Good Food, Good Life

NESTLÉ FINANCE INTERNATIONAL LTD.

(Société Anonyme)

Annual Financial Report

Management Report

and

Financial Statements

1 January – 31 December 2018

(With Report of the Réviseur d'Entreprises Agréé thereon)

Registered Address: 7, rue Nicolas Bové
L-1253, Luxembourg
Grand Duchy of Luxembourg
R.C.S. No B136737
Subscribed capital: EUR 440 000

Contents

Nestlé Finance International Ltd.

Nestlé Finance International Ltd. ("NFI" or the "Company") presents its annual financial report for the financial year ended 31 December 2018. NFI is a public limited company (*société anonyme*) organised under the laws of Luxembourg and is a wholly-owned subsidiary of Nestlé S.A. which is the holding company of the Nestlé Group of companies (the "Nestlé Group" or the "Group"). NFI, which was formerly a public limited company (*société anonyme*) organised under the laws of France formed on 18 March 1930, changed its domicile, and moved its registered office from France to Luxembourg on 29 February 2008. On 1 June 2013, NFI moved its seat from 69, rue de Merl L-2146 Luxembourg to 7, rue Nicolas Bové L-1253 Luxembourg, Grand Duchy of Luxembourg. NFI is established for an unlimited duration. The Nestlé Group manufactures and sells food and beverages, as well as products related to the nutrition, health and wellness industries. The Nestlé Group product portfolio has seven product categories, distributed throughout the world: powdered and liquid beverages, nutrition and health science, milk products and ice cream, prepared dishes and cooking aids, pet care, confectionery and water.

The principal business activity of NFI is the financing of members of the Nestlé Group including by the sale, exchange, issue, transfer or otherwise, as well as the acquisition by purchase, subscription or in any other manner, of stock, bonds, debentures, notes, debt instruments or other securities or any kind of instrument and contracts thereon or relative thereto. NFI may further assist the members of the Nestlé Group, in particular by granting them loans, facilities or guarantees in any form and for any term whatsoever and provide any of them with advice and assistance in any form whatsoever.

1. Management Report

(A) Review of the development and performance of NFI's business during the financial year and the position of NFI's business at the end of the year:

As at 31 December 2018, a total equivalent of EUR 11 162 million of loans and advances granted to Nestlé Group companies was outstanding, compared to EUR 7 515 million as at 31 December 2017. These were financed mainly through the issuance of bonds, commercial paper and loans and advances received from Nestlé Group companies. Other assets and liabilities comprise mainly derivatives, cash and cash equivalents (consisting of, for example, cash balances, deposits at banks and other short term investments with original maturities of three months or less) and short term investments. The aforementioned transactions are further detailed in the notes to the financial statements of NFI for the financial year ended 31 December 2018.

Total assets increased at the end of the financial year ended 31 December 2018 (EUR 11 318 million) as compared to the financial year ended 31 December 2017 (EUR 7 710 million). The increase in total assets (by EUR 3 608 million) results mainly from an increase in loans and advances granted to Nestlé Group companies (by EUR 3 648 million), from an increase in derivative assets (by EUR 3.5 million), and a decrease in cash and cash equivalents (by EUR 62 million).On the liabilities side, debt securities (bonds and commercial paper) outstanding at 31 December 2018 (EUR 9 435 million) increased by EUR 2 697 million as compared to 31 December 2017 (EUR 6 738 million) mainly as a result of an increase in the issuance of commercial paper. Loans and advances received from Nestlé Group companies outstanding at 31 December 2018 (EUR 1 707 million) increased by EUR 948 million as compared to 31 December 2017 (EUR 759 million).

On 20 December 2018, by a written resolution of the shareholder, EUR 50 million was paid in cash to the Company and was contributed to the capital reserves without the issue of shares. The contribution was allocated to share premium and other premiums.

Financing operations reported a net loss of EUR 49.6 million for the financial year ended 31 December 2018 compared to a net profit of EUR 4.6 million for the financial year ended 31 December 2017.

Net loss before tax for the financial year ended 31 December 2018 was EUR 61.5 million, compared to a net profit before tax of EUR 11.0 million for the financial year ended 31 December 2017. The movement was due to a decrease in interest income (by EUR 14.9 million) resulting from a repricing of the margin of the loans and advances granted to Nestlé Group companies; due to an increase in interest expense (by EUR 39.5 million) resulting from an increase of the debt securities; due to an increase in net fee and commission expense (by EUR 98.4 million) arising from fluctuations of foreign exchange rates borne by a related party; partially offset by a decrease in other operating expense (by EUR 90.0 million) resulting from foreign exchange losses on non-EUR denominated instruments.

NFI's net operating cash outflow was EUR 18.5 million for the financial year ended 31 December 2018 compared to net operating cash outflow of EUR 154.9 million for the financial year ended 31 December 2017.

Future financial performance will depend largely on the net interest margin earned on loans and investments, funded by existing and possible further issues of bonds, commercial paper and loans and advances received from Nestlé Group companies and results from derivative transactions.

(B) Risks and Uncertainties

NFI is exposed to certain risks and uncertainties: banking credit risk, credit risk, market risk (including currency fluctuations and interest rate movements), liquidity risk and risk of an increase in cost of capital, treasury operations and other risks that could have a material adverse impact on its financial condition and operating results. The detailed discussion of these risks and uncertainties and NFI's objectives, policies and processes for managing these risks and uncertainties are disclosed in the notes to the financial statements of NFI for the year ended 31 December 2018, in particular Note 10.

(C) Other items

NFI has no research and development costs nor any treasury shares or branches.

(D) Corporate governance status

Overall control environment

The Board of Directors of NFI has overall responsibility for its control environment. The Board of Directors is responsible for monitoring the internal control and risk management systems that are related to the financial reporting process on an ongoing basis.

The internal control and risk management systems are designed to mitigate, rather than eliminate, the risks identified in the financial reporting process. In particular, internal controls related to the financial reporting process are established to mitigate, detect and correct material misstatements in the financial statements.

NFI has a number of policies and procedures in key areas of financial reporting, which are derived from the Nestlé Group's Accounting Standards, Risk Management Policy, Treasury Policy, Information Security Policy and Business Ethics Policy. These policies and procedures apply to all subsidiaries of the Nestlé Group, including NFI.

Structure of capital

The share capital of NFI is divided in 220 000 shares having a nominal amount of EUR 2 each. There is only one class of share in issue and all provide the same rights to the shareholder. NFI does not have own shares. There are neither restrictions to the transfer of the issued shares in NFI nor any agreement issued by the shareholder which may result in restrictions on the transfer of NFI shares.

Instruments traded on a regulated market

NFI has issued bonds which are admitted to trading on the London Stock Exchange's regulated market but no other instruments, such as NFI's shares, are admitted to trading on any regulated market. Therefore the disclosure requirements included in Article 10. paragraph 1. points c), d), f), h) and i) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids as required by Article 68ter. paragraph (1) letter d) of Luxembourg modified law of 19 December 2002, are not applicable.

Control activities

Nestlé Group has established minimum requirements for the conduct and documentation of IT and manual control activities to mitigate identified significant financial reporting risks. NFI establishes and implements internal controls comprising relevant control activities for significant processes.

NFI's management is responsible for ensuring that the internal control activities are performed and documented, and is required to report on their compliance with Nestlé Group's internal control policies to Nestlé Group's finance function.

In addition, the Nestlé Group has implemented a formalised financial reporting process for the budget process and monthly reporting on actual performance. The accounting information reported by NFI is reviewed both by Nestlé Group central treasury and by technical accounting specialists at Nestlé.

Information and communication

The Nestlé Group has established information and communication systems to ensure that accounting and internal control compliance procedures are established, including a finance manual and internal control requirements.

All Nestlé Group companies, including NFI, use a standardised financial reporting system.

