2020 | 2019 |
| Remuneration – cash | 13 | 13 |
| Bonus – cash | 11 | 9 |
| Bonus – shares | 5 | 7 |
| Equity compensation plans (a) | 12 | 11 |
| Pension | 3 | 2 |
| Total (b) | 44 | 42 |

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

18.2 Transactions with associates and joint ventures

The main transactions with associates and joint ventures are:

- royalties received on brand licensing (see Note 14.3);
- 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);
- purchases and sales of finished and unfinished goods.

These transactions are undertaken on arm's length terms.

18.3 Other transactions

- Group's pension plans considered as related parties, refer to Note 10 Employee benefits;
- Directors of the Group: no personal interest in any transaction of significance for the business of the Group.

19. Guarantees

At December 31, 2020 and December 31, 2019, the Group has no significant guarantees given to third parties.

⁽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.

20. Effects of hyperinflation

The 2020 and 2019 figures include the following countries considered as hyperinflationary economies:

- Argentina;
- Iran:
- Venezuela;
- Zimbabwe; and
- Lebanon and Syria since 2020.

None of them have a significant impact on the Group accounts.

21. Impacts of COVID-19

On March 11, 2020, the World Health Organization designated a new coronavirus disease ("COVID-19") as a global pandemic. Governments around the world have implemented public health and social measures to slow the transmission of the virus. These include physical and social distancing measures (cancellation of events and limitations on mass gatherings, orders to stay at or work from home, closure of schools), movement measures (significant restrictions on domestic and international travel, implementing quarantines or isolation of arriving travelers). These measures have had a significant impact on certain businesses (particularly tourism, retail and restaurants), leading to economic fallout and uncertainty.

The Group has assessed the consequences of the COVID-19 pandemic on the Consolidated Financial Statements, specifically considering the impacts on key judgements and significant estimates as detailed in Note 1. The Group will continue to monitor these areas of increased risk for material changes.

21.1 Liquidity and financing

The Group had sufficient liquidity and access to committed credit facilities to meet all short-term financial obligations. Several measures have been taken to secure further liquidity such as issuing Eurobonds in April, May and December 2020 totaling EUR 6 billion and 144A/Reg-S bonds in September 2020 totaling USD 4 billion, extending debt maturities and reducing the weight of commercial papers. Counterparty and foreign exchange risk continue to be actively managed, in line with the Group's normal risk management approach as described in Note 12.2.

21.2 Impairment of Goodwill, intangible assets and property, plant and equipment

Impairment tests have been performed using forecasted cash flows which take into account the foreseeable impacts of the COVID-19 related measures and economic outlook. This particularly relates to scenarios where out-of-home and on-the-go consumption does not return to former levels in a sustained manner and where government agencies periodically re-impose physical and social distancing measures. This impacts notably our businesses in out-of-home channels.

Partially as a result of taking COVID-19 into consideration in these revised forecasts, an impairment charge related to goodwill has been recognized in Other operating expenses (see Notes 3, 4.2 and 9.1).

21.3 Inventories, supply chain and customers creditworthiness

During 2020 the Group has increased the levels of raw and packaging material inventories to ensure that production and sales continued despite potential disruptions.

Customer receivables balances are reviewed closely and changes in creditworthiness, including those related to COVID-19, are integrated into the assessment of credit risk and expected credit losses. Forward-looking information about the expected economic effects of the pandemic have been considered. At the end of December 2020, this has particularly affected customers in the out-of-home channel, where the impact of public health and social measures have been severe. The resulting impact in allowances for bad debts is not significant and has been reflected in the trade and other receivables (see Note 7.1).

21.4 Impact on Operating Profit

In millions of CHE

Other operating expenses

Incremental costs

Due to the pervasive effects of COVID-19 it is not possible to precisely identify and quantify all impacts on the Operating Profit of the Group. The main COVID-19 related incremental costs affecting the results are estimated at CHF 420 million, as follows:

| | Approximate |
|---|-------------|
| Type of cost | amount |
| Wage premiums and bonuses for front line workers, safety related costs (gloves, masks, cleaning and sanitizing, screening), | |
| meals, allowances and benefits | 370 |
| Donations to governments and charities | 90 |
| Unsaleable inventories and other incremental expenses | 50 |
| COVID-19-related assistance and rent relief (a) | (90) |
| Incremental costs | 420 |
| | |
| Approximate allocation by function: | |
| Cost of goods sold | 130 |
| Distribution expenses | 10 |
| Marketing and administration expenses | 120 |

⁽a) The Group recorded temporary cost reductions of CHF 80 million under economic stimulus policies implemented unilaterally by governments and applicable to all companies, and CHF 10 million of COVID-19-related rent relief (see Note 1) from lessors.

160

420

In addition, the Group absorbed around CHF 120 million of salaries of staff made idle and depreciation of around CHF 50 million related to boutiques and other facilities/sites closed due to public health and social measures imposed by government authorities.

COVID-19 related measures also led to reductions of travel, training and meeting expenses, among others. In addition, many markets could not implement in-store activations during COVID-19 related lockdowns.

22. Events after the balance sheet date

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

At February 17, 2021, the date of approval for issue of the Consolidated Financial Statements by the Board of Directors, the Group has no subsequent events which either warrant a modification of the value of its assets and liabilities, or any additional disclosure, except the estimated result on disposal of the Nestlé Waters North America business mentioned in Note 2.4 Assets held for sale.



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

Lausanne, 17 February 2021

Statutory auditor's 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 income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity and the notes to the consolidated financial statements, including a summary of significant accounting policies, as at 31 December 2020 and for the year then ended.

In our opinion, the consolidated financial statements (pages 68 to 151) give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, 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 *International Code of Ethics* for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (IESBA Code) 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

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



separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

Measurement of revenue as it relates to trade spend

Risk

As described in Notes 1 and 3 of the consolidated financial statements, revenue from the sale of goods is recognized when control of the goods has transferred to the customer and is measured net of discounts, allowances and promotional rebates (collectively 'trade spend'). The measurement of revenue, therefore, involves many estimates related to trade spend arrangements.

Organic growth, which represents sales growth after removing the impact of acquisitions and divestitures and exchange rate movements, is an important component in the determination of measurable financial objectives linked to management incentive schemes. The risk of revenue being misstated, through error, misinterpretation or misapplication of accounting standards and policies or intentional manipulation, may result from the pressure that local management may feel to achieve performance targets. The nature of the misstatements may include bias in estimates, unrecorded accruals, or the misclassification of trade spend in the income statement.

We deemed the measurement of trade spend to be a key audit matter due to the materiality and complexity in estimating the amount of trade spend that is ultimately claimed. Management estimates the level of trade spend using judgments based on historical experience and the specific terms of the agreements with the customers. Due to Nestlé's broad customer base across different countries, there are varied contractual arrangements. The estimates require the use of assumptions that are complex, given the diversity of trade spend arrangements and the uncertainty related to future outcomes, including possible changes in buying patterns resulting from COVID-19. There is a



risk that discounts, allowances and promotional rebates are not properly measured or classified at the reporting date, resulting in a risk of misstatement of sales.

Our audit response Our audit procedures included the following:

Accounting policies: We assessed the Group's revenue recognition accounting policies, including the recognition and classification criteria for trade spend.

Processes and controls: We gained an understanding of the types of arrangements, processes, systems and internal controls related to trade spend.

- We tested the integrity of the general IT control environment relating to the most significant IT systems relevant to revenue recognition and tested IT application controls.
- We tested selected internal controls in selected locations related to measuring and accounting for trade spend.

Data analytics: We evaluated monthly trends of sales and trade spend. We performed relationship analysis focused on the change in trade spend as a percentage of sales to assess the level of trade spend by category, and by customer, in the context of the local markets. For a sample of trade spend, we considered if those items were classified with reference to the Group's accounting policies.

Test of details: For a sample of trade spend arrangements, we reconciled key inputs and assumptions used in the estimates with internal and external sources of information, such as the contracts with the relevant customers or other third-party support. We recalculated the accrual and income statement amounts to test mathematical accuracy.

We assessed manual journal entries impacting trade spend to identify significant or unusual items and obtained underlying documentation.

We considered the ageing of trade spend accruals based on our understanding of the average lead time for settlement. We tested transactions with customers recorded after the reporting date to assess the completeness of accruals and assessed whether recorded in the correct period.



Assessing disclosure: We assessed the disclosure provided in Note 1 and Note 3 of the financial statements in relation to the relevant accounting standards.

Our results: Our audit procedures did not lead to any reservations concerning the trade spend accrual and related net revenue recognized.

Carrying value of goodwill and indefinite life intangibles assets

Risk

As described in Notes 1 and 9 of the consolidated financial statements, the Company has CHF 27.6 billion of goodwill and CHF 16.5 billion of indefinite life intangibles assets, the sum of which represents 36% of total assets and 95% of equity. For all cash generating units (CGUs) with goodwill or indefinite-life intangibles, indicators of impairment are assessed at each reporting date and an impairment test is performed at least annually. In the year ended 31 December 2020, impairment charges have been recorded of CHF 0.4 billion, primarily related to goodwill.

The assessment of indicators of impairment and impairment testing are subjective in nature. The recoverability of goodwill and indefinite life intangible assets is assessed using forecasted financial information within a discounted cash flow model. The recoverable amount is sensitive to changes in key assumptions, including sales growth, operating margins, discount and terminal growth rates. The inputs, as well as allocation of assets to CGUs, are subject to management judgment.

Our audit response Our audit procedures included the following:

Process and controls: We gained an understanding of the impairment process, including the allocation of assets to CGUs, and tested selected controls. We assessed whether the determination of CGUs, and whether the allocation of assets to CGUs, are appropriate.

Historical comparisons and current context: We obtained an understanding of the current macro-economic context, the impact of COVID-19 on forecasted financial information and the outlook for each CGU through both external research and discussions with selected stakeholders within the Group. We compared the forecasted financial information (sales growth and operating



margins) with historical data. Where the forecasted financial information differed from our expectations given the current context and historical data, we obtained supporting explanations.

Personnel interviews: Forecasted financial information (sales growth and operating margin) is forecasted bottom-up and reviewed centrally. We compared judgments made and information obtained both at the local level and at Group level for consistency. We assessed and challenged assumptions with reference to information from market research and perspectives from category leadership and zone leadership.

Assessment of methodology: With the assistance of our valuation specialists, we replicated management's impairment models and tested the mathematical accuracy. Further, we assessed the appropriateness of the methodology used and the consistent application thereof to the CGUs tested.

Evaluation of technical parameters: We independently derived a range of weighted average cost of capital (WACC) and terminal growth rates, with the assistance of our valuation specialists, compared these to those calculated by the Group and identified differences in assumptions between the two calculations. We challenged the Group on such differences and assessed the discount rates in relation to other key inputs.

