



Good Food. Good Life

**NESTLÉ FINANCE INTERNATIONAL LTD.**

**(Société Anonyme)**

**Annual Report**

**Management Report**

**and**

**Financial Statements**

**1 January – 31 December 2013**

**(With Report of the Réviseur d'Entreprises Agréé Thereon)**

**Registered Address: 7, rue Nicolas Bové  
L-1253, Luxembourg  
R.C. Luxembourg B No136737  
Subscribed capital: EUR 440 000**

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## Nestlé Finance International Ltd.

Nestlé Finance International Ltd. ("NFI") presents its annual financial report for the financial year ended 31 December 2013. 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"). The Company, 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, to Luxembourg on 29 February 2008. NFI is established for an unlimited duration. The Nestlé Group manufactures food and beverages as well as products related to the nutrition, health and wellness industries. Its products, distributed throughout the world, include: soluble coffee, chocolate and malt-based drinks, water, dairy products, infant nutrition, healthcare nutrition, performance nutrition, ice cream, frozen and chilled food, culinary aids, chocolate and confectionary, as well as products for weight management, pet care and pharmaceutical products.

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.

On June 1, 2013, NFI moved its seat from 69, rue de Merl L-2146 Luxembourg to 7, rue Nicolas Bové L-1253 Luxembourg.

### 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:

During the financial year ended 31 December 2013, a total equivalent of EUR 9 204 million of loans and advances had been made to Group companies compared to EUR 12 836 million during the financial year ended 31 December 2012. These were financed mainly through the issuance of bonds and commercial paper. 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 Audited Financial Statements of NFI for the financial year ended 31 December 2013.

Total assets decreased during the financial year ended 31 December 2013 (EUR 9 680 million) as compared to the financial year ended 31 December 2012 (EUR 13 342 million). The decrease in total assets (by EUR 3 662 million) was mainly due to a decrease in loans and advances granted to Nestlé Group companies (by EUR 3 632 million). Debt securities (bonds and commercial paper) outstanding at 31 December 2013 (EUR 7 063 million) decreased by EUR 2 834 million as compared to 31 December 2012 (EUR 9 897 million) as a result of a decrease of issuance of bonds and commercial paper.

Financing operations reported a net profit of EUR 3.487 million for the financial year ended 31 December 2013 compared to a net profit of EUR 2.154 million for the financial year ended 31 December 2012.

Profit before tax for the financial year ended 31 December 2013 was EUR 9.082 million, compared to EUR 7.756 million for the financial year ended 31 December 2012. The movement was due to increases in net interest income (by EUR 7.015 million), and decreases in net fee and commission expense (by EUR 38.291 million) and net trading expense (by EUR 0.195 million). This was partially offset by a decrease in other operating income (by EUR 43.873 million).

NFI's net operating cash inflow was EUR 159 million for the financial year ended 31 December 2013 compared to net operating cash inflow of EUR 15 million for the financial year ended 31 December 2012.

There have been no significant events after the balance sheet date and it is expected that NFI's principal business activities will remain unchanged in 2014.

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 received from Nestlé Group companies and results from derivative transactions.

## **(B) Risks and Uncertainties**

NFI is exposed to certain risks and uncertainties: credit risk, liquidity risk, market risk (including foreign currency and interest rate) 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 Audited Financial Statements of NFI for the year ended 31 December 2013, 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 the company's 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.

### **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**

The business activities of NFI are expected to remain constant in the future. NFI will primarily continue to provide financing to members of the Nestlé Group.



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To the Shareholder of  
Nestlé Finance International Ltd., Société Anonyme  
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## REPORT OF THE REVISEUR D'ENTREPRISES AGREE

### *Report on the financial statements*

We have audited the accompanying financial statements of Nestlé Finance International Ltd., Société Anonyme, which comprise the balance sheet as at December 31, 2013, the income statement, other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Board of Directors' responsibility for the financial statements*

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

### *Responsibility of the Réviseur d'Entreprises agréé*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 judgment of the Réviseur d'Entreprises agréé, 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 Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, 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*

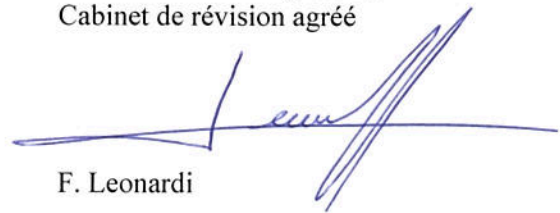
In our opinion, the financial statements of Nestlé Finance International Ltd., Société Anonyme, give a true and fair view of the financial position of Nestlé Finance International Ltd., Société Anonyme as of December 31, 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

***Report on other legal and regulatory requirements***

The management report, including the corporate governance statement, which is the responsibility of the Board of Directors, is consistent with the financial statements and includes the information required by the law in respect of Corporate Governance Statement.