Monitoring

The monitoring of the internal control and risk management systems related to financial reporting is performed at various levels within the Nestlé Group, such as periodic reviews of control documentation, controller visits, audits performed by Nestlé Group Internal Audit and monitoring by the Nestlé Group's Audit Committee.

Subsequent events

There have not been any significant events after the balance sheet date.

Future developments

It is expected that NFI's business activities will remain unchanged in 2019. NFI will primarily continue to provide financing to members of the Nestlé Group.

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KPMG Luxembourg, Société coopérative
39, Avenue John F. Kennedy
L - 1855 Luxembourg

Tel.: +352 22 51 51 1
Fax: +352 22 51 71
E-mail: info@kpmg.lu
Internet: www.kpmg.lu

To the Shareholder of
Nestlé Finance International Ltd., Société Anonyme
7, rue Nicolas Bové
L-1253 Luxembourg

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Nestlé Finance International Ltd., Société Anonyme (the "Company" or "NFI"), which comprise the balance sheet as at 31 December 2018, the statements of income, other comprehensive income, changes in equity and of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the EU Regulation N° 537/2014, the Law of 23 July 2016 and ISAs are further described in the « Responsibilities of "Réviseur d'Entreprises agréé" for the audit of the financial statements » section of our report. We are also independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical 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 financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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<table>
<tr><th colspan="2">Credit Risk related to Loans and Advances to Nestlé Group Companies</th></tr>
<tr><td colspan="2">Refer to note 1 (accounting policies) and note 4 (financial instruments) to the financial statements.</td></tr>
<tr><td>Why the matter was considered to be one of the most significant in our audit of the financial statements of the current period</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The Company is a financing entity entering into financing arrangements to fund other Nestlé Group companies. The Company has no substantial assets other than the loans and advances to Nestlé Group companies and is therefore mainly exposed to the credit risk of the group.

The Company has raised debt internally via loans and advances from Nestlé Group companies and externally via commercial paper and listed bonds and is passing this on internally by granting loans and advances to the Group companies.

The Company is interrelated and dependent on the performance of the Nestlé Group companies for repayment of its debt instruments and meeting its financial obligations.

The Directors need to assess and measure the expected credit losses ("ECL") and related potential impairment of Loans and receivables with the first time application of IFRS 9 which introduces new assumptions and judgements.</td><td>Our audit procedures over the credit risk related to loans and advances to Nestlé Group companies included, but were not limited to:

• Evaluating the appropriateness of the accounting policies based on the requirements of IFRS 9, our business understanding and industry practice;
• Confirming our understanding of management's processes over ECL;
• Evaluating the reasonableness of management's key judgements and estimates made in adopting IFRS 9, including selection of methods, models, assumptions and data sources;
• Involving our own Treasury specialists to challenge significant assumptions/ judgements relating to ECL;
• Assessing the completeness, accuracy and relevance of data used in the Company's ECL model;
• Evaluating the appropriateness and tested the mathematical accuracy of the model applied;
• Evaluating the completeness, accuracy and relevance of disclosures required by IFRS 9.</td></tr>
</table>

Valuation of Derivative Financial Instruments	
Refer to note 1 (accounting policies), note 3 (derivative assets and liabilities) and note 4 (financial instruments) to the financial statements.	
Why the matter was considered to be one of the most significant in our audit of the financial statements of the current period	**How the matter was addressed in our audit**
The principal business activity of NFI is to finance Nestlé Group companies by raising debt, and passing this on internally by granting loans. The internal loans features do not necessarily match the terms and conditions of the external financing, leading to foreign currency and interest rate exposures for NFI, which the Company hedges by entering into currency and interest rate derivatives. The complexity, high volume and large values of the transactions involved increase the risk of error the Directors need to address.	Our audit procedures over the valuation of the derivative financial instruments included, but were not limited to: • assessing the design and operating effectiveness of the key controls supporting the identification, measurement and oversight of valuation of derivative financial instruments; • testing the general information technology key controls over the Treasury Management System (TMS); • testing key controls around how deal details are captured in the TMS, including the import of external market data from Reuters (used in the valuation process); • testing key controls over deal inputs and settlement approvals in the TMS; • testing controls over changes to static data in the TMS; for all open external positions at year-end, obtaining third party confirmations, and agreeing transaction details to TMS; • for all open derivative financial instrument positions at year-end, we involved our own Valuation specialists to re-perform the year-end valuation and comparing this to NFI's valuation; • the involvement of our own Treasury specialists to provide technical support on measurement of derivative financial instruments.

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Complex Accounting	
Refer to note 1 (accounting policies) and note 4 (financial instruments) to the financial statements.	
Why the matter was considered to be one of the most significant in our audit of the financial statements of the current period	**How the matter was addressed in our audit**
IFRS 9 Financial Instruments replaced IAS 39 from 1 January 2018. The Company opted to apply the hedge accounting requirements of IFRS 9 on implementation, rather than continue to apply IAS 39. The complexity surrounding the accounting and presentation treatment per IFRS 9 and IFRS 7, the strict rules in applying hedge accounting and changes in requirements from IAS 39 increase the risk of error. NFI designates and documents certain derivatives as hedging instruments against changes in fair values of recognised assets and liabilities (fair value hedges). The Directors need to assess the effectiveness of such hedges, both at inception and at regular intervals, to ensure that an economic relationship exists between the hedged item and the hedging instrument.	Our audit procedures over the complex accounting included, but were not limited to: • examining the Company's hedging documentation for each hedging relationship type to assess whether the application is in line with the standards outlined in IFRS 9; • for a sample of open hedge relationships at year end, examining the hedge effectiveness testing (performed by the TMS) to assess prospectively whether these meet the hedge effectiveness requirements; • during the implementation of the TMS, testing all accounting templates by our own Treasury and IT specialists to assess whether the accounting entries generated were appropriate; during the audited period, using our own IT and Treasury specialists to identify all changes to the accounting templates and reviewing the appropriateness of these changes (if any).

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the management report and the Corporate Governance Statement but does not include the financial statements and our report of "Réviseur d'Entreprises agréé" thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the Réviseur d'Entreprises agréé for the audit of the financial statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of "Réviseur d'Entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

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- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "Réviseur d'Entreprises agréé" to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "Réviseur d'Entreprises agréé". However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

We have been appointed as "Réviseur d'Entreprises agréé" by the General Meeting of the Shareholders on 25 April 2018 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is nine years.

The management report is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

The Corporate Governance Statement is included in the management report. The information required by Article 68ter paragraph (1) letter c) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the prohibited non-audit services referred to in the EU Regulation No 537/2014 were not provided and that we remained independent of the Company in conducting the audit.

We provided other assurance services in relation with the Company bonds issuance program, in addition to the statutory audit.

Luxembourg, 22 March 2019

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

Fabien Hedouin

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3. Financial Statements for the year ended 31 December 2018

Nestlé Finance International Ltd. ("NFI")

(Société Anonyme)

Financial Statements

(Audited)

1 January – 31 December 2018

Balance sheet as at 31 December 2018

In thousands of Euro	Notes	31 December 2018	31 December 2017
Assets			
Current assets			
Cash and cash equivalents	(4)	103 334	165 596
Derivative assets	(3/4)	32 649	29 156
Loans and advances to Nestlé Group companies	(4)	855 253	5 572 008
Current tax assets	(4)	1 691	-
Other assets	(4/5)	433	537
Total current assets		**993 360**	**5 767 297**
Non-current assets			
Loans and advances to Nestlé Group companies	(4)	10 306 847	1 942 519
Deferred tax assets		17 442	-
Property, plant and equipment		1	5
Total non-current assets		**10 324 290**	**1 942 524**
Total assets		**11 317 650**	**7 709 821**
Liabilities			
Current liabilities			
Bank overdrafts	(4)	-	93 160
Derivative liabilities	(3/4)	14 727	5 559
Loans and advances from Nestlé Group companies	(4)	1 706 949	758 773
Debt securities issued	(4/7)	4 149 266	946 189
Current tax liabilities	(4)	-	3 844
Other liabilities	(4/5)	80 483	30 983
Total current liabilities		**5 951 425**	**1 838 508**
Non-current liabilities			
Debt securities issued	(4/7)	5 285 817	5 791 607
Total non-current liabilities		**5 285 817**	**5 791 607**
Total liabilities		**11 237 242**	**7 630 115**
Equity			
Share capital	(6)	440	440
Share premium and other premiums	(6)	102 000	52 000
Hedging reserve	(6)	317	12
Legal reserve	(6)	44	44
Other reserve	(6)	4 955	2 962
Retained earnings		-27 348	24 248
Total equity attributable to shareholders of the company		**80 408**	**79 706**
Total liabilities and equity		**11 317 650**	**7 709 821**