Sensitivity analysis: Using data analytics, we performed sensitivity analyses around the key assumptions such as sales growth rate, operating margin, terminal growth rate, and WACC. We focused on those assumptions and CGUs that were most sensitive and judgmental.

Assessing indicators of impairment: We obtained management's assessment regarding indicators of impairment and challenged selected indicators based on our knowledge of internal and external factors.

Assessing disclosure: We assessed the adequacy of the disclosure provided in Note 1 and Note 9 of the financial statements in relation to the relevant accounting standards.

Our results: Our audit procedures did not lead to any reservations concerning the valuation, presentation and disclosure of goodwill or indefinite life intangible assets.



Completeness and valuation of uncertain tax positions

Risk

Nestlé's global footprint results in significant complexity as its worldwide operations are subject to a diversity of international tax regulations. The cross-border activity and scrutiny of the transfer pricing applied to intercompany transactions vary by tax jurisdiction. In addition to the complexity of its tax environment, there is a level of unpredictability of tax authority's assessment of Nestlé's tax filings, which inherently results in the application of management judgment in ascertaining reasonable estimates, which may lead to liabilities for uncertain tax positions being understated or overstated.

The identification and valuation of uncertain tax positions is a key audit matter because of the significant level of judgment and expertise required to interpret local country tax legislation and corresponding risks. Nestlé's policy on uncertain tax position can be found in Notes 1 and 13 of the consolidated financial statements.

Our audit response Our audit procedures included the following:

Processes and controls: We gained an understanding of the processes for identifying, measuring, and recognizing uncertain tax positions both centrally and locally, and assessed the existence of controls in the process.

Historical comparisons and current context: We obtained an understanding of the current macro-economic context which may affect uncertain tax positions which are recognized or unrecognized. We validated our understanding of the current environment in relation to other key areas of the audit. Furthermore, our tax specialists, including transfer pricing specialists, considered impacts of changes in tax legislation or business operations in the identification, measurement and recognition of uncertain tax positions. We reviewed available information related to significant on-going tax audits. We reviewed the recognized and unrecognized positions in comparison to tax audits' outcomes, when available, and gained an understanding if there were any deviations in outcome compared to amounts recognized.



Personnel interviews: Through interviews in the local markets and at Group level review, we compared judgments made and information obtained for consistency.

Methodology implementation: We assessed the application of the relevant standards, including but not limited to IFRIC 23, Uncertainty over Income Tax Treatments, in the identification, measurement and recognition of uncertain tax positions. With the assistance of our tax specialists, including transfer pricing specialists, we assessed the intercompany transfer pricing models for compliance with applicable laws, regulations and transfer pricing guidelines and evaluated management's judgment regarding tax risks. We reperformed management's calculations of uncertain tax positions.

Key assumptions: In reviewing the calculations, we identified the key assumptions of identified risk provision, whether recognized or unrecognized, and tested the validity of these assumptions with our tax specialists. The key assumptions included, but are not limited to, number of years for which the risk occurs; use of generally accepted benchmarks; business models within the group and availability of mutual agreement procedures in the case of disputes related to profit allocation across the group to reduce double taxation. We focused our attention on those assumptions and inputs that were most sensitive and judgmental.

Our results: Our audit procedures did not lead to any reservations concerning the completeness and valuation of uncertain tax positions.



Other Matter

The consolidated financial statements of Nestlé S.A. for the year ended 31 December 2019 were audited by another statutory auditor who expressed an unmodified opinion on those consolidated financial statements on 12 February 2020.



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, 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.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://www.expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.



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.

Ernst & Young Ltd

Jeanne Boillet

Licensed audit expert (Auditor in charge)

André Schaub

Licensed audit expert

Financial information – 5 year review

| | 2020 | 2019 |
|---|------------------------|---------------|
| Results | | |
| Sales | 84 343 | 92 568 |
| Underlying Trading operating profit (a) | 14 903 | 16 260 |
| as % of sales | 17.7% | 17.6% |
| Trading operating profit (a) | 14 233 | 13 674 |
| as % of sales | 16.9% | 14.8% |
| Taxes | 3 365 | 3 159 |
| Profit for the year attributable to shareholders of the parent (Net profit) | 12 232 | 12 609 |
| as % of sales | 14.5% | 13.6% |
| Total amount of dividend | 7 923 ^(c) | 7 700 |
| Depreciation of property, plant and equipment (d) | 3 127 | 3 488 |
| | | |
| Balance sheet and Cash flow statement | | |
| Current assets | 34 068 | 35 663 |
| Non-current assets | 89 960 | 92 277 |
| Total assets | 124 028 | 127 940 |
| Current liabilities | 39 722 | 41 615 |
| Non-current liabilities | 37 792 | 33 463 |
| Equity attributable to shareholders of the parent | 45 695 | 52 035 |
| Non-controlling interests | 819 | 827 |
| Net financial debt (a) | 31 319 | 27 138 |
| Ratio of net financial debt to equity (gearing) | 68.5% | 52.2% |
| Operating cash flow | 14 377 | 15 850 |
| as % of net financial debt | 45.9% | 58.4% |
| Free cash flow (a) | 10 245 | 11 934 |
| Capital additions (d) | 11 367 | 5 482 |
| as % of sales | 13.5% | 5.9% |
| | | |
| Data per share | | _ |
| Weighted average number of shares outstanding (in millions of units) | 2 845 | 2 929 |
| Basic earnings per share | 4.30 | 4.30 |
| Underlying earnings per share (a) | 4.21 | 4.41 |
| Dividend | 2.75 ^(c) | 2.70 |
| Pay-out ratio based on basic earnings per share | 64.0% ^(c) | 62.8% |
| Stock prices (high) | 112.62 | 113.20 |
| Stock prices (low) | 83.37 | 79.86 |
| Yield (b) | 2.4/3.3 ^(c) | 2.4/3.4 |
| | | |
| Market capitalization | 293 644 | 301 772 |
| | | |
| Number of employees (in thousands) | 273 | 291 |

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

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

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

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

| 2018 | 2017 | 2016 | |
|-------------|---------|---------|---|
| | | | Results |
| 91 439 | 89 590 | 89 469 | Sales |
| 15 521 | 14 771 | 14 307 | Underlying Trading operating profit (a) |
| 17.0% | 16.5% | 16.0% | as % of sales |
| 13 789 | 13 277 | 13 693 | Trading operating profit (a) |
| 15.1% | 14.8% | 15.3% | as % of sales |
| 3 439 | 2 773 | 4 413 | Taxes |
| 10 135 | 7 156 | 8 531 | Profit for the year attributable to shareholders of the parent (Net profit) |
| 11.1% | 8.0% | 9.5% | as % of sales |
| 7 230 | 7 124 | 7 126 | Total amount of dividend |
| 3 604 | 3 560 | 2 795 | Depreciation of property, plant and equipment (d) |
| | | | |
| | | | Balance sheet and Cash flow statement |
| 41 003 | 31 884 | 32 042 | Current assets |
| 96 012 | 101 326 | 99 859 | Non-current assets |
| 137 015 | 133 210 | 131 901 | Total assets |
| 43 030 | 38 189 | 37 517 | Current liabilities |
| 35 582 | 32 792 | 28 403 | Non-current liabilities |
| 57 363 | 60 956 | 64 590 | Equity attributable to shareholders of the parent |
| 1 040 | 1 273 | 1 391 | Non-controlling interests |
| 30 330 | 21 369 | 13 913 | Net financial debt (a) |
| 52.9% | 35.1% | 21.5% | Ratio of net financial debt to equity (gearing) |
| 15 398 | 14 199 | 15 582 | Operating cash flow |
| 50.8% | 66.4% | 112.0% | as % of net financial debt |
| 10 765 | 9 358 | 10 108 | Free cash flow (a) |
| 14 711 | 6 569 | 5 462 | Capital additions (d) |
| 16.1% | 7.3% | 6.1% | as % of sales |
| | | | |
| | | | Data per share |
| 3 014 | 3 092 | 3 091 | Weighted average number of shares outstanding (in millions of units) |
| 3.36 | 2.31 | 2.76 | Basic earnings per share |
| 4.02 | 3.55 | 3.40 | Underlying earnings per share (a) |
| 2.45 | 2.35 | 2.30 | Dividend |
| 72.9% | 101.7% | 83.3% | Pay-out ratio based on basic earnings per share |
| 86.50 | 86.40 | 80.05 | Stock prices (high) |
| 72.92 | 71.45 | 67.00 | Stock prices (low) |
| 2.8/3.4 | 2.7/3.3 | 2.9/3.4 | Yield (b) |
| 227.262 | 256 222 | 226 240 | Market capitalization |
| 237 363 | 256 223 | 226 310 | Market Capitalization |
| 308 | 323 | 328 | 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 |
|-------------------------------------|-----------|---|--|------------|------------|
| | <u> </u> | 23, 1100110 011 11 | | - Curroney | Japital |
| Europe | | | - | | |
| Austria | | | | | |
| Nespresso Österreich GmbH & Co. OHG | Wien | | 100% | EUR | 35 000 |
| Nestlé Österreich GmbH | Wien | | 100% | EUR | 7 270 000 |
| Azerbaijan | | | _ | | |
| Nestlé Azerbaijan LLC | Baku | <0.1% | 100% | USD | 200 000 |
| Belarus | | | _ | | |
| LLC Nestlé Bel | ° Minsk | <0.1% | 100% | BYN | 410 000 |
| Belgium | | | - | | |
| Nespresso Belgique S.A. | Bruxelles | | 100% | EUR | 550 000 |
| Nestlé Belgilux S.A. | Bruxelles | | 100% | EUR | 3 818 140 |
| 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 | | | | <u> </u> | |
| Nestlé Adriatic BH d.o.o. | Sarajevo | 9.4% | 100% | BAM | 21 359 |
| Bulgaria | | | - | | |
| Nestlé Bulgaria A.D. | Sofia | | 100% | BGN | 10 234 933 |