Luxembourg, March 25, 2014

KPMG Luxembourg S.à r.l.  
Cabinet de révision agréé



F. Leonardi

### **3. Financial Statements for the year ended 31 December 2013**

**Nestlé Finance International Ltd. (“NFI”)**

**(Société Anonyme)**

**Financial Statements**

**(Audited)**

**1 January – 31 December 2013**



### Balance sheet as at 31 December 2013

In thousands of Euro	Notes	31 December 2013	31 December 2012
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	(4)	285 574	149 054
Short term investments	(4)	185 992	142 937
Derivative assets	(3)	4 413	99 851
Loans and advances to Nestlé Group companies	(4)	4 696 838	7 584 951
Other assets	(5)	851	1 205
<b>Total current assets</b>		<b>5 173 668</b>	<b>7 977 998</b>
<b>Non-current assets</b>			
Loans and advances to Nestlé Group companies	(4)	4 506 735	5 251 114
Loans and advances to third parties	(4)	-	113 000
Property, plant and equipment		37	-
<b>Total non-current assets</b>		<b>4 506 772</b>	<b>5 364 114</b>
<b>Total assets</b>		<b>9 680 440</b>	<b>13 342 112</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Bank overdrafts		-	24 630
Derivative liabilities	(3)	79 344	11 526
Loans and advances from Nestlé Group companies	(4)	436 537	1 192 447
Debt securities issued	(4/7)	3 425 813	6 068 373
Current tax liabilities		2 101	950
Other liabilities	(5)	127 310	179 783
<b>Total current liabilities</b>		<b>4 071 105</b>	<b>7 477 709</b>
<b>Non-current liabilities</b>			
Loans and advances from Nestlé Group companies	(4)	1 954 634	2 014 367
Debt securities issued	(4/7)	3 636 949	3 828 425
<b>Total non-current liabilities</b>		<b>5 591 583</b>	<b>5 842 792</b>
<b>Total liabilities</b>		<b>9 662 688</b>	<b>13 320 501</b>
<b>Equity</b>			
Share capital	(6)	440	440
Share premium		2 000	2 000
Hedging reserve	(6)	5 339	12 743
Available-for-sale reserve		-8	-66
Legal reserve	(6)	44	44
Other reserve	(6)	1 122	667
Retained earnings		8 815	5 783
<b>Total equity attributable to shareholders of the company</b>		<b>17 752</b>	<b>21 611</b>
<b>Total liabilities and equity</b>		<b>9 680 440</b>	<b>13 342 112</b>

The accompanying notes form an integral part of the financial statements

### **Income statement for the year ended 31 December 2013**

In thousands of Euro	Notes	Year 2013	Year 2012
Interest income		276 842	219 227
Interest expense		-147 106	-96 506
Net interest income	(2)	129 736	122 721
Net fee and commission expense	(2)	-120 853	-159 144
Net trading expense	(2)	-	-195
Other operating income	(2)	1 721	45 594
<b>Operating income</b>		<b>10 604</b>	<b>8 976</b>
Administration expense		-1 522	-1 220
<b>Profit before tax</b>		<b>9 082</b>	<b>7 756</b>
Taxes	(2)	-5 595	-5 602
<b>Profit for the year attributable to shareholders of the company</b>		<b><u>3 487</u></b>	<b><u>2 154</u></b>

The accompanying notes form an integral part of the financial statements

### Other comprehensive income for the year ended 31 December 2013

In thousands of Euro	Year 2013	Year 2012
<b>Profit for the year recognised in the Income statement</b>	<b>3 487</b>	<b>2 154</b>
Fair value adjustment on available-for-sale financial instruments: Unrealised results	58	-57
Fair value adjustment on cash flow hedges: Recognised in hedging reserve	-2 882	4 417
Reclassified from hedging reserve to the Income statement	-4 522	-3 115
Items that are or may be reclassified subsequently to the Income statement	-7 346	1 245
<b>Other comprehensive income for the year</b>	<b>-7 346</b>	<b>1 245</b>
<b>Total comprehensive income for the year</b>	<b>-3 859</b>	<b>3 399</b>
of which attributable to shareholders of the company	-3 859	3 399