The accompanying notes form an integral part of the financial statements

Income statement for the year ended 31 December 2018

In thousands of Euro	Notes	Year 2018	Year 2017
Interest income		149 772	164 662
Interest expense		-85 222	-45 729
Net interest income	(2)	64 550	118 933
Fee and commission income		40 378	50 834
Fee and commission expense		-115 642	-27 682
Net fee and commission (expense) / income from Nestlé Group companies	(2)	-75 264	23 152
Financial expense	(2)	-9 919	-
Other operating expense	(2)	-39 699	-129 762
Operating (loss) / profit		**-60 332**	**12 323**
Administration expense		-1 175	-1 337
(Loss) / Profit before tax		**-61 507**	**10 986**
Taxes	(2)	11 904	-6 427
(Loss) / Profit for the year attributable to shareholders of the company		**-49 603**	**4 559**

The accompanying notes form an integral part of the financial statements

Other comprehensive (loss) / income for the year ended 31 December 2018

In thousands of Euro	Year 2018	Year 2017
(Loss) / Profit for the year recognised in the income statement	**-49 603**	**4 559**
Fair value adjustments on available-for-sale financial instruments:		
Unrealised results	-	-1
Adjustments on cost of hedge reserve		
Recognised in hedging reserve	305	-1 592
Items that are or may be reclassified subsequently to the income statement	305	-1 593
Other comprehensive income / (loss) for the year	**305**	**-1 593**
Total comprehensive (loss) / income for the year	**-49 298**	**2 966**
attributable to shareholders of the company	-49 298	2 966

Statement of changes in equity for the year ended 31 December 2018

In thousands of Euro	Notes	Share capital	Share premium and other premiums	Hedging reserve	Available-for-sale reserve	Legal reserve	Other reserve	Retained earnings	Total equity attributable to shareholders of the company
Equity as at 31 December 2016		**440**	**2 000**	**1 604**	**1**	**44**	**3 081**	**19 570**	**26 740**
Gains and losses									
Profit for the year		-	-	-	-	-	-	4 559	4 559
Fair value adjustments on available-for-sale instruments		-	-	-	-1	-	-	-	-1
Fair value adjustments on cash flow hedges	(6)	-	-	-1 592	-	-	-	-	-1 592
Total comprehensive income for the year		**-**	**-**	**-1 592**	**-1**	**-**	**-**	**4 559**	**2 966**
Trasactions with the owner of the NFI		**-**	**50 000**	**-**	**-**	**-**	**-**	**-**	**50 000**
Increase of share premium and other premiums	(6)	-	50 000	-	-	-	-	-	50 000
Transfer to reserves									
Net transfers from net wealth tax reserves	(6)	-	-	-	-	-	-119	119	**-**
Total transfer to other reserve		-	-	-	-	-	**-119**	**119**	**-**
Equity as at 31 December 2017		**440**	**52 000**	**12**	**-**	**44**	**2 962**	**24 248**	**79 706**
Gains and losses									
Loss for the year		-	-	-	-	-	-	-49 603	-49 603
Adjustments on cost of hedge reserve	(6)	-	-	305	-	-	-	-	305
Total comprehensive income for the year		**-**	**-**	**305**	**-**	**-**	**-**	**-49 603**	**-49 298**
Trasactions with the owner of the NFI		**-**	**50 000**	**-**	**-**	**-**	**-**	**-**	**50 000**
Increase of share premium and other premiums	(6)	-	50 000	-	-	-	-	-	50 000
Transfer to reserves									
Net transfers to net wealth tax reserves	(6)	-	-	-	-	-	1 993	-1 993	-
Total transfer to other reserve		**-**	**-**	**-**	**-**	**-**	**1 993**	**-1 993**	**-**
Equity as at 31 December 2018		**440**	**102 000**	**317**	**-**	**44**	**4 955**	**-27 348**	**80 408**

The accompanying notes form an integral part of the financial statements

Cash flow statement for the year ended 31 December 2018

In thousands of Euro	Notes	Year 2018	Year 2017
Cash flows from operating activities:			
(Loss) / Profit before taxation for the year		-61 507	10 986
Adjustments for:			
Depreciation		3	9
Foreign exchange loss for bank accounts, loans and debt securities		-37 305	-422 409
Fair value of debt securities		-6 380	-12 547
Interest income	(2)	-149 772	-164 662
Interest expense	(2)	85 222	45 729
Change in short term investments including those recognised directly in equity		-	-1
Change in derivative assets including those recognised directly in equity		-3 188	136 763
Change in other assets excluding prepaid and accrued income	(5)	104	461
Change in derivative liabilities	(4)	9 168	-7 979
Change in other liabilities excluding accrual and deferred income	(5)	48 032	-1 005
Net loans and advances to Nestlé Group companies excluding intra group interest receivable	(8)	-3 459 740	1 643 257
Net loans and advances from Nestlé Group companies excluding intra group interest payable	(8)	936 713	-1 633 125
Net loans and advances to third parties		-	100 000
Bonds issued	(7)	-	1 979 748
Commercial paper issued	(7)	39 982 586	29 851 068
Bonds repaid	(7)	-	-88 453
Commercial paper repaid	(7)	-37 430 590	-31 765 235
Interest received net of withholding tax		146 477	181 165
Interest paid		-72 811	-3 949
Income taxes paid		-5 523	-4 749
Net cash used in operating activities		**-18 511**	**-154 928**
Increase in share premium and other premiums		50 000	50 000
Net cash from financing activities		**50 000**	**50 000**
Effects of the exchange rate changes on cash		**-591**	**-1 284**
Net increase / (decrease) in cash and cash equivalents		**30 898**	**-106 212**
Net cash and cash equivalents at beginning of year		72 436	178 648
Net cash and cash equivalents at end of year *	(4)	**103 334**	**72 436**

*Net cash and cash equivalents include bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

The accompanying notes form an integral part of the financial statements

Notes

1. Accounting policies

Basis of preparation

These financial statements for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union as well as with the laws and regulations in force in the Grand Duchy of Luxembourg.

The financial statements have been prepared on a historical cost basis, unless stated otherwise.

The balance sheet has been prepared in order of liquidity.

NFI prepares its financial statements on the basis of the going concern convention. NFI's debt instruments are guaranteed by Nestlé S.A. (see Note 9 on Guarantees).

The financial statements were authorised for issuance by the Board of Directors on 21 March 2019, and are subject to approval by the Annual General Meeting on 24 April 2019.

NFI's financial year starts on the first day of January and ends on the last day in December.

Key accounting judgments, estimates and assumptions

The preparation of the financial statements requires NFI's management to exercise judgment and to make estimates and assumptions that affect the application of policies, reported amounts of revenues, expenses, assets and liabilities and disclosures. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Those areas affected are mainly the determination of fair value of financial instruments (see Note 1 on Fair values, Note 3 on Derivative assets and liabilities, Note 4 on Financial instruments and Note 7 on Debt securities).

Foreign currencies

The functional currency of NFI is the currency of its primary economic environment which is the Euro, which is also the presentation currency.

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 (loss) / income as qualifying cash flow hedges.

Segmental information

The financing activities of NFI are managed as one single business. Thus, there is no segmental information in the financial statements.