| Companies | | | % capital areholdings | % ultimate capital shareholdings | Currency | Capital |
|--|----------|------------------------------------|-----------------------|----------------------------------|----------|-------------|
| 2.1 | | | | <u> </u> | | |
| Croatia | | | | | | |
| Nestlé Adriatic d.o.o. | | Zagreb | | 100% | HRK | 14 685 500 |
| Czech Republic | | | | | | |
| Mucos Pharma CZ, s.r.o. | | Pruhonice | | 100% | CZK | 160 000 |
| Nestlé Cesko s.r.o. | | Praha | | 100% | CZK | 300 000 000 |
| Tivall CZ, s.r.o. | | Krupka | | 100% | CZK | 400 000 000 |
| Denmark | | | | | | |
| Nestlé Danmark A/S | | Copenhagen | | 100% | DKK | 44 000 000 |
| Nestlé Professional Food A/S | | Faxe | | 100% | DKK | 12 000 000 |
| Finland | | | | | | |
| Puljonki Oy | | Juuka | | 100% | EUR | 85 000 |
| Suomen Nestlé Oy | | Espoo | | 100% | EUR | 6 000 000 |
| France | | | | | | |
| Centres de Recherche et Développement Nestlé S.A.S. | | Issy-les-Moulineaux | | 100% | EUR | 3 138 230 |
| Laboratoires Guigoz S.A.S. | | Issy-les-Moulineaux | | 100% | EUR | 132 595 |
| Nespresso France S.A.S. | | Paris | | 100% | EUR | 1 360 000 |
| Nestlé Excellence Supports France S.A.S. | | Issy-les-Moulineaux | | 100% | EUR | 1 356 796 |
| Nestlé France S.A.S. | | Issy-les-Moulineaux | | 100% | EUR | 130 925 520 |
| Nestlé France M.G. S.A.S. | | Issy-les-Moulineaux | | 100% | EUR | 50 000 |
| Nestlé Health Science France S.A.S. | | Issy-les-Moulineaux | | 100% | EUR | 57 943 072 |
| Nestlé Holding France S.A.S. | ◊ | Issy-les-Moulineaux | | 100% | EUR | 739 559 392 |
| Nestlé Purina PetCare France S.A.S. | | Issy-les-Moulineaux | | 100% | EUR | 21 091 872 |
| Nestlé Purina PetCare Commercial Operations | | | | | | |
| France S.A.S. | | Issy-les-Moulineaux | | 100% | EUR | 48 666 450 |
| Nestlé Waters S.A.S. | ◊ | Issy-les-Moulineaux | | 100% | EUR | 254 825 042 |
| Nestlé Waters EMENA S.A.S. | ◊ | 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 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. | | Issy-les-Moulineaux | | 100% | EUR | 8 670 319 |
| Société Immobilière de Noisiel S.A. | ◊ | Noisiel | | 100% | EUR | 22 753 550 |
| Société Industrielle de Transformation | | | | | | |
| de Produits Agricoles S.A.S. | | Issy-les-Moulineaux | | 100% | EUR | 9 718 000 |
| Cereal Partners France SNC | 1) | Noisiel | | 50% | EUR | 3 000 000 |
| L'Oréal S.A. | Δ3) | Paris | 23.2% | 23.2% | EUR | 111 974 316 |
| Listed on the Paris stock exchange, market capitalization EU | JR 17 | 4.0 billion, quotation code (ISIN) | FR00001203 | 21 | | |
| Lactalis Nestlé Produits Frais S.A.S. | 3) | Laval | | 40% | EUR | 69 208 832 |

| Companies | | City | % capital shareholdings by Nestlé S.A. | % ultimate capital | Currency | Capital |
|---|----------|----------------------|--|--------------------|----------|---------------|
| - Companies | | <u> </u> | <i>5</i> , 10000 00 00 | <u> </u> | | Capital |
| Georgia | | | | | | |
| Nestlé Georgia LLC | | Tbilisi | | 100% | CHF | 700 000 |
| Germany | | | | | | |
| Atrium Deutschland Holding GmbH | ♦ | München | | 100% | EUR | 25 000 |
| Bodymed AG | | Saarbrücken | | 100% | EUR | 60 000 |
| Mucos Emulsionsgesellschaft mbH | | | | | | |
| Chemisch-Pharmazeutische Betriebe | | Berlin | | 100% | EUR | 102 258 |
| Mucos Pharma GmbH & Co. KG | | Berlin | | 100% | EUR | 127 823 |
| Nestlé Deutschland AG | | Frankfurt am Main | | 100% | EUR | 214 266 628 |
| Nestlé Product Technology Centre | | | | | | |
| Lebensmittelforschung GmbH | | Freiburg i. Br. | | 100% | EUR | 52 000 |
| Nestlé Unternehmungen Deutschland GmbH | ○ | Frankfurt am Main | 15% | 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 Single Member SA | | | | | | |
| Coffee Systems and Products | | Maroussi | | 100% | EUR | 500 000 |
| Nestlé Hellas Single Member SA | | Maroussi | | 100% | EUR | 5 269 765 |
| C.P.W. Hellas Breakfast Cereals SA | 1) | Maroussi | | 50% | EUR | 201 070 |
| Hungary | | | | | | |
| Nestlé Hungária Kft. | | Budapest | | 100% | HUF | 6 000 000 000 |
| Italy | | | | | | |
| Nespresso Italiana S.p.A. | | Assago | | 100% | EUR | 250 000 |
| Nestlé Italiana S.p.A. | | Assago | | 100% | EUR | 25 582 492 |
| Nestlé Purina Commerciale Srl | | Assago | | 100% | EUR | 1 000 000 |
| Sanpellegrino S.p.A. | | San Pellegrino Terme | | 100% | EUR | 58 742 145 |
| Kazakhstan | | | | | | |
| Nestlé Food Kazakhstan LLP | | Almaty | <0.1% | 100% | KZT | 91 900 |
| Lithuania | | | | | | |
| UAB "Nestlé Baltics" | | Vilnius | | 100% | EUR | 31 856 |
| Luxembourg | | | | | | |
| Compagnie Financière du Haut-Rhin S.A. | | Luxembourg | | 100% | EUR | 105 200 000 |
| Nespresso Luxembourg Sàrl | | Luxembourg | | 100% | EUR | 12 525 |
| Nestlé Finance International Ltd | | Luxembourg | 100% | 100% | EUR | 440 000 |

| Companies | (| City | % capital shareholdings by Nestlé S.A. | % ultimate capital shareholdings | Currency | Capital |
|---|----------|----------------------|--|--|----------|----------------|
| · | | | | | | |
| Luxembourg (continued) | | | | | | |
| Nestlé Treasury International S.A. | ♦ | Luxembourg | 100% | 100% | EUR | 1 000 000 |
| NTC-Europe S.A. | · · | Luxembourg | 100% | 100% | EUR | 3 565 000 |
| Froneri Lux Topco Sàrl (a) | 1) | Luxembourg | 47.1% | 47.1% | EUR | 97 648 |
| IVC New TopHolding S.A. | 3) | Luxembourg | | 21.4% | GBP | 16 170 000 |
| Macedonia | | | | | | |
| Nestlé Adriatik Makedonija d.o.o.e.l. | | Skopje-Karpos | | 100% | MKD | 31 060 400 |
| Malta | | | | | | |
| Nestlé Malta Ltd | | Lija | | 100% | EUR | 116 470 |
| Moldova | | | | | | |
| LLC Nestlé | | Chisinau | 100% | 100% | USD | 1 000 |
| Netherlands | | | | | | |
| East Springs International N.V. | <u></u> | Amsterdam | | 100% | EUR | 25 370 000 |
| MCO Health B.V. | | Almere | | 100% | EUR | 418 000 |
| Nespresso Nederland B.V. | | Amsterdam | | 100% | EUR | 680 670 |
| Nestlé Nederland B.V. | | Amsterdam | | 100% | EUR | 11 346 000 |
| Norway | | | | | | |
| AS Nestlé Norge | | Bærum | | 100% | NOK | 81 250 000 |
| Poland | | | | | | |
| Nestlé Polska S.A. | | Warszawa | | 100% | PLN | 42 459 600 |
| Nestlé Purina Manufacturing Operations | | | | | | |
| Poland Sp. Z o.o. | | Nowa Wies Wrocławska | | 100% | PLN | 495 923 700 |
| Cereal Partners Poland Torun-Pacific Sp. Z o.o. | 1) | Torun | | 50% | PLN | 14 572 838 |
| Portugal | | | | | | |
| Nestlé Business Services Lisbon, S.A. | | Oeiras | | 100% | EUR | 50 000 |
| Nestlé Portugal, Unipessoal, Lda. | | Oeiras | | 100% | EUR | 30 000 000 |
| 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 |
| Republic of Serbia | | | _ | | | |
| Nestlé Adriatic S d.o.o., Beograd-Surcin | | Beograd-Surcin | | 100% | RSD | 12 222 327 814 |
| Romania | | | | | | |
| Nestlé Romania S.R.L. | | Bucharest | | 100% | RON | 132 906 800 |

⁽a) Voting powers amount to 50%

| Companies | | City | % capital shareholdings by Nestlé S.A. | % ultimate capital shareholdings | Currency | Capital |
|--|----------|------------------------|--|--|----------|-------------|
| - Pro- Pro- Pro- Pro- Pro- Pro- Pro- Pro | | | | | | |
| Russia | | | | | | |
| LLC Atrium Innovations Rus | | Moscow | | 100% | RUB | 6 000 000 |
| Nestlé Kuban LLC | | Timashevsk | | 100% | RUB | 21 041 793 |
| Nestlé Rossiya LLC | | Moscow | | 100% | RUB | 880 154 115 |
| Cereal Partners Rus, LLC | 1) | Moscow | | 50% | RUB | 39 730 860 |
| Slovak Republic | | | | | | |
| Nestlé Slovensko s.r.o. | | Prievidza | | 100% | EUR | 13 277 568 |
| Slovenia | | | | | | |
| Nestlé Adriatic Trgovina d.o.o. | | Ljubljana | | 100% | EUR | 8 763 |
| Spain | | | | | | |
| Nestlé España S.A. | | Esplugues de Llobregat | | 100% | EUR | 100 000 000 |
| Nestlé Global Services Spain, S.L. | | Esplugues de Llobregat | | 100% | EUR | 3 000 |
| Nestlé Purina PetCare España S.A. | | Castellbisbal | | 100% | EUR | 12 000 000 |
| Cereal Partners España A.E.I.E. | 1) | Esplugues de Llobregat | | 50% | EUR | 120 202 |
| Herta Foods, S.L. | 3) | Gurb | | 40% | EUR | 489 113 988 |
| Sweden | | | | - | | |
| Nestlé Sverige AB | | Helsingborg | | 100% | SEK | 20 000 000 |
| Switzerland | | | | | | |
| Entreprises Maggi S.A. | ◊ | Cham | 100% | 100% | CHF | 100 000 |
| Intercona Re AG | ♦ | Châtel-St-Denis | | 100% | CHF | 35 000 000 |
| Nestlé Enterprises SA | | Vevey | | 100% | CHF | 3 514 000 |
| Nestlé Finance S.A. | ♦ | Cham | | 100% | CHF | 30 000 000 |
| Nestlé Nespresso S.A. | | Lausanne | | 100% | CHF | 2 000 000 |
| Nestlé Operational Services Worldwide S.A. | | Bussigny-près-Lausanne | | 100% | CHF | 100 000 |
| Nestlé Waters (Suisse) S.A. | | Henniez | | 100% | CHF | 5 000 000 |
| Nestrade S.A. | | La Tour-de-Peilz | | 100% | CHF | 6 500 000 |
| Nutrition-Wellness Venture AG | → | Vevey | 100% | 100% | CHF | 100 000 |
| Société des Produits Nestlé S.A. | | Vevey | 100% | 100% | CHF | 8 900 000 |
| Sofinol S.A. | | Manno | | 100% | CHF | 3 000 000 |
| CPW Operations Sàrl | °1) | Prilly | 50% | 50% | CHF | 40 000 |
| CPW S.A. | 1) | Prilly | | 50% | CHF | 10 000 000 |
| Eckes-Granini (Suisse) S.A. | 2) | Henniez | | 49% | CHF | 2 000 000 |
| Turkey | | | | | | |
| Erikli Su ve Mesrubat Sanayi ve Ticaret A.S. | | Bursa | | 100% | TRY | 20 700 000 |
| Nestlé Türkiye Gida Sanayi A.S. | | Istanbul | | 99.9% | TRY | 35 000 000 |
| Cereal Partners Gida Ticaret Limited Sirketi | 1) | Istanbul | | 50% | TRY | 88 080 000 |