### Statement of changes in equity for the year ended 31 December 2013

In thousands of Euro	Share Capital	Share Premium	Hedging reserve	Available-for-sale reserve	Legal reserve	Other reserve	Retained earnings	Total equity attributable to shareholders of the company
<b>Equity as at 31 December 2011</b>	<b>440</b>	<b>2 000</b>	<b>11 441</b>	<b>-9</b>	<b>44</b>	<b>584</b>	<b>3 712</b>	<b>18 212</b>
Profit for the year	-	-	-	-	-	-	2 154	2 154
Fair value adjustments on available-for-sale instruments	-	-	-	-57	-	-	-	-57
Fair value adjustments on cash flow hedges	-	-	1 302	-	-	-	-	1 302
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>1 302</b>	<b>-57</b>	<b>-</b>	<b>-</b>	<b>2 154</b>	<b>3 399</b>
<b>Transfer to reserves</b>								
Transfer to net worth tax reserves	-	-	-	-	-	83	-83	-
<b>Total transfer to other reserve</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>83</b>	<b>-83</b>	<b>-</b>
<b>Equity as at 31 December 2012</b>	<b>440</b>	<b>2 000</b>	<b>12 743</b>	<b>-66</b>	<b>44</b>	<b>667</b>	<b>5 783</b>	<b>21 611</b>
Profit for the year	-	-	-	-	-	-	3 487	3 487
Fair value adjustments on available-for-sale instruments	-	-	-	58	-	-	-	58
Fair value adjustments on cash flow hedges	-	-	-7 404	-	-	-	-	-7 404
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-7 404</b>	<b>58</b>	<b>-</b>	<b>-</b>	<b>3 487</b>	<b>-3 859</b>
<b>Transfer to reserves</b>								
Transfer to net worth tax reserves	-	-	-	-	-	455	-455	-
<b>Total transfer to other reserve</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>455</b>	<b>-455</b>	<b>-</b>
<b>Equity as at 31 December 2013</b>	<b>440</b>	<b>2 000</b>	<b>5 339</b>	<b>-8</b>	<b>44</b>	<b>1 122</b>	<b>8 815</b>	<b>17 752</b>

The accompanying notes form an integral part of the financial statements

### Cash flow statement for the year ended 31 December 2013

In thousands of Euro	Year 2013	Year 2012
<b>Cash flows from operating activities:</b>		
Profit/(loss) for the year	3 487	2 154
Adjustments for:		
Depreciation	5	2
Foreign exchange loss for bank accounts, loans and debt securities	-163 888	70 098
Fair value of debt securities	-42 961	7 416
Interest income	-276 842	-219 227
Interest expense	147 106	96 506
Change in short term investments including those recognised directly in equity	-42 997	30 017
Change in derivative assets including those recognised directly in equity	88 034	34 965
Change in other assets excluding prepaid and accrued income	494	-29
Change in derivative liabilities	67 818	11 142
Change in current tax liabilities	1 151	803
Change in other liabilities excluding accrual and deferred income	-50 547	88 739
Net loans and advances to Nestlé Group companies excluding intra group interest receivable	3 457 249	-6 681 359
Net loans and advances from Nestlé Group companies excluding intra group interest payable	-773 676	1 613 290
Net loans and advances to third parties	113 000	-
Debt securities issued	30 324 621	27 022 370
Debt securities repaid	-32 836 366	-22 185 996
Interest received	281 305	230 936
Interest paid	-137 621	-107 020
<b>Net cash inflow/(outflow) from operating activities</b>	<b>159 372</b>	<b>14 807</b>
<b>Cash outflow from investing activities</b>	<b>-41</b>	<b>-</b>
<b>Cash flow from financing activities</b>	<b>-</b>	<b>-</b>
<b>Currency translation</b>	<b>1 819</b>	<b>2 093</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>161 150</b>	<b>16 900</b>
Cash and cash equivalents at beginning of year	124 424	107 524
<b>Cash and cash equivalents at end of year</b>	<b><u>285 574</u></b>	<b><u>124 424</u></b>

The Company paid taxes of EUR 27 thousand in 2013 and EUR 39 thousand in 2012

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 2013 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 an accrual basis and under the historical cost convention, unless stated otherwise. 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.

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 25 March 2014.

#### **Foreign currencies**

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

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.

#### **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 profit and loss.

### **Taxes**

NFI is subject to Luxembourg tax laws and regulations.

Taxes include current 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 taxation is the tax attributable to the temporary differences that arise when taxation authorities recognise and measure assets and liabilities with rules that differ from those of the financial statements. It also arises on temporary differences stemming from tax losses carried forward.