Valuation methods, presentations and definitions

Operating income

Net interest income includes the income earned on loans with Nestlé Group companies, loans granted to third parties, income from short term deposits and financial expense on borrowings from third parties. Net interest income also includes other financial income and expense from interest rate hedging instruments that are recognised in the income statement.

Net fee and commission expenses are composed of the guarantee fee that is payable to Nestlé S.A. and other fees and expenses to or from Nestlé Group companies.

Other operating income includes results on foreign currency, other income or expenses from Nestlé Group companies and income or expenses on financial instruments carried at fair value through income statement.

Taxes

NFI is subject to Luxembourg tax laws and regulations.

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

Deferred taxes are based on the temporary differences that arise when taxation authorities recognise and measure assets and liabilities with rules that differ from those of the financial statements. They also arises 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 are recognised in the income statement unless related to items directly recognised against equity or other comprehensive (loss) / income. Deferred tax liabilities are recognised on all temporary differences excluding non-deductible goodwill. Deferred tax assets are recognised on all deductible temporary differences provided that it is probable that future taxable income will be available.

Financial instruments

<u>Financial instruments as classified prior to 1 January 2018</u>

<u>Financial assets</u>

Financial assets are initially recognised at fair value plus directly attributable transaction costs. However, when a financial assets at fair value to income statement is recognised, the transaction costs are expensed immediately.

Subsequent re-measurement of financial assets is determined by their categorisation that is revisited at each reporting date.

The settlement date is used for both initial recognition and subsequent derecognition of the financial assets as these transactions are generally under contracts whose terms require delivery within the time frame established by the regulation or convention in the market place (regular-way purchase or sale).

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

NFI classifies its financial assets into the following categories: loans and receivables, financial assets designated at fair value through income statement, held-for-trading, and available-for-sale financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category includes the following classes of financial assets: intra Nestlé Group loans, loans granted to third parties, trade and other receivables and accrued interest on loans.

Subsequent to initial measurement, intra Nestlé Group loans and receivables are carried at amortised cost using the effective interest rate method less appropriate allowances for doubtful receivables.

Allowances for doubtful receivables represent NFI's estimate of losses that could arise from the failure or inability of debtors to make payments when due.

Financial instruments at fair value through income statement

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

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are either designated as such upon initial recognition or are not classified in any of the other categories of financial assets.

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

Impairments are recognised in the income statement when incurred.

Interest from available-for-sale assets is recognised in the income statement.

Financial liabilities at amortised cost

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

Subsequent to initial measurement, financial liabilities are recognised at amortised cost.

The difference between the initial carrying amount of the financial liabilities and their redemption value is recognised in the income statement over the contractual terms using the effective interest rate method. This category includes the following classes of financial liabilities: loans and advances from Nestlé Group companies, trade and other payables, commercial paper, bonds and other non-derivative financial liabilities. Financial liabilities at amortised cost are further classified as current and non-current depending whether these will fall due within 12 months after the balance sheet date or beyond.

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

Derivative financial instruments

NFI's derivatives mainly consist of currency forwards, futures, options and swaps, interest rate forwards, and swaps. Derivatives are mainly used to manage exposures to foreign exchange and interest rates.

Derivatives are initially recognised at fair value. They are subsequently re-measured at fair value on a regular basis and at each reporting date as a minimum, with all their gains and losses, realised and unrealised, recognised in the income statement unless they are in a qualifying hedging relationship.

The use of derivatives is governed by the Nestlé Group's policies which are approved by the Nestlé S.A. Board of Directors and provide written principles on the use of derivatives consistent with the Nestlé Group's overall risk management strategy.

Hedge accounting

NFI designates and documents certain derivatives as hedging instruments against changes in fair values of recognised assets and liabilities (fair value hedges) and highly probable forecast transactions (cash flow hedges). The effectiveness of such hedges is assessed at inception and verified at regular intervals and at least on a quarterly basis, using prospective and retrospective testing.

Fair value hedges

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

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

Impairment

At each balance sheet date, NFI assesses whether its financial assets are to be impaired. Impairment losses are recognised in the income statement where there is objective evidence of impairment, such as where the issuer is in bankruptcy, default or other significant financial difficulty. Impairment losses are reversed when the reversal can be objectively related to an event occurring after the recognition of the impairment loss. For debt instruments measured at amortised cost or fair value, the reversal is recognised in the income statement.

Financial instruments as classified starting 1 January 2018

Financial assets

Financial assets are initially recognised at fair value plus directly attributable transaction costs. However, when a financial asset at fair value to income statement is recognised, the transaction costs are expensed immediately.

Subsequent re-measurement of financial assets is determined by their categorisation which is revisited at each reporting date.

The settlement date is used for both initial recognition and subsequent derecognition of the financial assets as these transactions are generally under contracts whose terms require delivery within the time frame established by the regulation or convention in the market place (regular-way purchase or sale).

Financial assets are derecognised (in full or in part) when substantially all NFI's rights to cash flow from the respective assets have expired or have been transferred and NFI has transferred substantially all the risks and rewards of ownership.

NFI classifies its financial assets into the following categories: at amortised cost and at fair value through income statement.

Financial assets at amortised cost

This category includes the following classes of financial assets: intra Nestlé Group loans, loans granted to third parties, trade and other receivables, cash and cash equivalents. Cash and cash equivalents include cash at bank and other short-term highly liquid investments with maturities of three months or less from the acquisition date.

These financial assets provide solely the payment of interest and principal and are held with the sole objective to collect the contractual cash flow up to maturity.

Subsequent to initial measurement, these assets are carried at amortised cost using the effective interest rate method less appropriate allowances for doubtful receivables.

Financial instruments at fair value through income statement

Derivative instruments are classified as financial instruments at fair value through income statement. Subsequent to initial measurement, these items are carried at fair value and all their gains and losses, realised and unrealised, are recognised in the income statement unless they are part of a hedging relationship.

NFI's derivatives mainly consist of currency forwards and interest rate swaps. Derivatives are mainly used to manage exposures to foreign exchange and interest rates.

Financial liabilities at amortised cost

Financial liabilities are initially recognised at the fair value net of transaction costs incurred.

Subsequent to initial measurement, financial liabilities are measured at amortised cost.

The difference between the initial carrying amount of the financial liabilities and their redemption value is recognised in the income statement over the contractual terms using the effective interest rate method. This category includes the following classes of financial liabilities: loans and advances from Nestlé Group companies, trade and other payables, commercial paper, bonds and other non-derivative financial liabilities.

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

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

Hedge accounting

NFI designates and documents the use of certain derivatives as hedging instruments against changes in fair values of recognised assets and liabilities (fair value 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 the hedging instrument. NFI 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.

Fair value hedges

NFI uses fair value hedges to mitigate foreign currency and interest rate risks of its recognised 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 recognised in the income statement.

Impairment

The credit risk management as well as the methodology, inputs and assumption for measuring the expected credit losses (ECL) integrate the facts that loans are granted by NFI solely to Nestlé affiliates and that there is no experience of loss for default in the past. NFI's asses the different loans with the Nestlé affiliates Moody's rating, a "given loss default" rating and the Average Cumulative Issuer-Weighted Global Default Rates from Standard's and Poor's. Impairment losses related to Loans and advances to Nestlé Group companies are presented separately as Financial expense in the income statement.

Fair values

NFI determines the fair values of its financial instruments in the following hierarchy, based on the inputs used in their valuation:

i) Level 1 - the fair value of financial instruments quoted in active markets is based on their quoted closing price at the balance sheet date.

ii) 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 flow, standard valuation models based on market parameters, 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 are determined by discounting estimated future cash flow.

iii) 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, NFI carries such instruments at cost less impairment, if applicable.

Prepayments and accrued income

Prepayments and accrued income comprise payments made in advance relating to the following financial year and income relating to the current financial year, which will not be received until after the balance sheet date.

Accruals and deferred income

Accruals and deferred income comprise expenses relating to the current financial year, which will not be paid until after the balance sheet date and income received in advance, relating to the following financial year.