| Communica | | Cit. | % capital shareholdings | % ultimate capital | Comment | Carital |
|---|----------|---------------|----------------------------|-----------------------|----------|-------------|
| Companies | | City | by Nestie S.A. | shareholdings | Currency | Capital |
| Ukraine | | | | | | |
| LLC Nestlé Ukraine | | Kyiv | | 100% | UAH | 799 965 |
| LLC Technocom | | Kharviv | 100% | 100% | UAH | 119 658 066 |
| JSC "Lviv Confectionery Factory" "Svitoch" | | Lviv | | 100% | UAH | 88 111 060 |
| PJSC Volynholding | | Torchyn | | 100% | UAH | 100 000 |
| United Kingdom | | | | | | |
| Lily's Kitchen Ltd | | London | | 100% | GBP | 1 164 |
| Nespresso UK Ltd | | Gatwick | | 100% | GBP | 275 000 |
| Nestec York Ltd | | Gatwick | | 100% | GBP | 500 000 |
| Nestlé Holdings (UK) PLC | ◊ | Gatwick | | 100% | GBP | 77 940 000 |
| Nestlé Purina UK Commercial Operations Ltd | | Gatwick | | 100% | GBP | 10 001 |
| Nestlé Purina UK Manufacturing Operations Ltd | | Gatwick | | 100% | GBP | 44 000 000 |
| Nestlé UK Ltd | | Gatwick | | 100% | GBP | 129 972 342 |
| Nestlé Waters UK Ltd | | Gatwick | | 100% | GBP | 640 |
| Nestlé VP LLP | | London | | 70% | GBP | 0 |
| Osem UK Ltd | | London | | 100% | GBP | 2 000 |
| Princes Gate Water Ltd | | Pembrokeshire | | 90% | GBP | 199 630 |
| Tailsco Ltd | | London | | 83% | GBP | 16 |
| Vitaflo (International) Ltd | | Liverpool | | 100% | GBP | 625 379 |
| Cereal Partners UK | 1) | Herts | | 50% | GBP | _ |
| Phagenesis Ltd | °3) | Manchester | 29.2% | 29.2% | GBP | 16 146 |

| Companies | City | % capital shareholdings by Nestlé S.A. | % ultimate capital shareholdings | Currency | Capital |
|--|---|--|-----------------------------------|---------------------------|--|
| | | | | | |
| Africa | | | | | |
| Algeria | | | | | |
| Nestlé Algérie SpA | Alger | <0.1% | 49% | DZD | 650 000 000 |
| Nestlé Industrie Algérie SpA | ° Alger | 49% | 49% | DZD | 1 100 000 000 |
| Nestlé Waters Algérie SpA | Blida | | 49% | DZD | 377 606 250 |
| Angola | | | | | |
| Nestlé Angola Lda | Luanda | | 100% | AOA | 1 791 870 000 |
| TOFA – Produtos Alimentares de Confeitaria Lda | Luanda | | 90% | AOA | 4 500 000 |
| Burkina Faso | | | | | |
| Nestlé Burkina Faso S.A. | Ouagadougou | | 100% | XOF | 50 000 000 |
| Cameroon | | | | | |
| Nestlé Cameroun S.A. | Douala | | 100% | XAF | 4 323 960 000 |
| Côte d'Ivoire | | | | | |
| Nestlé Côte d'Ivoire S.A. | | 6.5% | 88.1% | XOF | 5 517 600 000 |
| Egypt | | | | | |
| Nestlé Egypt S.A.E. | Giza | 100% | 100% | | 80 722 000 |
| | Giza Cairo | 100% | 100% 63.8% | | 80 722 000 90 140 000 |
| | · —— —————— | 100% | | | |
| Nestlé Waters Egypt S.A.E. | · —— —————— | 100% | | EGP | |
| Nestlé Waters Egypt S.A.E. Gabon | Cairo | 100% | 63.8% | EGP | 90 140 000 |
| Nestlé Waters Egypt S.A.E. Gabon Nestlé Gabon, S.A. | Cairo | 100% | 63.8% | XAF | 90 140 000 |
| Nestlé Waters Egypt S.A.E. Gabon Nestlé Gabon, S.A. Ghana | Cairo | 100% | 90% | XAF | 90 140 000 |
| Nestlé Waters Egypt S.A.E. Gabon Nestlé Gabon, S.A. Ghana Nestlé Central and West Africa Ltd | Libreville Accra | 100% | 90% | XAF | 90 140 000 344 000 000 145 746 000 |
| Nestlé Waters Egypt S.A.E. Gabon Nestlé Gabon, S.A. Ghana Nestlé Central and West Africa Ltd Nestlé Ghana Ltd | Libreville Accra | 100% | 90% | XAF GHS GHS | 90 140 000 344 000 000 145 746 000 |
| Nestlé Waters Egypt S.A.E. Gabon Nestlé Gabon, S.A. Ghana Nestlé Central and West Africa Ltd Nestlé Ghana Ltd Kenya Nestlé Equatorial African Region Ltd | Libreville Accra Accra | | 90% | EGP XAF GHS GHS KES | 90 140 000 344 000 000 145 746 000 20 100 000 |
| Nestlé Waters Egypt S.A.E. Gabon Nestlé Gabon, S.A. Ghana Nestlé Central and West Africa Ltd Nestlé Ghana Ltd Kenya | Cairo Libreville Accra Accra Nairobi | | 90% 90% 100% 76% | EGP XAF GHS GHS KES | 90 140 000 344 000 000 145 746 000 20 100 000 2 507 242 000 |
| Nestlé Waters Egypt S.A.E. Gabon Nestlé Gabon, S.A. Ghana Nestlé Central and West Africa Ltd Nestlé Ghana Ltd Kenya Nestlé Equatorial African Region Ltd Nestlé Kenya Ltd | Cairo Libreville Accra Accra Nairobi | | 90% 90% 100% 76% | KES KES | 90 140 000 344 000 000 145 746 000 20 100 000 2 507 242 000 |
| Nestlé Waters Egypt S.A.E. Gabon Nestlé Gabon, S.A. Ghana Nestlé Central and West Africa Ltd Nestlé Ghana Ltd Kenya Nestlé Equatorial African Region Ltd Nestlé Kenya Ltd Mauritius Nestlé's Products (Mauritius) Ltd Morocco | Libreville Accra Accra Nairobi Nairobi Port Louis | | 90% 100% 76% 100% 100% | EGP XAF GHS GHS KES KES | 90 140 000 344 000 000 145 746 000 20 100 000 2 507 242 000 2 26 100 400 2 488 071 |
| Nestlé Waters Egypt S.A.E. Gabon Nestlé Gabon, S.A. Ghana Nestlé Central and West Africa Ltd Nestlé Ghana Ltd Kenya Nestlé Equatorial African Region Ltd Nestlé Kenya Ltd Mauritius Nestlé's Products (Mauritius) Ltd | Cairo Libreville Accra Accra Nairobi Nairobi | | 90% 90% 100% 76% 100% | EGP XAF GHS GHS KES KES | 90 140 000 344 000 000 145 746 000 20 100 000 2 507 242 000 226 100 400 |
| Nestlé Waters Egypt S.A.E. Gabon Nestlé Gabon, S.A. Ghana Nestlé Central and West Africa Ltd Nestlé Ghana Ltd Kenya Nestlé Equatorial African Region Ltd Nestlé Kenya Ltd Mauritius Nestlé's Products (Mauritius) Ltd | Libreville Accra Accra Nairobi Nairobi Port Louis | | 90% 100% 76% 100% 100% | KES KES MUR | 90 140 000 344 000 000 145 746 000 20 100 000 2 507 242 000 2 26 100 400 2 488 071 |

| | | 0 | % capital shareholdings | % ultimate capital | | 0 " |
|-----------------------------------|----|--------------|-------------------------|--------------------|----------|---------------|
| Companies | | City | by Nestle S.A. | shareholdings | Currency | Capital |
| Senegal | | | | | | |
| Nestlé Sénégal S.A. | | Dakar | | 100% | XOF | 1 620 000 000 |
| South Africa | | | | | | |
| Nestlé (South Africa) (Pty) Ltd | | Johannesburg | | 100% | ZAR | 759 735 000 |
| Clover Waters Proprietary Limited | 3) | Johannesburg | | 30% | ZAR | 56 021 890 |
| Tunisia | | | | | | |
| Nestlé Tunisie S.A. | | Tunis | | 99.5% | TND | 8 438 280 |
| Nestlé Tunisie Distribution S.A. | | Tunis | | 100% | TND | 100 000 |
| Zimbabwe | | | | | | |
| Nestlé Zimbabwe (Private) Ltd | | Harare | | 100% | ZWL | 19 626 000 |