### **Financial instruments**

#### **Financial assets**

Financial assets are initially recognised at fair value plus directly attributable transaction costs. However when a financial asset at fair value through profit or loss is recognised, the transaction costs are expensed immediately.

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

In cases of a regular way purchase or sale (being a purchase or sale under a contract where its terms require delivery within the time frame established by regulation or convention in the market place), the settlement date is used for both initial recognition and subsequent derecognition.

Financial assets are derecognised when NFI's rights to cash flows from the respective assets have expired or have been transferred and NFI has neither exposure to 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 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 third parties to make payments when due.

## Financial assets at fair value through profit or loss

The financial assets at fair value through profit or loss category include held-for-trading derivatives. Held-for-trading derivatives are derivatives for which hedge accounting is not applied because these are not designated as hedging instruments. Subsequent to initial measurement, held-for-trading derivatives are carried at fair value and all their gains and losses, realised and unrealised, are recognised in the income statement. These derivatives are acquired in full compliance with Nestlé Group's Risk Management Policy.

## 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 financial assets categories.

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

Interest earned on available-for-sale financial assets is calculated using the effective interest rate method and is recognised in the income statement as part of interest income.

## **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.

## **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 unless they are part of a fair value hedge relationship (see fair value hedges below).

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 are derecognised 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**

A derivative is a financial instrument that changes its values in response to changes in the underlying variable, requires no or little net initial investment and is settled at a future date. Derivatives are used by NFI to manage exposures to foreign exchange and interest rate risk.

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. The fair values of over-the-counter derivatives are determined using accepted mathematical models based on observable market data. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from changes in fair values of derivatives that do not qualify for hedge accounting are recognised directly in the income statement.

NFI's derivatives consist of currency forwards and swaps, interest rate swaps and interest rate and currency swaps.

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 changes in the cash flow of 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 changes in the fair value of its recognised assets and liabilities attributed to foreign currency and interest rate risks.

The changes in fair values of hedging instruments are recognised in the income statement. Hedged items are also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in the income statement.

#### **Cash flow hedges**

NFI uses cash flow hedges to mitigate the variability of cash flows arising from foreign currency risks of highly probable forecast transactions.

The effective part of the changes in fair value of hedging instruments is recognised in other comprehensive income, while any ineffective part is recognised immediately in the income statement. The gains or losses previously recognised in other comprehensive income are removed from other comprehensive income and recognised in the income statement at the same time as the hedged transaction affects the income statement.



## **Fair values**

NFI determines the fair values of its financial instruments on the basis of the following hierarchy.

- 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 flows, standard valuation models based on market parameters, dealer quotes for similar instruments and use of comparable arm's length transactions. For example, fair value of currency forwards and swaps, interest rate swaps and interest rate and currency swaps are determined by discounting estimated future cash flows using a risk-free interest rate.
- 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). In rare cases, 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.

## **Impairments**

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.

## **Dividends**

In accordance with Luxembourg law and NFI's Articles of Incorporation, dividends 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 Board of Directors meeting of NFI held on 29 November 2013, the Board decided not to propose any dividend payment to the Shareholder until the meeting of the Board of Directors of NFI to be held on 24 April 2014.

## **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 2013.

## **Property, plant and equipment**

### **Recognition and Measurement**

Items of property, plant and equipment are measured at historical cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

### **Depreciation**

Items of property, plant and equipment are depreciated from the date they are available for use and is recognised in the Income Statement. Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. The useful lives for tools, furniture, information technology and sundry equipment are five years.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

## **Nestlé S.A. consolidation**

NFI is integrated in the consolidated financial statements of Nestlé S.A., 55 avenue Nestlé CH-1800 Vevey, Switzerland.

## **Changes in accounting policies**

NFI has applied the following new International Financial Reporting Standards (IFRS) and revised International Accounting Standard (IAS) from 1 January 2013 onwards.

### **IFRS 13 – Fair Value Measurement**

This standard applies when other IFRS require or permit fair value measurements. It defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. NFI has applied the standard prospectively, in accordance with the relevant transitional provisions and has modified its disclosures accordingly. The application of this standard did not have a material impact on NFI's Financial Statements.

### **Improvements and other amendments to IFRS/IAS**

A number of standards have been modified on miscellaneous points. Such changes include IAS 1 – Presentation of Financial Statements, which requires entities to separate items presented in Other comprehensive income into two groups, based on whether or not they may be recycled to the income statement in the future. NFI has modified its disclosures accordingly. None of these amendments had a material effect on NFI's Financial Statements.