Dividend payments

In accordance with Luxembourg law and NFI's Articles of Incorporation, dividend payments are treated as an appropriation of profit in the financial year in which they are ratified at the Annual General Meeting and subsequently paid. At the meeting of the Board of Directors of NFI held on 20 November 2018, the Board did not propose any dividend payment to NFI's shareholder.

Events occurring 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 these financial statements by NFI's Board of Directors. Other non-adjusting events are disclosed in the Notes to the financial statements of NFI for the year ended 31 December 2018.

Nestlé S.A. consolidation

NFI is included in the consolidated financial statements of Nestlé S.A.. Nestlé S.A. is the company that is both the smallest and the largest body of undertakings that NFI forms part of. Copies of Nestlé S.A.'s consolidated financial statements are available at the registered office of Nestlé S.A., Avenue Nestlé 55 1800 Vevey, Switzerland.

Changes in accounting standards

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

IFRS 9 – Financial Instruments
The standard addresses the accounting principles for the financial reporting of financial assets and financial liabilities, including classification, measurement, impairment, derecognition and hedge accounting. NFI has performed a review of the business model corresponding to the different portfolios of financial assets and of the characteristics of these financial assets. Consequently, debt instruments whose cash flow are solely payments of principal and interest ("SPPI") were designated at amortised cost given that the objectives of the business model is to collect the contractual cash flow up to maturity. There was no impact on NFI's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and NFI does not have any such liabilities. The impact of the new impairment model has been reviewed. The analysis required the identification of the credit risk associated with the counterparties. Furthermore, NFI has updated the definition of the hedging relationship in line with the risk management activities and policies. This standard was mandatory for the accounting period beginning on 1 January 2018 and was applied retrospectively as at 1 January 2018, but with no restatement of the comparative information for the prior years. Consequently, NFI recognised any difference between the carrying amount of the financial instruments under IAS 39 and the carrying amount under IFRS 9 in the opening retained earnings (or other equity components) as at 1 January 2018. Changes to hedge accounting policies have been applied prospectively. All hedging relationships designated under IAS 39 at 31 December 2017 met the criteria

for hedge accounting under IFRS 9 at 1 January 2018 and are therefore regarded as continuing hedging relationships. The adjustment (net of tax) to the opening equity at the 1 January 2018 was not material.

IFRS 15 – Revenue from Contracts with Customers
The standard is applicable from 1 January 2018 and has no material impact for NFI.

First application of IFRS 9

The following table explains the changes in measurement and category under IFRS 9 for each class of NFI's financial assets and the impact on net financial position as at 1 January 2018.

Carrying amount in thousands of Euro	31 December 2017				1 January 2018 after first application of IFRS 9			
Classes	Loans, receivables and liabilities at amortised cost	At fair values to income statement	Available for sale	**Total categories**	At amortised cost	At fair value to income statment	At fair value to Other comprehensive income	**Total categories**
Cash at bank and in hand (a)	63	-	-	**63**	63	-	-	**63**
Time deposit (c)	-	-	165 533	**165 533**	165 533	-	-	**165 533**
Loans and receivables (a)	7 515 064	-	-	**7 515 064**	7 515 064	-	-	**7 515 064**
Liquid assets and non-current financial assets	7 515 127	-	165 533	**7 680 660**	7 680 660	-	-	**7 680 660**
Derivative assets	-	29 156	-	**29 156**	-	29 156	-	**29 156**
Total financial assets	**7 515 127**	**29 156**	**165 533**	**7 709 816**	**7 680 660**	**29 156**	**-**	**7 709 816**
Loans and payables (a)	886 760	-	-	**886 760**	886 760	-	-	**886 760**
Financial debt (b)	5 858 344	972 612	-	**6 830 956**	6 830 956	-	-	**6 830 956**
Derivative liabilities	-	5 559	-	**5 559**	-	5 559	-	**5 559**
Total financial liabilities	**6 745 104**	**978 171**	**-**	**7 723 275**	**7 717 716**	**5 559**	**-**	**7 723 275**
Net financial position	**770 023**	**-949 015**	**165 533**	**-13 459**	**-37 056**	**23 597**	**-**	**-13 459**
of which at fair value	-	-949 015	165 533	**-783 482**	-	23 597	-	**23 597**

(a) Carrying amount of these instruments are a reasonable approximation of their fair value based on observable market data.
(b) Financial debt include Bonds, Commercial paper and bank overdrafts.
(c) Time Deposits are now measured at Amortised Cost because they meet the SPPI criteria.

Improvements and other amendments to IFRS/IAS

A number of other existing standards have been modified on miscellaneous points with effect from 1 January 2018. None of these changes had an effect on NFI's financial statements.

Changes in accounting standards that may affect NFI after 31 December 2018

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

2. Operating income and taxes

Net interest income:

In thousands of Euro	Year 2018	Year 2017
Interest income from:		
Short term investments	718	189
Loans and advances to Nestlé Group companies	149 054	163 835
Loans and advances to third parties	-	638
Interest income	**149 772**	**164 662**
Interest expense from:		
Loans and advances from Nestlé Group companies	-3 612	-4 722
Debt securities issued	-81 610	-41 007
Interest expense	**-85 222**	**-45 729**
Net interest income	**64 550**	**118 933**

Financial expense:

In thousands of Euro	Year 2018	Year 2017
Expected credit loss on financial assets	-9 919	-
Financial expense	**-9 919**	**-**

Other operating expense:

In thousands of Euro	Year 2018	Year 2017
Net foreign exchange expense	-39 669	-129 792
Net (loss) / gain in fair value through income statement	-30	30
Other operating expense	**-39 699**	**-129 762**

The variation of the Net foreign exchange expense is mainly due to the fluctuation of the currencies USD, GBP, BRL and ZAR.

Taxes:

In thousands of Euro	Year 2018	Year 2017
Corporate income tax	-	-1 692
Tax adjustment prior year	11	-
Withholding tax on interest received	-5 549	-4 735
Deferred tax	17 442	-
Total tax gain / (expense)	**11 904**	**-6 427**

In thousands of Euro	Year 2018	Year 2017
(Loss) / Profit for the year	-49 603	4 559
Total tax income / (expense)	11 904	-6 427
(Loss) / Profit before tax	**-61 507**	**10 986**
Withholding tax on interest received	-5 549	-4 735
(Loss) / Profit before corporate income tax and after withholding tax	**-67 056**	**6 251**
Tax using NFI's domestic tax rate 26,01% (2017: 27,08%)	17 442	-1 692
Tax adjustment prior year	11	-
Withholding tax on interest received	-5 549	-4 735
Total current tax income / (expense)	**11 904**	**-6 427**

There are no unrecognised deferred tax assets, deferred tax liabilities or tax losses carried forward.

3. Derivative assets and liabilities

By type

In thousands of Euro	Contractual or notional amounts		Fair value assets		Fair value liabilities	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Fair value hedges						
Currency forwards and swaps	3 150 359	916 534	10 831	2 495	14 727	5 559
Interest rate swaps	820 245	825 763	21 817	26 661		-
Total	**3 970 604**	**1 742 297**	**32 648**	**29 156**	**14 727**	**5 559**
Conditional offsets *						
Derivative assets and liabilities			-4 158	-1 960	-4 158	-1 960
Balances after conditional offsets			**28 490**	**27 196**	**10 569**	**3 599**

* Represent amounts that would be offset in case of default, insolvency or bankruptcy of the counterparties

Impact on the income statement (net interest income) of fair value hedges

In thousands of Euro	Year 2018	Year 2017
On hedged items	-94 477	421 608
On hedging instruments	95 156	-420 359

4. Financial instruments

Financial assets and liabilities

By class

In thousands of Euro	31 December 2018	31 December 2017
Cash and cash equivalents	103 334	165 596
Derivative assets	32 649	29 156
Loans and advances to Nestlé Group companies	11 162 100	7 514 527
Current tax assets	1 691	-
Other financial assets (a)	433	537
Total financial assets	**11 300 207**	**7 709 816**
Bank overdrafts	-	93 160
Derivative liabilities	14 727	5 559
Loans and advances from Nestlé Group companies	1 706 949	758 773
Debt securities issued	9 435 083	6 737 796
Current tax liabilities	-	3 844
Other financial liabilities (a)	80 483	30 983
Total financial liabilities	**11 237 242**	**7 630 115**
Net financial position	**62 965**	**79 701**

(a) Refer to Note 5.