| Companies | | City | % capital shareholdings by Nestlé S.A. | % ultimate capital | Currency | Capital |
|---|----------|--------------------|--|--------------------|----------|----------------|
| - Companies | | <u>,</u> | 27 . 100.10 0.7 1. | ona. on oranigo | Guiloney | <u> </u> |
| Americas | | | | | | |
| Argentina | | | | | | |
| Eco de Los Andes S.A. | | Buenos Aires | | 50.9% | ARS | 92 524 285 |
| Enzimas S.A. | 0 | Buenos Aires | 99.9% | 100% | ARS | 9 000 000 |
| Nestlé Argentina S.A. | | Buenos Aires | 96.6% | 100% | ARS | 7 042 195 000 |
| Bolivia | | | | | | |
| Industrias Alimentícias Fagal S.R.L. | | Santa Cruz | 1.5% | 100% | ВОВ | 175 556 000 |
| Nestlé Bolivia S.A. | | Santa Cruz | <0.1% | 100% | ВОВ | 191 900 |
| Brazil | | | | | | |
| Chocolates Garoto S.A. | | Vila Velha | | 100% | BRL | 264 766 192 |
| Nestlé Brasil Ltda | | São Paulo | 100% | 100% | BRL | 463 707 038 |
| Nestlé Nordeste Alimentos e Bebidas Ltda | | Feira de Santana | 15.8% | 100% | BRL | 1 674 270 610 |
| SOCOPAL – Sociedade Comercial de Corretagem | | | | | | |
| de Seguros e de Participações Ltda | 0 | São Paulo | 100% | 100% | BRL | 2 155 600 |
| CPW Brasil Ltda | 1) | Caçapava | | 50% | BRL | 7 885 520 |
| Canada | | | | | | |
| Atrium Innovations Inc. | | Westmount (Québec) | | 99.9% | CAD | 219 486 374 |
| Nestlé Canada Inc. | | Toronto (Ontario) | | 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% | SGD | 7 950 000 |
| Chile | | | | | | |
| Nespresso Chile S.A. | | Santiago de Chile | | 99.8% | CLP | 1 000 000 |
| Nestlé Chile S.A. | | Santiago de Chile | 99.7% | 99.8% | 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 |
| Colombia | | | | | | |
| Comestibles La Rosa S.A. | | Bogotá | 52.4% | 100% | СОР | 126 397 400 |
| Dairy Partners Americas Manufacturing Colombia Ltda | | Bogotá | 99.8% | 100% | COP | 200 000 000 |
| Nestlé de Colombia S.A. | | Bogotá | 94.9% | 100% | COP | 1 291 305 400 |
| Nestlé Purina PetCare de Colombia S.A. | | Bogotá | <0.1% | 100% | СОР | 17 030 000 000 |
| Costa Rica | | | | | | |
| Compañía Nestlé Costa Rica S.A. | | Heredia | | 100% | CRC | 18 000 000 |

| Companies | | City | % capital shareholdings | % ultimate capital shareholdings | Currency | Capital |
|---|----------|----------------|----------------------------|----------------------------------|----------|---------------|
| companies | | City | by Nestic S.A. | Shareholalings | Currency | Cupitai |
| Cuba | | | | | | |
| Coralac S.A. | | La Habana | | 60% | USD | 6 350 000 |
| Los Portales S.A. | | La Habana | | 50% | | 24 110 000 |
| Nescor, S.A. | | Artemisa | | 50.9% | USD | 32 200 000 |
| Dominican Republic | | | | | | |
| Nestlé Dominicana S.A. | | Santo Domingo | 98.5% | 99.9% | DOP | 1 657 445 000 |
| Silsa Dominicana S.A. | | Santo Domingo | | 99.9% | USD | 50 000 |
| Ecuador | | | | | | |
| Ecuajugos S.A. | | Quito | <0.1% | 100% | USD | 521 583 |
| Industrial Surindu S.A. | | Quito | <0.1% | 100% | USD | 3 000 000 |
| Nestlé Ecuador S.A. | | Quito | <0.1% | 100% | USD | 1 776 760 |
| Terrafertil S.A. | | Tabacundo | | 60% | USD | 525 800 |
| El Salvador | | | | | | |
| Nestlé El Salvador, S.A. de C.V. | | San Salvador | <0.1% | 100% | USD | 4 457 200 |
| Guatemala | | | | | | |
| Malher, S.A. | | Guatemala City | <0.1% | 100% | GTQ | 100 075 000 |
| Nestlé Guatemala S.A. | | Guatemala City | <0.1% | 100% | GTQ | 23 460 600 |
| Honduras | | | | | | |
| Nestlé Hondureña S.A. | | Tegucigalpa | | 100% | PAB | 200 000 |
| Jamaica | | | | - | | |
| Nestlé Jamaica Ltd | | Kingston | | 100% | JMD | 49 200 000 |
| Mexico | | | | | | |
| Manantiales La Asunción, S.A.P.I. de C.V. (b) | | México, D.F. | | 40% | MXN | 1 035 827 492 |
| Marcas Nestlé, S.A. de C.V. | | México, D.F. | | 100% | MXN | 500 050 000 |
| Nescalín, S.A. de C.V. | ◊ | México, D.F. | | 100% | MXN | 445 826 740 |
| Nespresso México, S.A. de C.V. | | México, D.F. | | 100% | MXN | 10 050 000 |
| Nestlé México, S.A. de C.V. | | México, D.F. | | 100% | MXN | 4 407 532 730 |
| Nestlé Servicios Corporativos, S.A. de C.V. | | México, D.F. | | 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 | 50 000 |
| Ralston Purina México, S.A. de C.V. | | México, D.F. | | 100% | MXN | 9 257 112 |
| Terrafertil México S.A.P.I. de C.V. | | Tultitlán | | 60% | MXN | 15 040 320 |
| Waters Partners Services México, S.A.P.I. de C.V. (b) | | México, D.F. | | 40% | MXN | 620 000 |
| Cereal Partners México, S.A. de C.V. | 1) | México, D.F. | | 50% | MXN | 500 000 |
| CPW México, S. de R.L. de C.V. | | México, D.F. | | 50% | | 708 138 000 |

⁽b) Voting powers amount to 51%

| Companies | City | % capital shareholdings by Nestlé S.A. | % ultimate capital shareholdings | Currency | Capital |
|---|-------------------------|--|--|----------|-------------|
| | | | | | |
| Nicaragua | | | | | |
| Compañía Centroamericana de Productos Lácteos, S.A. | Managua | | 92.6% | NIO | 10 294 900 |
| Nestlé Nicaragua, S.A. | Managua | | 100% | USD | 150 000 |
| Panama | | | | | |
| Nestlé Centroamerica, S.A. | Panamá City | | 100% | USD | 1 000 000 |
| Nestlé Panamá, S.A. | Panamá City | | 100% | PAB | 17 500 000 |
| Unilac, Inc. | Panamá City | | 100% | USD | 750 000 |
| Paraguay | | | | | |
| Nestlé Business Services Latam S.A. | Asunción | | 100% | PYG | 100 000 000 |
| Nestlé Paraguay S.A. | Asunción | | 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 | 88 964 263 |
| Puerto Rico | | | | | |
| Nestlé Puerto Rico, Inc. | Bayamon | | 100% | USD | 500 000 |
| Trinidad and Tobago | | | | | |
| Nestlé Caribbean, Inc. | Valsayn | | 100% | USD | 100 000 |
| Nestlé Trinidad and Tobago Ltd | Valsayn | 100% | 100% | TTD | 35 540 000 |
| United States | | | | | |
| Aimmune Therapeutics, Inc. | Wilmington (Delaware |) | 100% | USD | 1 |
| Blue Bottle Coffee, Inc. | Wilmington (Delaware | | 68.4% | USD | 0 |
| Chameleon Cold Brew, LLC | Wilmington (Delaware |) | 100% | USD | 0 |
| Checkerboard Holding Company, Inc. | ∀ Wilmington (Delaware) |) | 100% | USD | 1 001 |
| Foundry Foods, Inc. | Wilmington (Delaware) |) | 100% | USD | 1 |
| Freshly Inc. (c) | Dover (Delaware) | | 92.2% | USD | 0 |
| Garden of Life LLC | Wilmington (Delaware |) | 100% | USD | _ |
| Gerber Products Company | Fremont (Michigan) | | 100% | USD | 1 000 |
| HVL LLC | Wilmington (Delaware |) | 100% | USD | _ |
| Malher, Inc. | Stafford (Texas) | | 100% | USD | 1 000 |
| Merrick Pet Care Holdings Corporation | ♦ Wilmington (Delaware) |) | 100% | USD | 100 |
| Merrick Pet Care, Inc. | Dallas (Texas) | | 100% | USD | 1 000 000 |
| NDHH, LLC | ♦ Wilmington (Delaware |) | 100% | | 1 |
| Nespresso USA, Inc. | Wilmington (Delaware |) | 100% | | 1 000 |
| Nestlé Capital Corporation | ♦ Wilmington (Delaware) | | 100% | | 1 000 000 |
| Nestlé Health Science US Holdings, Inc. | ♦ Wilmington (Delaware) |) | 100% | | 1 |
| Nestlé HealthCare Nutrition, Inc. | Wilmington (Delaware | | 100% | | 50 000 |
| Nestlé Holdings, Inc. | ♦ Wilmington (Delaware) | | 100% | | 100 000 |
| Nestlé Insurance Holdings, Inc. | ♦ Wilmington (Delaware) |) | 100% | USD | 10 |

⁽c) Voting powers amount to 97.9%

| | | | % capital shareholdings | % ultimate capital | | |
|---|----------|----------------------------|-------------------------|--------------------|----------|-------------|
| Companies | | | | shareholdings | Currency | Capital |
| | | | _ | | | |
| United States (continued) | | | _ | | | |
| Nestlé Nutrition R&D Centers, Inc. | | Wilmington (Delaware) | | 100% | | 10 000 |
| Nestlé Prepared Foods Company | | Philadelphia (Pennsylvania |) | 100% | | 476 760 |
| Nestlé Purina PetCare Company | | St. Louis (Missouri) | _ | 100% | | 1 000 |
| Nestlé Purina PetCare Global Resources, Inc. | | Wilmington (Delaware) | _ | 100% | USD | 0 |
| Nestlé R&D Center, Inc. | | Wilmington (Delaware) | | 100% | USD | 10 000 |
| Nestlé Regional GLOBE Office North America, Inc. | | Wilmington (Delaware) | | 100% | USD | 1 000 |
| Nestlé Transportation Company | | Wilmington (Delaware) | | 100% | USD | 100 |
| Nestlé US Holdco, Inc. | · · · | Wilmington (Delaware) | | 100% | USD | 1 |
| Nestlé USA, Inc. | | Wilmington (Delaware) | | 100% | USD | 1 000 |
| Nestlé Waters North America Holdings, Inc. | ◊ | Wilmington (Delaware) | | 100% | USD | 10 000 000 |
| Nestlé Waters North America, Inc. | | Wilmington (Delaware) | | 100% | USD | 10 700 000 |
| NiMCo US, Inc. | | Wilmington (Delaware) | | 100% | USD | 10 |
| Osem USA Inc. | | New York (New York) | | 100% | USD | 30 000 |
| Pure Encapsulations, LLC | | Wilmington (Delaware) | | 100% | USD | _ |
| Red Maple Insurance Company | → | Williston (Vermont) | | 100% | USD | 1 200 000 |
| Sweet Earth Inc. | | Wilmington (Delaware) | | 100% | USD | 0 |
| The Stouffer Corporation | → | Cleveland (Ohio) | | 100% | USD | 0 |
| TSC Holdings, Inc. | | Wilmington (Delaware) | | 100% | USD | 100 000 |
| Vital Proteins LLC | | Wilmington (Delaware) | | 70% | USD | 0 |
| Vitality Foodservice, Inc. | | Dover (Delaware) | | 100% | USD | 1 240 |
| Vitaminpacks Inc. | | Wilmington (Delaware) | | 90.4% | USD | 0 |
| Waggin' Train LLC | | Wilmington (Delaware) | | 100% | USD | _ |
| Zuke's LLC | | Wilmington (Delaware) | | 100% | | 0 |
| Before Brands, Inc. | 3) | Wilmington (Delaware) | | 32.5% | USD | 4 715 |
| Cerecin Inc. | | Wilmington (Delaware) | | 35% | USD | 62 642 |
| Flagship Ventures Fund V, L.P. | 3) | | | 5.7% | | 337 050 000 |
| Nutritional Health Disruptive Innovation Fund, L.P. | | Wilmington (Delaware) | | 98.9% | | 85 181 818 |
| Nutritional Health LTP Fund, L.P. | 3) | , | | 100% | | 75 000 000 |
| Uruguay | | | | - | | |
| Nestlé del Uruguay S.A. | | Montevideo | - | 100% | UYU | 9 495 189 |
| ivestie dei Orugudy S.A. | | ivioritevideo | | 100% | | 9 495 189 |
| Venezuela | | | _ | | | |
| Nestlé Cadipro, S.A. | | Caracas | | 100% | | 506 |
| Nestlé Venezuela, S.A. | | Caracas | 100% | 100% | VES | 5 |