## **Changes in accounting policies that may affect NFI after 31 December 2013**

The following standards and amendments to existing standards have been published and are mandatory for NFI's accounting period beginning on 1 January 2014 (subject to being adopted within the European Union), unless otherwise stated.

#### IFRS 9 – Financial Instruments

The standard addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard will affect NFI's accounting for its available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Such gains and losses are never reclassified to the income statement at a later date. There will be 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 standard is effective for the accounting period beginning on 1 January 2018.

#### Improvements and other amendments to IFRS/IAS

A number of standards have been modified on miscellaneous points. None of these amendments are expected to have a material effect on NFI's Financial Statements.

#### Re-Presentation

NFI have re-presented some 2012 balances in order for these to be comparable to 2013.

## 2. Operating income and taxes

Net interest income:

In thousands of Euro	Year 2013	Year 2012
<b>Interest income from:</b>		
Cash and cash equivalents	-	575
Short term investments	504	1 341
Loans and advances to Nestlé Group companies	272 551	213 514
Loans and advances to third parties	3 787	3 797
<b>Interest income</b>	<b>276 842</b>	<b>219 227</b>
<b>Interest expense from:</b>		
Loans and advances from Nestlé Group companies	-71 987	-28 493
Debt securities issued	-75 119	-68 013
<b>Interest expense</b>	<b>-147 106</b>	<b>-96 506</b>
<b>Net interest income</b>	<b>129 736</b>	<b>122 721</b>

Net fees and commission expense:

In thousands of Euro	Year 2013	Year 2012
Fee and commission expense to Nestlé Group companies	-120 853	-159 144
<b>Net fee and commission expense</b>	<b>-120 853</b>	<b>-159 144</b>

Other operating income/(expense):

In thousands of Euro	Year 2013	Year 2012
Net foreign exchange gain or loss	1 736	45 594
Net loss or gain in fair value through profit and loss	-15	-
<b>Other operating income/(expense)</b>	<b>1 721</b>	<b>45 594</b>

Net trading expense:

In thousands of Euro	Year 2013	Year 2012
Net trading expense	-	-195
<b>Net trading expense</b>	<b>-</b>	<b>-195</b>

Taxes:

In thousands of Euro	Year 2013	Year 2012
Withholding tax expenses	-4 418	-4 760
Income tax expenses	-1 177	-842
<b>Taxes</b>	<b>-5 595</b>	<b>-5 602</b>

In thousands of Euro	Year 2013	Year 2012
Profit for the year	3 487	2 154
Total tax expense	-5 595	-5 602
<b>Profit before tax</b>	<b>9 082</b>	<b>7 756</b>
Withholding tax	-4 418	-4 760
<b>Profit before tax and withholding tax</b>	<b>4 664</b>	<b>2 996</b>
Tax using Company's domestic tax rate 29,22% (2012: 28,80%)	-1 363	-863
Tax exempt income	186	21
Withholding tax	-4 418	-4 760
<b>Total current tax (expense)</b>	<b>-5 595</b>	<b>-5 602</b>

### 3. Derivative assets and liabilities

#### By type

In thousands of Euro	Contractual or notional amounts		Fair value assets		Fair value liabilities	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012	31 December 2013	31 December 2012
<b>Fair value hedges</b>						
Currency forwards and swaps	2 362 807	2 345 312	1 319	528	18 198	10 304
Interest rate swaps	479 814	489 988			39 264	782
Interest rate and currency swaps	440 360	523 609	214	89 686	6 694	-
<b>Cash flow hedges</b>						
Currency forwards and swaps	24 027	62 619	74		-	440
Interest rate and currency swaps	80 903	98 356	-	4 198	15 188	
<b>Undesignated</b>						
Currency forwards and swaps	141 126	181 887	2 806	5 439	-	-
<b>Total</b>	<b>3 529 037</b>	<b>3 701 771</b>	<b>4 413</b>	<b>99 851</b>	<b>79 344</b>	<b>11 526</b>
of which determined with valuation technique			4 413	99 851	79 344	11 526

Some derivatives, while complying with the Group's Risk Management Policy of managing the risks of the volatility of the financial markets, do not qualify for the hedge accounting and are, therefore, classified as undesignated derivatives.

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

In thousands of Euro	Year 2013	Year 2012
On hedged items	205 275	-80 303
On hedging instruments	-213 972	73 072

The ineffective portion of gains/(losses) of cash flow hedges is not significant.