By category

In thousands of Euro	31 December 2018				31 December 2017 *			
Classes	At amortised cost (a)	At fair value to income statment	At fair value to Other comprehensive income	**Total categories**	Loans, receivables and liabilities at amortised cost	At fair values to income statement	Available for sale	**Total categories**
Cash at bank and in hand (a)	33 808	-	-	**33 808**	63	-	-	**63**
Time deposit	69 526	-	-	**69 526**		-	165 533	**165 533**
Loans and receivables (a)	11 164 224	-	-	**11 164 224**	7 515 064	-	-	**7 515 064**
Liquid assets and non-current financial assets	11 267 558	-	-	**11 267 558**	7 515 127	-	165 533	**7 680 660**
Derivative assets	-	32 649	-	**32 649**	-	29 156	-	**29 156**
Total financial assets	**11 267 558**	**32 649**	**-**	**11 300 207**	**7 515 127**	**29 156**	**165 533**	**7 709 816**
Loans and payables (a)	1 787 432	-	-	**1 787 432**	886 760	-	-	**886 760**
Financial debt (b)	7 511 233		-	**7 511 233**	5 858 344	972 612	-	**6 830 956**
Derivative liabilities	-	14 727	-	**14 727**		5 559	-	**5 559**
Total financial liabilities	**9 298 665**	**14 727**	**-**	**9 313 392**	**6 745 104**	**978 171**	**-**	**7 723 275**
Net financial position	**1 968 893**	**17 922**	**-**	**1 986 815**	**770 023**	**-949 015**	**165 533**	**-13 459**
of which at fair value	-	17 922	-	**17 922**	-	-949 015	165 533	**-783 482**

*For the impact of the first application of IFRS 9 refer to Note 1 Changes in Accounting Standards

(a) Carrying amount of these instrument is a reasonable approximation of their fair value based on observable market data.

(b) Financial debt include Bonds (see Note 7), Commercial paper and bank overdrafts

Fair value hierarchy of financial instruments

In thousands of Euro	31 December 2018	31 December 2017
Short term deposits *	-	165 533
Derivative assets	32 649	29 156
Derivative liabilities	-14 727	-5 559
Valuation techniques based on observable market data (Level 2)	**17 922**	**189 130**
Total financial instruments at fair value	**17 922**	**189 130**

* Carrying amount of these instruments is a reasonable approximation of their fair value based on observable market data. In 2018 following the first application of IFRS 9, Time Deposits are now carried at amortised cost

There have been no significant transfers between the different hierarchy levels in 2018. There were no financial instruments within the category Level 3 (valuation techniques based on unobservable input). All financial instruments are within Level 2 category, except the bonds which are Level 1 (prices quoted in active markets). These are included in these financial statements for disclosure purposes only, see Note 7.

Contractual maturities of financial liabilities and derivatives

	In thousands of Euro	Contratual amount* three months or less	fourth to twelfth month	in the second year	in the third to fifth year	beyond the fifth year	Contractual amount *	Carrying amount
2018	Loans and advances from Nestlé Group companies	1 706 949	-	-	-	-	1 706 949	1 706 949
	Commercial paper	3 101 650	558 206	-	-	-	3 659 856	3 649 554
	Bonds	1 875	579 268	573 643	2 953 799	2 241 875	6 350 460	5 785 529
	Debt securities issued	3 103 525	1 137 474	573 643	2 953 799	2 241 875	10 010 316	9 435 083
	Bank overdrafts, tax and other liabilities	80 483	-	-	-	-	80 483	80 483
	Gross amount receivable from currency derivatives	2 597 397	552 962	-	-	-	3 150 359	3 139 841
	Gross amount payable from currency derivatives	-2 593 327	-549 189	-	-	-	-3 142 516	-3 143 737
	Non currency derivative	-	6 668	5 514	10 182	-	22 364	21 818
	Net derivatives	4 070	10 441	5 514	10 182	-	30 207	17 922

	In thousands of Euro	Contratual amount* three months or less	fourth to twelfth month	in the second year	in the third to fifth year	beyond the fifth year	Contractual amount *	Carrying amount
2017	Loans and advances from Nestlé Group companies	758 773	-	-	-	-	758 773	758 773
	Commercial paper	882 001	65 044	-	-	-	947 045	946 190
	Bonds	395	79 392	581 267	2 544 426	3 230 906	6 436 386	5 791 606
	Debt securities issued	882 396	144 436	581 267	2 544 426	3 230 906	7 383 431	6 737 796
	Bank overdrafts, tax and other liabilities	124 143	3 844	-	-	-	127 987	127 987
	Gross amount receivable from currency derivatives	885 581	30 953	-	-	-	916 534	915 677
	Gross amount payable from currency derivatives	-887 629	-30 951	-	-	-	-918 580	-918 741
	Non currency derivative	-	8 695	6 839	8 962	2 851	27 347	26 661
	Net derivatives	-2 048	8 697	6 839	8 962	2 851	25 301	23 597

* Future cash flow arising from interest on these loans for Loans and advances from Nestlé Group companies are not included. In 2018, interest rates on these loans range are renewed every 6 months from cost of fund with a margin from 7 to 16bps (2017: 8 to 13bps).

5. Other assets and liabilities

In thousands of Euro	31 December 2018	31 December 2017
Other financial assets:		
Other receivables	433	537
Total other assets	**433**	**537**
Other financial liabilities:		
Intra Nestlé Group other payables	54 620	6 479
Other payables	1 213	1 322
Accruals and deferred income	24 650	23 182
Total other liabilities	**80 483**	**30 983**

6. Share capital, share premium and other reserves:

	31 December 2018	31 December 2017
Number of shares of nominal value EUR 2 each	220 000	220 000
In thousands of Euro	440	440

Share capital is set at EUR 440 000 represented by 220 000 shares with a nominal value of EUR 2 each and is authorised, issued and fully paid.

On 19 December 2017, by a written resolution of the shareholder, EUR 50 million was paid in cash to the Company and was contributed to the capital reserves without the issue of shares. The contribution was allocated to share premium. As at 31 December 2017 the share premium is EUR 52 million.

On 20 December 2018, by a written resolution of the shareholder, EUR 50 million was paid in cash to the Company and was contributed to the capital reserves without the issue of shares. The contribution was allocated to share premium. As at 31 December 2018 the share premium is EUR 102 million.

Under Luxembourg law, NFI is allowed to deduct part of the net wealth tax from the corporate income tax of the same year, provided that a reserve is created corresponding to five times the net wealth tax deducted and that this reserve is maintained for a period of five tax years following the year of deduction.

At the Annual General Meeting of the Shareholders of NFI held on 18 April 2017, NFI decided to deduct from retained earnings EUR 108.6 thousand (related to 2017 net wealth tax), resulting in an allocation to a net wealth tax reserve 2017 of EUR 543 thousand, to re-allocate the net wealth tax reserves 2008-2011 of EUR 668 thousand from other reserve to retained earnings and to allocate EUR 6 thousand as net wealth tax reserve 2016 (and added to the EUR 538 thousand net wealth tax reserve 2016, to total EUR 544 thousand net wealth tax reserve 2016) from retained earnings to other reserve.

At the General meeting of the Shareholders of NFI held on 20 December 2018 (amendment of the Annual General meeting held on the 25 April 2018), NFI decided to deduct from retained earnings EUR 398.5 thousand (related to 2018 net wealth tax) from the corporate income tax, resulting in an allocation to a net wealth tax reserve 2018 of EUR 1 992.6 thousand.