| | | % capital shareholdings | % ultimate capital | | |
|--|---|-------------------------|--------------------|----------|-----------------|
| Companies | City | by Nestlé S.A. | | Currency | Capital |
| Asia | | | | | |
| | | | | | |
| Afghanistan | 17.1. 1 | 1000/ | 1000/ | | 1,000,000 |
| Nestlé Afghanistan Ltd | Kabul | | 100% | USD | 1 000 000 |
| Bahrain | | | | | |
| Al Manhal Water Factory (Bahrain) WLL | Manama | | 63% | BHD | 300 000 |
| Nestlé Bahrain Trading WLL | Manama | 49% | 49% | BHD | 200 000 |
| Bangladesh | | | | | |
| Nestlé Bangladesh Limited | - — — — — — — — — — — — — — — — — — — — | 99.4% | 100% | BDT | 100 000 000 |
| - Toolio Bangiaason Emilioa | | | | | |
| Greater China Region | | | | | |
| Dongguan Hsu Chi Food Co., Limited | Dongguan | | 60% | HKD | 700 000 000 |
| Guangzhou Refrigerated Foods Limited | Guangzhou | | 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 |
| Nestlé (China) Limited | Beijing | 100% | 100% | CNY | 250 000 000 |
| Nestlé Dongguan Limited | Dongguan | | 100% | CNY | 536 000 000 |
| Nestlé Health Science (China) Limited | Taizhou City | | 100% | USD | 32 640 000 |
| Nestlé Hong Kong Limited | Hong Kong | | 100% | HKD | 250 000 000 |
| Nestlé Nespresso Beijing Limited | Beijing | | 100% | CNY | 7 000 000 |
| Nestlé Purina PetCare Tianjin Limited | Tianjin | | 100% | CNY | 40 000 000 |
| Nestlé Qingdao Limited | Laixi | | 100% | CNY | 930 000 000 |
| Nestlé R&D (China) Limited | Beijing | | 100% | CNY | 40 000 000 |
| Nestlé Shanghai Limited | Shanghai | | 95% | CNY | 200 000 000 |
| Nestlé Shuangcheng Limited | Shuangcheng | | 97% | CNY | 435 000 000 |
| Nestlé Taiwan Limited | Taipei | | 100% | TWD | 100 000 000 |
| Nestlé Tianjin Limited | Tianjin | | 100% | CNY | 785 000 000 |
| Shanghai Nestlé Product Services Limited | Shanghai | | 100% | CNY | 83 000 000 |
| Shanghai Totole First Food Limited | Shanghai | | 100% | CNY | 72 000 000 |
| Shanghai Totole Food Limited | Shanghai | | 100% | USD | 7 800 000 |
| Sichuan Haoji Food Co., Limited | Puge | | 80% | CNY | 80 000 000 |
| Suzhou Hexing Food Co., Limited | Suzhou | | 100% | CNY | 40 000 000 |
| Wyeth (Hong Kong) Holding Co., Limited | Hong Kong | | 100% | HKD | 1 354 107 000 |
| Wyeth (Shanghai) Trading Co., Limited | Shanghai | | 100% | USD | 2 000 000 |
| Wyeth Nutritional (China) Co., Limited | Suzhou | | 100% | CNY | 900 000 000 |
| India | | | | | |
| - | New Delhi | 34.3% | 62.8% | INR | 964 157 160 |
| Listed on the Bombay Stock Exchange, market capitalization INI | | | | | 304 137 100 |
| | | | | | |
| Indonesia D.T. Northá Indonesia | lakarta | | 90.2% | 100 | 152 753 440 000 |
| P.T. Nestlé Indonesia | Jakarta | | | | |
| P.T. Nestlé Trading Indonesia | Jakarta | | 90.3% | | 3 500 000 000 |
| P.T. Wyeth Nutrition Sduaenam | Jakarta | | 90% | IDR | 2 500 000 000 |

| Companies | City | % capital shareholdings by Nestlé S.A. | % ultimate capital shareholdings | Currency | Capital |
|--|----------------------|--|--|----------|-----------------|
| | | <u> </u> | | | · · |
| Iran | | | | | |
| Nestlé Iran (Private Joint Stock Company) | Tehran | 95.9% | 95.9% | IRR | 358 538 000 000 |
| Nestlé Parsian (Private Joint Stock Company) | Tehran | 60% | 60% | IRR | 1 000 000 000 |
| Nestlé Waters Iranian (Private Joint Stock Company) | Tehran | | 100% | IRR | 35 300 000 000 |
| Israel | | | | | |
| Assamim Gift Parcels Ltd | Shoam | | 73.8% | ILS | 103 |
| Beit HaShita-Asis Limited Partnership | Kibbutz Beit HaShita | | 100% | | 1 000 |
| Materna Industries Limited Partnership | Kibbutz Maabarot | | 100% | | 10 000 |
| Migdanot Habait Ltd | Shoam | | 100% | | 4 014 |
| Nespresso Israel Ltd | Tel Aviv | | 100% | | 1 000 |
| OSEM Food Industries Ltd | Shoam | | 100% | | 176 |
| OSEM Group Commerce Limited Partnership | Shoam | | 100% | | 100 |
| OSEM Investments Ltd | Shoam | | 100% | | 110 644 443 |
| Tivall Food Industries Ltd | Kiryat Gat | | 100% | | 41 861 167 |
| | | | | | |
| Japan | | | | | |
| Blue Bottle Coffee Japan, G.K. | Tokyo | | 68.4% | | 10 000 000 |
| Nestlé Japan Ltd | Kobe | | 100% | | 4 000 000 000 |
| Nestlé Nespresso K.K. | Kobe | | 100% | JPY | 10 000 000 |
| Jordan | | | | | |
| Ghadeer Mineral Water Co. WLL | Amman | | 75% | JOD | 1 785 000 |
| Nestlé Jordan Trading Company Ltd | Amman | 50% | 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. | △♦ Petaling Jaya | 72.6% | 72.6% | MYR | 267 500 000 |
| Listed on the Kuala Lumpur stock exchange, market capita | | | | | |
| Nestlé Asean (Malaysia) Sdn. Bhd. | Petaling Jaya | | 72.6% | MYR | 42 000 000 |
| Nestlé Manufacturing (Malaysia) Sdn. Bhd. | Petaling Jaya | | 72.6% | | 132 500 000 |
| Nestlé Products Sdn. Bhd. | Petaling Jaya | | 72.6% | | 28 500 000 |
| Purina PetCare (Malaysia) Sdn. Bhd. | Petaling Jaya | | 100% | | 1 100 000 |
| Wyeth Nutrition (Malaysia) Sdn. Bhd. | Petaling Jaya | | 100% | | 1 969 505 |
| Cereal Partners (Malaysia) Sdn. Bhd. | 1) Petaling Jaya | | 50% | | 2 500 000 |
| . , , | <u> </u> | | | | |

| Companies | Ci | ty | % capital shareholdings by Nestlé S.A. | % ultimate capital shareholdings | Currency | Capital |
|--|------------|------------------------|--|----------------------------------|------------|------------------|
| | | | | | | |
| Myanmar | | | | | | |
| Nestlé Myanmar Limited | | /angon | | 95% | USD | 9 469 600 |
| Nestlé Myanmar (Trading) Limited | | /angon | | 100% | USD | 100 |
| Oman | | | | | | |
| Nestlé Oman Trading LLC | | Muscat | 49% | 49% | OMR | 300 000 |
| Pakistan | | | | | | |
| Nestlé Pakistan Ltd | Δ [| ahore | | 59% | PKR | 453 495 840 |
| Listed on the Pakistan Stock Exchange, market capitalization | on PKR | 302.3 billion, quotati | on code (ISIN) PK00251 | 101012 | | |
| Palestinian Territories | | | | | | |
| Nestlé Trading Private Limited Company | E | Bethlehem | 97.5% | 97.5% | JOD | 200 000 |
| Philippines | | | | | | |
| Nestlé Business Services AOA, Inc. | E | Bulacan | 100% | 100% | PHP | 70 000 000 |
| Nestlé Philippines, Inc. | (| Cabuyao | 100% | 100% | PHP | 2 300 927 400 |
| Penpro, Inc. (d) | - | Makati City | | 88.5% | PHP | 630 000 000 |
| Wyeth Philippines, Inc. | | Makati City | 100% | 100% | PHP | 743 134 900 |
| CPW Philippines, Inc. | °1) [| Makati City | 50% | 50% | PHP | 7 500 000 |
| 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 | | | | | | |
| Nestlé Korea Yuhan Chaegim Hoesa | | Seoul | | 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% | KRW | 52 783 120 000 |
| Saudi Arabia | | | | | | |
| Al Anhar Water Factory Co. Ltd | | leddah | | 64% | SAR | 7 500 000 |
| Al Manhal Water Factory Co. Ltd | F | Riyadh | | 64% | SAR | 7 000 000 |
| Nestlé Saudi Arabia LLC | | leddah | | 75% | SAR | 27 000 000 |
| Nestlé Water Factory Co. Ltd | F | Riyadh | | 64% | SAR | 15 000 000 |
| Pure Water Factory Co. Ltd | | Vladinah | | 64% | SAR | 5 000 000 |
| SHAS Company for Water Services Ltd | F | Riyadh | | 64% | SAR | 13 500 000 |
| Springs Water Factory Co. Ltd | | Dammam | | 64% | SAR | 5 000 000 |
| Singapore | | | | | | |
| Nestlé R&D Center (Pte) Ltd | | Singapore | | 100% | SGD | 20 000 000 |
| Nestlé Singapore (Pte) Ltd | | Singapore | | 100% | SGD | 1 000 000 |
| Nestlé TC Asia Pacific Pte Ltd | ♦ § | Singapore | 100% | 100% | JPY SGD | 10 000 000 000 2 |
| Wyeth Nutritionals (Singapore) Pte Ltd | | Singapore | | 100% | SGD | 280 506 420 |