### 4. Financial instruments

#### Financial assets and liabilities

#### By class

In thousands of Euro	31 December 2013	31 December 2012
Cash and cash equivalents	285 574	149 054
Short term investments	185 992	142 937
Derivative assets	4 413	99 851
Loans and advances to Nestlé Group companies	9 203 573	12 836 065
Loans and advances to third parties (b)	-	113 000
Other financial assets (a)	851	1 205
<b>Total financial assets</b>	<b>9 680 403</b>	<b>13 342 112</b>
Bank overdrafts	-	24 630
Derivative liabilities	79 344	11 526
Loans and advances from Nestlé Group companies	2 391 171	3 206 814
Debt securities issued	7 062 762	9 896 798
Current tax liabilities	2 101	950
Other financial liabilities (a)	127 310	179 783
<b>Total financial liabilities</b>	<b>9 662 688</b>	<b>13 320 501</b>
<b>Net financial position</b>	<b>17 715</b>	<b>21 611</b>

(a) Other financial assets and other financial liabilities include receivables and short term payables respectively, refer to Note 5.

(b) NFI granted loans to third parties for the purpose of indirectly providing commercial benefit to Nestlé Group companies and on an exceptional basis.

### By category

In thousands of Euro	31 December 2013	31 December 2012
Loans and receivables at amortised cost:	9 374 071	13 099 324
Cash and cash equivalents (a)	56 649	149 054
Short term investments (a)	113 000	-
Loans and receivables (a)	9 204 422	12 950 270
Available-for-Sale	301 919	142 937
Derivative assets	4 413	99 851
<b>Total financial assets</b>	<b>9 680 403</b>	<b>13 342 112</b>
Financial liabilities at amortised cost (b)	6 090 860	8 772 100
Loans and payables (a)	2 520 582	3 412 177
Financial liabilities at fair value * (b)	971 902	1 124 698
Derivative liabilities	79 344	11 526
<b>Total financial liabilities</b>	<b>9 662 688</b>	<b>13 320 501</b>
<b>Net Financial Position</b>	<b>17 715</b>	<b>21 611</b>

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

(b) Fair values are disclosed in Note 7

\* Financial liabilities under fair value hedges are carried at amortised cost and adjusted for the risk being hedged.

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

In thousands of Euro	31 December 2013	31 December 2012
Cash at bank	56 649	149 054
Time deposits	228 925	-
<b>Total cash and cash equivalents</b>	<b>285 574</b>	<b>149 054</b>

Cash and cash equivalents include the following for the purposes of the statement of cash flows:

In thousands of Euro	31 December 2013	31 December 2012
Cash and cash equivalents	285 574	149 054
Bank overdrafts	-	-24 630
<b>Total cash and cash equivalents</b>	<b>285 574</b>	<b>124 424</b>

### Fair value hierarchy of financial instruments

In thousands of Euro	31 December 2013	31 December 2012
Short term deposits (a)	301 919	142 937
Derivative assets	4 413	99 851
Derivative liabilities	-79 344	-11 526
<b>Valuation techniques based on observable market data (Level 2)</b>	<b>226 988</b>	<b>231 262</b>
<b>Total financial instruments at fair value</b>	<b>226 988</b>	<b>231 262</b>

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

There have been no significant transfers between the different hierarchy levels in 2013. There were no financial instruments within the category Level 1 – prices quoted in the active markets and Level 3 – valuation techniques based on unobservable input.

### Contractual maturities of financial liabilities and derivatives

In thousands of Euro		three months or less	four to twelfth month	in the second year	in the third to fifth year	beyond the fifth year	Contractual amount *	Carrying amount *
2012	Loans and advances from Nestlé Group companies	9 918	1 182 529	-	1 896 898	117 469	3 206 814	3 206 814
	Commercial paper	3 379 143	1 698 141	-	-	-	5 077 284	5 074 474
	Bonds	-	1 098 948	1 188 185	1 015 950	1 995 556	5 298 639	4 822 324
	Debt securities issued	3 379 143	2 797 089	1 188 185	1 015 950	1 995 556	10 375 923	9 896 798
	Bank overdrafts, tax and other liabilities	32 538	172 825	-	-	-	205 363	205 363
	Gross amount receivable from currency derivatives	1 011 936	1 607 028	552 755	112 003	-	3 283 722	3 242 622
	Gross amount payable from currency derivatives	-1 014 978	-1 581 858	- 460 421	- 103 689	-	- 3 160 946	- 3 153 516
	Non currency derivative	-	6 532	5 500	10 903	- 26 805	- 3 870	- 782
	Net derivatives	- 3 042	31 702	97 834	19 217	- 26 805	118 906	88 324