As at 30 June 2018 the net wealth tax reserve is EUR 3 630 thousand (2017: EUR 2 962 thousand) of which EUR 455 thousand (2017: EUR 0 thousand) is distributable to the shareholder.

The movements in other reserve for the period ended 31 December 2018 were as follows:

In thousands of Euro	31 December 2018	31 December 2017
Opening Balance	2 962	3 081
Substraction / Addition	1 993	-119
Closing Balance	**4 955**	**2 962**

Under Luxembourg law, NFI is required to appropriate annually at least 5% of its statutory net profit to a non-distributable legal reserve until the aggregate reserve reaches 10% of the subscribed capital. The reserve is fully constituted for EUR 44 thousand.

As at 31 December 2018, the hedging cost reserve associated with the fair value hedges is not material.

7. Debt securities:

Bonds

The outstanding amounts of bonds at 31 December 2018 and 31 December 2017 were as follows:

In thousands of Euro	Interest rates		Year of	Comments	31 December 2018	31 December 2017
Face value	Nominal	Effective	issue/maturity			
EUR 850.000 1,75 percent	1,75%	1,89%	2012-2022		845 657	844 534
EUR 500.000 1,50 percent	1,50%	1,60%	2012-2019		499 712	499 190
EUR 500.000 1,25 percent	1,25%	1,29%	2013-2020		499 681	499 447
EUR 500.000 2,13 percent	2,13%	2,20%	2013-2021		498 992	498 632
EUR 500.000 0,75 percent	0,75%	0,89%	2014-2021		497 899	497 174
EUR 500.000 0,75 percent	0,75%	0,92%	2015-2023	(b)	505 225	502 038
EUR 500.000 0,38 percent	0,38%	0,54%	2017-2024		495 847	495 038
EUR 750.000 1,25 percent	1,25%	1,31%	2017-2029		744 862	744 424
EUR 750.000 1,75 percent	1,75%	1,82%	2017-2037		740 954	740 555
GBP 400.000 2,25 percent	2,25%	2,34%	2012-2023	(a)	456 700	470 575
Total					**5 785 529**	**5 791 607**
of which due in twelve months					499 712	-
of which due in the second year					499 681	499 190
of which due between three to five years					2 804 473	2 339 787
of which due after five years					1 981 663	2 952 630

(a) Subject to an interest rate swap
(b) Out of which EUR 375 million is subject to an interest rate swap (2017: EUR 375 million)

The fair value of bonds, based on prices quoted in active markets, amounts to EUR 5 946 237 thousand (2017: EUR 6 012 991 thousand). These bonds are admitted to trading on the London Stock Exchange's regulated market.

Some bonds are hedged by currency and/or interest rate derivatives. The fair value of these derivatives is included within derivative assets for EUR 21 817 thousand (2017: EUR 26 661 thousand) and under derivative liabilities for EUR 0 thousand (2017: EUR 0 thousand).

Issue of bonds:

No bonds were issued in 2018 (2017: EUR 2 000 000 thousand).

Repayment of Bonds:

No bonds were repaid at maturity during the financial year ended 31 December 2018 (2017: EUR 88 453 thousand).

Commercial Paper

The outstanding amounts of commercial paper at 31 December 2018 were as follows:

In thousands of Euro	31 December 2018	31 December 2017
Commercial paper	**3 649 554**	**946 189**
of which due within twelve months	3 649 554	946 189

Carrying amount of these instruments is a reasonable approximation of their fair value based on observable market data.

8. Transactions with related parties

Financing of the Nestlé Group companies

The principal business activity of NFI is the financing of companies directly or indirectly controlled by Nestlé S.A. This financing represents the majority of the transactions with related parties in quantity and in amounts. There is no experience of loss for credit default resulting from this activity, NFI assesses the impairment risk in Note 1. The majority loans are done for a period of 3 years (period of 1 year in 2017) and have no guarantee. In 2018, interest rates on these loans are mainly ranged from Euribor or Libor 1 month to 6 months with a margin from 5 to 513bps (2017: 18 to 690bps). The Standard's and Poor's ratings of these related companies range from C to AA.

The transactions with Nestlé Group companies are based on arm's length prices. All outstanding balances with these related parties are to be settled in cash.

The balances of transactions with related parties at the financial year ended 31 December 2018 are given below:

In thousands of Euro	31 December 2018	31 December 2017
Assets		
Derivatives assets to Nestlé Group companies	21 817	26 661
Loans and advances to Nestlé Group companies excluding accrued interest	11 137 548	7 487 721
Accrued interest on loans to Nestlé Group companies	24 552	26 806
Total	**11 183 917**	**7 541 188**
Liabilities		
Loans and advances from Nestlé Group companies excluding accrued interest	1 706 949	758 582
Accrued interest on loans from Nestlé Group companies	-	191
Others payables to Nestlé Group companies	54 620	6 479
Total	**1 761 569**	**765 252**
Net assets	**9 422 348**	**6 775 936**

Grant, receipt and repayments of loans for the financial year ended 31 December 2018 were as follows:

In thousands of Euro	Year 2018	Year 2017
Loans granted to Nestlé Group companies excluding accrued interest	20 717 425	13 903 229
Repayment of loans by Nestlé Group companies excluding accrued interest	-17 257 685	-15 546 486
Net loans and advances repaid by Nestlé Group companies	**3 459 740**	**-1 643 257**
Loans received from Nestlé Group companies excluding accrued interest	1 061 122	188 850
Repayment of loans to Nestlé Group companies excluding accrued interest	-124 409	-1 821 975
Net loans and advances repaid to Nestlé Group companies	**936 713**	**-1 633 125**

The transactions included in the above tables and in note 2 and note 6 are transactions made between the parent company, Nestlé S.A., and NFI. These are detailed in the table below:

In thousands of Euro	31 December 2018	31 December 2017
Receivable from Nestlé S.A.	40 378	50 834
Payables to Nestlé S.A.	-94 942	-6 149

In thousands of Euro	Year 2018	Year 2017
Other financial income from Nestlé S.A.	40 378	50 834
Other financial expenses to Nestlé S.A.	-115 642	-27 682

In thousands of Euro	31 December 2018	31 December 2017
Increase in share premium and other premiums by Nestlé S.A.	50 000	50 000

9. Guarantees

Nestlé S.A. is the guarantor of NFI in respect of all debt securities issued for both the short and long term. The issuance programmes and guarantees applicable to NFI are: EUR 8 billion Global Commercial Paper Programme, EUR 2 billion Billets de Trésorerie French Commercial Paper Programme and Euro Medium Term Note (EMTN) Debt Issuance Programme.

NFI itself has not provided any guarantees in favour of third parties.

10. Risk and uncertainties

NFI is exposed to certain risks and uncertainties that could have a material adverse impact on its financial condition and operating results:

Capital Risk

The NFI's capital management is driven by the level of the loan granted and the level of the risk on the loan granted. The Board of Directors seeks to maintain a prudent balance between the risk and the capital.

Concentrations of Risk

The majority of NFI's assets represent receivables from other Nestlé Group companies. This situation is reflected in the assessment of risk of default and the measurement of the allowance for expected credit loss.

Banking Credit

In its financing activities, NFI deals with many banks and financial institutions and thus is exposed to a risk of loss in the event of non-performance by the counterparties to financial instruments. While NFI seeks to limit such risk by dealing with counterparties which have high credit ratings (above BBB+), NFI cannot give any assurance that counterparties will fulfill their obligations, failure of which could materially affect NFI's financial position.