 $^{^{(}d)}$ Voting powers amount to 40%

| Companies | | City | % capital shareholdings by Nestlé S.A. | % ultimate capital shareholdings | Currency | Capital |
|---|----------|-------------------------|--|--|----------|----------------|
| Sri Lanka | | | | | | |
| Nestlé Lanka PLC | Δ | Colombo | 90.8% | 90.8% | LKR | 537 254 630 |
| Listed on the Colombo stock exchange, market capitaliza | ation LK | R 68.5 billion, quotati | on code (ISIN) LK0128N | 00005 | | |
| Syria | | | | | | |
| Nestlé Syria S.A. | | Damascus | 100% | 100% | SYP | 800 000 000 |
| Thailand | | | | | | |
| Nestlé (Thai) Ltd | | Bangkok | | 100% | THB | 880 000 000 |
| Perrier Vittel (Thailand) Ltd | | Bangkok | | 100% | THB | 235 000 000 |
| Quality Coffee Products Ltd | | Bangkok | 30% | 50% | THB | 500 000 000 |
| United Arab Emirates | | | | | - ——— · | |
| Nestlé Dubai Manufacturing LLC | | Dubai | 49% | 49% | AED | 300 000 |
| Nestlé Middle East FZE | | Dubai | | 100% | AED | 3 000 000 |
| Nestlé Middle East Manufacturing LLC | | Dubai | 49% | 49% | AED | 300 000 |
| Nestlé Treasury Centre-Middle East & Africa Ltd | | Dubai | | 100% | USD | 2 997 343 684 |
| Nestlé UAE LLC | | Dubai | | 49% | AED | 2 000 000 |
| Nestlé Waters Factory H&O LLC | | Dubai | | 51% | AED | 22 300 000 |
| CP Middle East FZCO | 1) | Dubai | | 50% | AED | 600 000 |
| Uzbekistan | | | | | | |
| Nestlé Food MChJ XK | • | Tashkent | <0.1% | 100% | UZS | 12 922 977 969 |
| 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. | | Currency | Capital |
|-----------------------------------|----|----------|--|------|----------|-------------|
| | | | ., | | | |
| Oceania | | | | | | |
| Australia | | | | | | |
| 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% | XPF | 5 000 000 |
| New Caledonia | | | | | | |
| Nestlé Nouvelle-Calédonie S.A.S. | | Nouméa | | 100% | XPF | 64 000 000 |
| New Zealand | | | | | | |
| Nestlé New Zealand Limited | | Auckland | | 100% | NZD | 300 000 |
| CPW New Zealand | 1) | Auckland | | 50% | NZD | _ |
| Papua New Guinea | | | | | | |
| Nestlé (PNG) Ltd | | Lae | | 100% | PGK | 11 850 000 |

Technical assistance, research and development units

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

Technical Assistance TA

Development centres D

Research centres R

Research & Development centres R&D

Product Technology centres PTC

The Technical Assistance centre is Société des Produits Nestlé S.A. (SPN), a technical, scientific, commercial and business assistance company. The units of SPN, specialized in all areas of the business, supply permanent know-how and assistance to operating companies in the Group within the framework of licence and equivalent contracts. SPN 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 | | | | | |
| Nestlé Research | | 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 | | Lausanne | | R | |
| Nestlé System Technology Centre | | Orbe | | R and PTC | |
| Société des Produits Nestlé S.A. | | Vevey | | TA | |
| Australia | | | | | |
| CPW R&D Centre | 1) | Wahgunyah | | R&D | |
| Chile | | | | | |
| Nestlé Development Centre | | Santiago de Chile | | D | |
| Côte d'Ivoire | | | | | |
| Nestlé R&D Centre | | Abidjan | | R&D | |
| France | | | | | |
| Nestlé Development Centre Dairy | | Lisieux | | D | |
| Nestlé Product Technology Centre Water | | Vittel | | PTC | |
| Nestlé R&D Centre | | Aubigny | | R&D | |
| Nestlé R&D Centre | | Tours | | R&D | |
| Froneri Development Center Glaces S.A.S. | 1) | Beauvais | | PTC | |

| | | N. 6 | |
|---|----|--------------------------|----------------|
| | (| City of operations | |
| Germany | | | |
| Nestlé Product Technology Centre Food | | Singen | PTC |
| Greater China Region | | | |
| Nestlé R&D Centre | | Beijing | R&D |
| India | | | |
| Nestlé Development Centre | | Gurgaon | _ <u>D</u> |
| Republic of Ireland | | | |
| Nestlé Development Centre | | Askeaton | <u>D</u> |
| Singapore | | | |
| Nestlé Development Centre | | Singapore | D |
| Nestlé Development Unit Ice Cream | | Singapore | D |
| United Kingdom | | | |
| Nestlé Product Technology Centre Confectionery | | York | PTC |
| CPW R&D Centre | 1) | Staverton | R&D |
| United States | | | |
| 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 PetCare | | St. Louis (Missouri) | PTC |
| Nestlé R&D Centre | | St. Joseph (Missouri) | R&D |
| CPW R&D Centre | 1) | Minneapolis (Minnesota) | R&D |

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Income statement for the year ended December 31, 2020

| In millions of CHF | | | |
|--|-------|-------|---------|
| | Notes | 2020 | 2019 |
| Income from Group companies | 2 | 2 096 | 12 109 |
| Profit on disposal and revaluation of assets | 3 | 3 070 | 8 368 |
| Other income | | _ | 118 |
| Financial income | 4 | 132 | 302 |
| Total income | | 5 298 | 20 897 |
| Expenses recharged from Group companies | | | (2 509) |
| Personnel expenses | | (108) | (158) |
| Other expenses | | (53) | (367) |
| Write-downs and amortization | 6 | (324) | (3 082) |
| Financial expenses | 7 | (241) | (68) |
| Taxes | 8 | (69) | (478) |
| Total expenses | | (795) | (6 662) |
| Profit for the year | | 4 503 | 14 235 |

Balance sheet as at December 31, 2020

before appropriations

| In millions of CHF | Notes | 2020 | 2019 |
|--------------------------------|-------|---------|---------|
| Assets | 14065 | | 2013 |
| 73565 | | | |
| Current assets | | | |
| Cash and cash equivalents | 9 | 330 | 631 |
| Other current receivables | 10 | 354 | 1 376 |
| Prepayments and accrued income | | 109 | 87 |
| Total current assets | | 793 | 2 094 |
| | | | |
| Non-current assets | | | |
| Financial assets | 11 | 14 455 | 13 353 |
| Shareholdings | 12 | 13 349 | 20 775 |
| Property, plant and equipment | | 1 | 1 |
| Total non-current assets | | 27 805 | 34 129 |
| | | | |
| Total assets | | 28 598 | 36 223 |
| Liabilities | | | |
| Current liabilities | | | |
| Interest-bearing liabilities | 13 | 1 149 | 1 657 |
| Other current liabilities | 14 | 4 089 | 1 180 |
| Accruals and deferred income | | 92 | 17 |
| Provisions | 15 | 215 | 385 |
| Total current liabilities | | 5 545 | 3 239 |
| Non-current liabilities | | | |
| Interest-bearing liabilities | | 1 503 | 1 503 |
| Provisions | | 500 | 547 |
| Total non-current liabilities | | 2 003 | 2 050 |
| Total Holl Gallette Habilities | | | 2 000 |
| Total liabilities | | 7 548 | 5 289 |
| Equity | | | |
| Share capital | 16/17 | 288 | 298 |
| Legal retained earnings | | | |
| - General legal reserve | 17 | 1 947 | 1 937 |
| Voluntary retained earnings | | | |
| - Special reserve | 17 | 2 859 | 12 519 |
| - Profit brought forward | 17 | 17 971 | 11 436 |
| – Profit for the year | 17 | 4 503 | 14 235 |
| Treasury shares | 17/18 | (6 518) | (9 491) |
| Total equity | | 21 050 | 30 934 |
| Total liabilities and equity | | 28 598 | 36 223 |
| Total nashities and equity | | 20 330 | 30 223 |

Notes to the annual accounts

1. Accounting policies

General

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

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

Foreign currency translation

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

Hedging

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

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

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

Income statement

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

Taxes

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

Financial assets and shareholdings

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

Financial assets and shareholdings 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.

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 and revaluation of assets

This represents mainly the net gains realized on the sale of financial assets previously written down. In 2020, the net gain of CHF 2616 million on the sale of participations to Société des Produits Nestlé S.A. is included. In 2019, the net gains of CHF 1603 million on the sale of participations to Société des Produits Nestlé S.A. and CHF 4135 million on the sale of Nestlé Skin Health S.A. were included. In addition, a reversal of prior period valuation adjustments resulted in a net gain on participations amounting to CHF 2435 million.

4. Financial income

| In millions of CHF | | |
|------------------------------------|------|------|
| | 2020 | 2019 |
| Income on loans to Group companies | 21 | 234 |
| Other financial income | 111 | 68 |
| | 132 | 302 |

5. Expenses recharged from Group companies

In 2019, expenses of several central service companies recharged to Nestlé S.A. were included.

6. Write-downs and amortization

| In millions of CHF | | |
|---|------|-------|
| | 2020 | 2019 |
| Shareholdings and loans | 324 | 2 758 |
| Trademarks and other industrial property rights | _ | 324 |
| | 324 | 3 082 |

7. Financial expenses

| In millions of CHF | | |
|--|------|------|
| | 2020 | 2019 |
| Expenses related to loans from Group companies | 1 | 25 |
| Other financial expenses | 240 | 43 |
| | 241 | 68 |

8. Taxes

| In millions of CHF | | |
|--|------|-------|
| | 2020 | 2019 |
| Direct taxes | 47 | 262 |
| Prior years adjustments | (61) | (130) |
| Withholding taxes on income from foreign sources | 83 | 346 |
| | 69 | 478 |

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 | | |
|--|-----|---------|
| | 202 | 20 2019 |
| Amounts owed by Group companies (current accounts) | 2 | 1 1 325 |
| Other receivables | 14 | 43 51 |
| | 3! | 1 376 |

11. Financial assets

| In millions of CHF | | |
|--------------------------|--------|--------|
| | 2020 | 2019 |
| Loans to Group companies | 14 427 | 13 329 |
| Other investments | 28 | 24 |
| | 14 455 | 13 353 |

12. Shareholdings

| In millions of CHF | | |
|-------------------------|---------|---------|
| | 2020 | 2019 |
| At January 1 | 20 775 | 28 693 |
| Net increase/(decrease) | (7 317) | (5 978) |
| Write-downs | (109) | (1 940) |
| At December 31 | 13 349 | 20 775 |

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. In 2020, Nestlé S.A. has sold or contributed shareholdings with a net book value of CHF 10 117 million to its subsidiary Société des Produits Nestlé S.A. (also see Note 3).