In thousands of Euro		three months or less	four to twelfth month	in the second year	in the third to fifth year	beyond the fifth year	Contractual amount *	Carrying amount *
2013	Loans and advances from Nestlé Group companies	400 906	35 631	1 842 168	112 466	-	2 391 171	2 391 171
	Commercial paper	2 365 039	38 056	-	-	-	2 403 095	2 402 727
	Bonds	3 741	1 103 356	349 082	742 274	2 995 168	5 193 621	4 660 035
	Debt securities issued	2 368 780	1 141 412	349 082	742 274	2 995 168	7 596 716	7 062 762
	Bank overdrafts, tax and other liabilities	35 169	94 242	-	-	-	129 411	129 411
	Gross amount receivable from currency derivatives	2 480 501	512 035	3 742	88 386	-	3 084 664	3 066 055
	Gross amount payable from currency derivatives	-2 491 619	- 511 393	- 1 055	- 102 634	-	- 3 106 701	- 3 101 723
	Non currency derivative	-	6 280	2 937	13 313	- 43 618	- 47 714	- 39 263
	Net derivatives	- 11 118	6 922	5 624	- 27 561	- 43 618	- 69 751	- 74 931

\* Future cash flows arising from interest on these loans for Loans and advances from Nestlé Group companies are not included.

### 5. Other assets and liabilities

In thousands of Euro	31 December 2013	31 December 2012
Other financial assets:		
Other receivables	541	1 035
Prepaid and accrued income	310	170
<b>Total other assets</b>	<b>851</b>	<b>1 205</b>
Other financial liabilities:		
Intra Nestlé Group other payables	93 143	143 368
Other payables	1 003	1 325
Accruals and deferred income	33 164	35 090
<b>Total other liabilities</b>	<b>127 310</b>	<b>179 783</b>

### 6. Share capital and other reserves:

	31 December 2013	31 December 2012
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 par value of EUR 2 each and is authorised, issued and fully paid.

Under Luxembourg law, NFI is allowed to deduct the net worth tax from the corporate income tax of the same year, provided that a reserve is created corresponding to five times the net worth tax deducted and that this reserve is maintained for a period of five tax years following the year of deduction. For the financial year ended 31 December 2012, NFI decided to deduct the whole of the net worth tax in the amount of EUR 91 thousand from the corporate income tax, resulting in an addition to the tax reserve of EUR 455 thousand.

The movements in other reserve for the period ended 31 December 2013 were as follows:

In thousands of Euro	31 December 2013	31 December 2012
Opening Balance	667	584
Addition	455	83
<b>Closing Balance</b>	<b>1 122</b>	<b>667</b>

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.

The hedging reserve for the financial year ended 31 December 2013 was as follows:

In thousands of Euro	31 December 2013	31 December 2012
Hedging reserves	5 339	12 743

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. At 31 December 2013, the reserve is positive of EUR 5 339 thousand (2012: EUR 12 743 thousand).

The amounts currently held in the hedging reserve will impact the income statement in 2014 and 2015.



## 7. Debt securities:

### Bonds

The outstanding amounts of bonds at 31 December 2013 and 31 December 2012 were as follows:

Face value in thousands	Interest rates		Year of issue/maturity	Comments	31 December 2013	31 December 2012
	Nominal	Effective				
CHF 750.000 2,00 percent	2,00%	2,13%	2009-2013	(d)	-	620 918
CHF 275.000 2,125 percent	2,13%	2,13%	2009-2014	(d)	224 256	227 798
CHF 325.000 2,00 percent	2,00%	2,05%	2009-2014		265 009	269 110
CHF 350.000 2,125 percent	2,13%	2,20%	2009-2015	(d)	285 169	289 512
CHF 125.000 2,00 percent	2,00%	1,77%	2009-2013	(d)	-	103 663
CHF 100.000 2,00 percent	2,00%	1,98%	2009-2014		81 552	82 852
CHF 325.000 2,00 percent	2,00%	1,93%	2009-2013	(d)	-	269 318
AUD 450.000 5,75 percent	5,75%	5,81%	2010-2014	(b)	302 945	369 001
NOK 1.250.000 2,50 percent	2,50%	2,73%	2010-2014	(b)	149 324	169 675
EUR 500.000 0,75 percent	0,75%	0,83%	2012-2016		498 913	496 702
EUR 850.000 1,75 percent	1,75%	1,89%	2012-2022		840 245	839 223
EUR 500.000 1,50 percent	1,50%	1,61%	2012-2019		497 183	498 530
EUR 500.000 1,25 percent	1,25%	1,30%	2013-2020		498 537	-
EUR 500.000 2,13 percent	2,13%	2,20%	2013-2021		497 270	-
GBP 400.000 2,25 percent	2,25%	2,34%	2012-2023	(c)	439 411	488 537
AUD 125.000 4,63 percent	4,63%	4,86%	2012-2017	(a)	80 221	97 485
<b>Total</b>					<b>4 660 035</b>	<b>4 822 324</b>
of which due in twelve months					1 023 086	993 899
of which due in two years					285 170	1 118 436
of which due between three to five years					579 134	883 699
of which due after five years					2 772 645	1 826 290