Credit Risk

Credit risk refers to the risk that an internal or external counterparties will default on its contractual obligations resulting in financial loss to the Nestlé Group. The amount recognised (Note 3 and 4) in the balance sheet of NFI for financial assets (Note 8 for the loans and advances to Nestlé affiliates)is the maximum credit risk in the case that counterparties are unable to fulfil their contractual obligations. In the case of derivative financial instruments, NFI is also exposed to credit risk, which results from the non-performance of contractual agreements on the part of the counterparty.
NFI aims to minimise the credit risk of liquid assets, non-current financial assets and derivative assets through the application of the Nestlé Group 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. NFI avoids the concentration of credit risk on its liquid assets by spreading them over several institutions and sectors.

Issuances of debt instruments by NFI benefit from a guarantee given by Nestlé S.A. Moody's and Standard & Poor's or any other credit rating agency which rates the credit of Nestlé S.A. and its affiliates, including NFI, may qualify or alter such rating at any time. Downgrades or placement on review for possible downgrades could harm the Nestlé Group's, including NFI's, ability to obtain financing or increase its financing costs and could have a material adverse effect on the price of debt instruments issued by NFI and thereby significantly affect NFI's financial position.

As at the balance sheet date, NFI has impaired some loans and advances to Nestlé affiliates based on ECL calculation (Note1), none other financial assets were impaired.

Market risk

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

Currency Fluctuations

NFI is subject to some currency fluctuations, both in terms of its trading activities and the translation of its financial statements; while NFI uses short-term hedging for trading activities, NFI does not believe that it is appropriate or practicable to hedge long-term translation exposure. NFI does, however, seek some mitigation of such translation exposure by relating the currencies of trading cash flow to those of its debt by using broadly similar interest and currency swap contracts. If NFI experiences significant currency fluctuations or is unable to use similar interest and currency swap contracts effectively, then NFI's financial condition could be adversely affected.

In thousands of Euro	31 December 2018				31 December 2017			
	EUR	USD	GBP	others	EUR	USD	GBP	others
Cash and cash equivalents	53 769	294	48 712	559	156 751	8 533	-	312
Derivative assets	-	10 832	21 817	-	-	2 495	26 661	-
Loans and advances to Nestlé Group companies	5 936 998	787 842	3 432 877	1 004 383	3 156 620	961 847	2 587 713	808 347
Current tax assets	1 691	-	-	-	-	-	-	-
Other financial assets	433	-	-	-	537	-	-	-
Total financial assets	**5 992 891**	**798 968**	**3 503 406**	**1 004 942**	**3 313 908**	**972 875**	**2 614 374**	**808 659**
Bank overdrafts	-	-	-	-	48 957	-	44 203	-
Derivative liabilities	-	9 853	4 874	-	-	4 699	860	-
Loans and advances from Nestlé Group companies	1 133 792	233 593	339 564	-	47 349	331 704	379 720	-
Debt securities issued	5 728 857	3 249 526	456 700	-	5 321 030	946 190	470 576	-
Current tax liabilities	-	-	-	-	3 844	-	-	-
Other financial liabilities	80 483	-	-	-	30 983	-	-	-
Total financial liabilities	**6 943 132**	**3 492 972**	**801 138**	**-**	**5 452 164**	**1 282 593**	**895 359**	**-**
Net financial position	**-950 241**	**-2 694 004**	**2 702 268**	**1 004 942**	**-2 138 256**	**-309 718**	**1 719 015**	**808 659**

EUR per		Year ending rates	
		2018	2017
1 US Dollar	USD	1,144	1,195
1 Pound Sterling	GBP	0,898	0,887

Interest Rate Risk

Interest rate risk refers to potential changes of value in financial assets, liabilities or derivatives in response to fluctuations in interest rates. NFI holds a substantial volume of interest rate sensitive financial assets, liabilities and derivatives for operational, financing and investment activities. Changes in interest rates can have an adverse effect on the financial position and operating results of NFI. In order to mitigate the impact of interest rate risk, Nestlé S.A. continually assesses the exposure of the Nestlé Group, including NFI, to this risk. Interest rate risk is managed and hedged through the use of derivative financial instruments, such as interest rate swaps, interest rate and currency swaps and forward rate agreements. When deemed appropriate, there might be unhedged positions.

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 86% (2017: 85%).

Value at Risk ("VaR")

Description of the method

The VaR is a single measure to assess market risk. The VaR estimates the size of losses given current positions and possible changes in financial markets. NFI uses simulation to calculate VaR based on the historic data for a 261 days period.

The VaR calculation is based on a 95% confidence level and, accordingly, does not take into account losses that might occur beyond this level of confidence. The VaR is calculated on the basis of unhedged exposures outstanding at the close of business and does not necessarily reflect intra-day exposures.

Objective of the method

NFI uses the described VaR analysis to estimate the potential one-day loss in the fair value of its financial instruments. NFI cannot predict the actual future movements in market rates, therefore, the below VaR numbers neither represent actual losses nor consider the effects of favorable movements in underlying variables. Accordingly, these VaR numbers may only be considered indicative of future movements to the extent the historic market patterns repeat in the future.

VaR figures

The VaR computation includes NFI's financial assets and liabilities that are subject to foreign currency and interest rate risk.

The estimated potential one-day loss from NFI's foreign currency and interest rate risk sensitive instruments, as calculated using the above described historic VaR model, is as follows:

In thousands of Euro	Year 2018	Year 2017
Foreign currency	-18 800	-20 973
Interest rate	-115	-267
Foreign currency and interest rate combined	-20 256	-21 535

Liquidity Risk

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.

NFI raises finance by the issuance of term debt instruments, principally in the capital markets.

NFI has ample market access including short term and medium term debt capital markets, enjoying the benefit of issuance with a Nestlé S.A. AA rated guarantee. NFI can access the Nestlé Group liquidity support in place for Nestlé S.A. amounting to EUR 11 billion equivalent if there ever be an emergency

Therefore, NFI depends on broad access to these capital markets and investors. Changes in demand for term debt instruments on capital markets could limit the ability of NFI to fund other members of the Nestlé Group.

NFI depends on the willingness of banks to provide credit lines or loans. Due to structural changes in the banking business, the willingness of banks to provide credit lines and loans has declined over the past years. In order to reduce and minimise the dependence on banks, NFI has taken measures to maintain its access to the capital markets. For the cashflow analysis please refer to Note 4 Financial instruments.

Risk of an increase in cost of capital

NFI's capital management is driven by the impact on shareholders of the level of total capital employed. It is NFI's policy to maintain a sound capital base to support the continued development of its business. However, increases in the cost of borrowing could negatively affect the operating results of NFI. Increases in borrowing costs could arise from changes in demand for term debt instruments in the capital markets, the removal of the unconditional and irrevocable guarantee of Nestlé S.A. and a decreasing willingness of banks to provide credit lines and loans.

Treasury operations

In the course of its business, the Nestlé Group, including NFI, has substantial assets under management. Although the Nestlé Group has implemented risk management methods, including approved guidelines and financial policies to mitigate and control such risks, as a result of holding such assets, it is exposed to default risk, interest rate risk, foreign exchange risk and credit spreads. Returns on such assets may also be affected by limited exposure to yield enhancing absolute return funds. In addition, adverse changes in the credit quality of counterparties or a general deterioration in economic conditions or arising from systemic risks in the financial systems could affect the value of those assets and thereby materially affect NFI's financial position.

11. Directors

The Board of Directors of NFI comprises five Directors. The Directors do not receive any remuneration for their mandate.

12. Staff

In Luxembourg NFI employed on average one part-time employee and four full-time employees during 2018 (one part-time employee and four full-time employees during 2017). All of these employees provide treasury and accounting services.

13. Events after the balance sheet date

There have not been any significant events after the balance sheet date.

4. Responsibility Statement

Marina Vanderveken-Verhulst, Director, Patrick Yot, Director, Bob Calmes, Director, Laurent Schummer, Director, Bruno Chazard, Director and Steve Flammang, Chief Accountant confirm that to the best of their knowledge:

(a) the financial statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of NFI; and

(b) the management report includes a fair review of the development and performance of the business and the position of NFI, together with a description of the principal risks and uncertainties that it faces.

21 March 2019