13. Interest-bearing liabilities

Current interest-bearing liabilities are amounts owed to Group companies. Non-current interest-bearing liabilities concern two bonds issued by Nestlé S.A. in 2018.

| In millions of CHF | | | | | | | |
|--------------------------|-----|---------------------------|--------|-------------------------------|-------------------------------|-------|-------|
| Issuer | | Face value in millions | Coupon | Effective interest rate | Year of issue/ maturity | 2020 | 2019 |
| Nestlé S.A., Switzerland | CHF | 600 | 0.75% | 0.69% | 2018–2028 | 603 | 603 |
| | CHF | 900 | 0.25% | 0.26% | 2018–2024 | 900 | 900 |
| Total carrying amount | | | | | | 1 503 | 1 503 |

14. Other current liabilities

| In millions of CHF | | |
|---------------------------------|-------|-------|
| | 2020 | 2019 |
| Amounts owed to Group companies | 3 798 | 993 |
| Other liabilities | 291 | 187 |
| | 4 089 | 1 180 |

15. Provisions

| In millions of CHF | | | | | |
|--|--------------------|-------------------------|-------|-------|-------|
| | | | | 2020 | 2019 |
| | Uninsured risks | Swiss and foreign taxes | Other | Total | Total |
| At January 1 | 475 | 279 | 178 | 932 | 1 092 |
| Provisions made in the period | | 46 | 23 | 69 | 350 |
| Amounts used | | (218) | (34) | (252) | (236) |
| Unused amounts reversed | _ | 5 | (39) | (34) | (274) |
| At December 31 | 475 | 112 | 128 | 715 | 932 |
| of which expected to be settled within 12 months | | | | 215 | 385 |

16. Share capital

| | 2020 | 2019 |
|--|---------------|---------------|
| Number of registered shares of nominal value CHF 0.10 each | 2 881 000 000 | 2 976 000 000 |
| In millions of CHF | 288 | 298 |

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. 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 January 1, 2020 | 298 | 1 937 | 12 519 | 25 671 | (9 491) | 30 934 |
| Cancellation of 95 000 000 shares (ex-share buyback program) | (10) | 10 | (9 660) | _ | 9 660 | _ |
| Profit for the year | _ | _ | _ | 4 503 | _ | 4 503 |
| Dividend for 2019 | _ | _ | _ | (7 700) | _ | (7 700) |
| Movement of treasury shares | | _ | _ | _ | (6 687) | (6 687) |
| At December 31, 2020 | 288 | 1 947 | 2 859 | 22 474 | (6 518) | 21 050 |

18. Treasury shares

| In millions of CHF | | | | |
|---------------------------|------------|--------|------------|--------|
| | | 2020 | | 2019 |
| | Number | Amount | Number | Amount |
| Share buyback programs | 59 694 659 | 6 137 | 88 858 659 | 9 009 |
| Long-term incentive plans | 4 849 627 | 381 | 7 091 899 | 482 |
| | 64 544 286 | 6 518 | 95 950 558 | 9 491 |

The share capital has been reduced by 95 000 000 shares from CHF 298 million to CHF 288 million through the cancellation of shares purchased as part of the share buyback program. The purchase value of those cancelled shares amounts to CHF 9660 million.

During the year, 65 836 000 shares were purchased as part of the share buyback program for CHF 6788 million.

The Company held 4 849 627 shares to cover long-term incentive plans. During the year, 3 619 963 shares were delivered as part of the Nestlé Group remuneration plans for a total value of CHF 246 million. All treasury shares are valued at acquisition cost.

The total of own shares of 64 544 286 held by Nestlé S.A. at December 31, 2020, represents 2.2% of the Nestlé S.A. share capital (95 950 558 own shares held at December 31, 2019, by Nestlé S.A. representing 3.2% of the Nestlé S.A. share capital).

19. Contingencies

At December 31, 2020, the total of the guarantees mainly for credit facilities granted to Group companies and commercial paper programs, together with the buyback agreements relating to notes issued, amounted to a maximum of CHF 83 768 million (2019: CHF 60 272 million).

20. Performance Share Units, Restricted Stock Units, Phantom Shares and Shares granted

| In millions of CHF | | | | |
|---|---------|--------|---------|--------|
| | | 2020 | | 2019 |
| | Number | Amount | Number | Amount |
| Performance Share Units, Restricted Stock Units and Phantom | | | | |
| Shares granted to Nestlé S.A. employees (a) | 168 378 | 18 | 205 850 | 19 |
| Share plan for short-term bonus Executive Board (b) | 66 911 | 7 | 83 855 | 7 |
| Share plan for Board members (c) | _ | 5 | 57 552 | 5 |
| | 235 289 | 30 | 347 257 | 31 |

⁽a) The Performance Shares and Restricted Stock Units are valued at the average closing price of the first ten trading days, after the publication of the 2020 annual results (for the Grant in March) and of the last ten trading days of September (for the Grant in October), corresponding to CHF 107.10 (grant in March 2020) and CHF 109.14 (grant in October 2020). The 2019 amounts have been restated from the fair value to market value. Includes 127 583 Performance Share Units granted to Executive Board (2019: 157 960). The Phantom Shares are valued at CHF 111.33 per Unit in 2020.

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.

⁽b) 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 2021.

⁽c) As from 2020, the Board is paid in arrears (25% in October 2020 and 75% in April 2021). The Nestlé S.A. shares equivalent to 50% of the annual remuneration will be delivered at the end of the Board year in April 2021. They will be valued at the closing price of the share on the SIX Swiss Exchange on the ex-dividend date 2021. The actual number of shares delivered will be published in the NSA 2021 Financial Statements.

23. Shares

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

| | 2020 | 2019 |
|---|--|--|
| | Number of shares held ^(a) | Number of shares held ^(a) |
| Paul Bulcke, Chairman | 1 421 941 | 1 421 941 |
| Henri de Castries, Vice Chairman, Lead Independent Director | 27 698 | 27 698 |
| Renato Fassbind | 30 480 | 30 480 |
| Ann M. Veneman | 21 160 | 21 160 |
| Eva Cheng | 5 399 | 18 168 |
| Patrick Aebischer | 8 814 | 6 514 |
| Ursula M. Burns | 6 214 | 6 214 |
| Kasper B. Rorsted | 3 360 | 3 360 |
| Pablo Isla | 3 731 | 3 731 |
| Kimberly A. Ross | 4 559 | 4 559 |
| Dick Boer | 2 984 | 2 984 |
| Dinesh Paliwal | 1 484 | 1 484 |
| Hanne Jimenez de Mora | 2 520 | _ |
| Members who retired from the Board during the year | _ | 48 988 |
| Total as at December 31 | 1 540 344 | 1 597 281 |

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

There are no stock options held by any non-executive member of the Board of Directors and closely related parties.

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

| | 2020 | 2019 |
|--|--|--|
| | Number of shares held ^(a) | Number of shares held ^(a) |
| Ulf Mark Schneider, CEO | 404 616 | 300 957 |
| Laurent Freixe | 73 438 | 50 333 |
| Chris Johnson | 136 798 | 110 806 |
| Patrice Bula | 253 428 | 214 842 |
| Marco Settembri | 94 750 | 59 700 |
| François-Xavier Roger | 72 138 | 62 080 |
| Magdi Batato | 41 508 | 23 791 |
| Stefan Palzer | 9 883 | 6 186 |
| Béatrice Guillaume-Grabisch | 23 211 | 11 902 |
| Leanne Geale | _ | _ |
| Grégory Behar | 21 247 | 11 924 |
| Sanjay Bahadur | 51 846 | _ |
| Members who retired from the Executive Board during the year | _ | 23 961 |
| Total as at December 31 | 1 182 863 | 876 482 |

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

There are no stock options held by any member of the Executive Board and closely related parties.

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 | | |
|---|----------------|----------------|
| | 2020 | 2019 |
| Retained earnings | | |
| Profit brought forward | 17 875 863 039 | 11 436 254 726 |
| Dividends on own shares not distributed (a) | 95 416 026 | _ |
| Profit for the year | 4 503 477 145 | 14 234 889 934 |
| | 22 474 756 210 | 25 671 144 660 |
| | | |
| We propose the following appropriation: | | |
| Dividend for 2020, CHF 2.75 per share | | |
| on 2 881 000 000 shares ^(b) | | |
| (2019: CHF 2.70 on 2 887 141 341 shares) | 7 922 750 000 | 7 795 281 621 |
| | 7 922 750 000 | 7 795 281 621 |
| | | |
| Profit to be carried forward | 14 552 006 210 | 17 875 863 039 |

⁽a) The amount of CHF 7 795 281 621 proposed to be distributed as dividend for 2019 was reduced by CHF 95 416 026 due to an increase of 35 339 269 own shares held by the Nestlé Group at the dividend payment date.

Provided that the proposal of the Board of Directors is approved by the Annual General Meeting, the gross dividend will amount to CHF 2.75 per share, representing a net amount of CHF 1.7875 per share after payment of the Swiss withholding tax of 35%. The last trading day with entitlement to receive the dividend is April 16, 2021. The shares will be traded ex-dividend as of April 19, 2021. The net dividend will be payable as from April 21, 2021.

The Board of Directors

Cham and Vevey, February 17, 2021

⁽b) Depending on the number of shares issued as of the last trading day with entitlement to receive the dividend (April 16, 2021). No dividend is paid on own shares held by the Nestlé Group.



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www.ey.com/ch

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

Lausanne, 17 February 2021

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Nestlé S.A., which comprise the balance sheet, income statement and notes (pages 185 to 195), as at 31 December 2020 and for the year then ended.



Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's Articles of Association. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.



Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements 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 entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.





Opinion

In our opinion, the financial statements for the year ended 31 December 2020 comply with Swiss law and the company's Articles of Association.



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.

Other matter

The financial statements of Nestlé S.A. for the year ended 31 December 2019 were audited by another statutory auditor who expressed an unmodified opinion on those financial statements on 12 February 2020.



Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 1 item 3 CO and 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.

Ernst & Young Ltd

J. Ball

Jeanne Boillet

Licensed audit expert (Auditor in charge)

André Schaub Licensed audit expert

Notes

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