- (a) Subject to currency and interest rate swap that creates a liability at fixed rate in the currency of NFI  
 (b) Subject to currency and/or interest rate swap that creates a liability at floating rate in the currency of NFI  
 (c) Subject to an interest rate swap  
 (d) Subject to currency swaps that hedge the CHF face value and coupon exposure

The fair value of bonds, based on prices quoted in active markets, amounts to EUR 4 672 505 thousand (2012: EUR 4 928 901 thousand). This value includes accrued interest of EUR 33 164 thousand (2012: EUR 35 090 thousand).

Most of the bonds are hedged by currency and/or interest rate derivatives. The fair value of these derivatives is included within derivative assets for EUR 1 588 thousand (2012: EUR 94 249 thousand) and under derivative liabilities for EUR 61 146 thousand (2012: EUR 2 811 thousand).

#### Issue of Bonds:

Two bonds were issued during the financial year ended 31 December 2013 for EUR 995 560 thousand.

#### Repayment of Bonds:

Three bonds were repaid at maturity during the financial year ended 31 December 2013 for EUR 973 025 thousand.

### Commercial Paper

The outstanding amounts of commercial paper at 31 December 2013 were as follows:

In thousands of Euro	31 December 2013	31 December 2012
<b>Commercial paper</b>	<b>2 402 727</b>	<b>5 074 474</b>
of which due within one year	2 402 727	5 074 474

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.

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 2013 are given below:

In thousands of Euro	31 December 2013	31 December 2012
<b>Assets</b>		
Loans and advances to Nestlé Group companies excluding accrued interest	9 148 529	12 776 416
Accrued interests on loans to Nestlé Group companies	55 044	59 649
<b>Total</b>	<b>9 203 573</b>	<b>12 836 065</b>
<b>Liabilities</b>		
Loans and advances from Nestlé Group companies excluding accrued interest	2 382 005	3 196 896
Accrued interests on loans from Nestlé Group companies	9 166	9 918
Others payables to Nestlé Group companies	93 143	143 368
<b>Total</b>	<b>2 484 314</b>	<b>3 350 182</b>
<b>Net assets</b>	<b>6 719 259</b>	<b>9 485 883</b>

Grant, receipt and repayments of loans for the financial year ended 31 December 2013 were as follows:

In thousands of Euro	Year 2013	Year 2012
Loans granted to Nestlé Group companies excluding accrued interest	36 301 330	15 139 071
Repayment of Loans by Nestlé Group companies excluding accrued interest	-39 758 579	-8 457 712
<b>Net Loans and advances granted to Nestlé Group companies</b>	<b>-3 457 249</b>	<b>6 681 359</b>
Loans received from Nestlé Group companies excluding accrued interest	131 125	3 048 774
Repayment of Loans to Nestlé Group companies excluding accrued interest	-904 801	-1 435 484
<b>Net Loans and advances received from Nestlé Group companies</b>	<b>-773 676</b>	<b>1 613 290</b>

Included in the above table, and note 2 are transactions made at arms' length between the parent company, Nestle S.A., and NFI. These are detailed in the table below:

In thousands of Euro	31 December 2013	31 December 2012
Payables to Nestle S.A.	-8 327	-6 576
Other Financial expenses from Nestle S.A.	-36 061	-22 359

## 9. Guarantees

Nestlé S.A. is the guarantor of NFI in respect of 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:

### **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, 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 results from the risk of default of internal or external counterparties. The amount recognized in the balance sheet of NFI for financial assets 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. This credit risk is mitigated by entering into such contracts with parties of high credit standing.

Certain issues 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 materially affect NFI's financial position.

As at the balance sheet date (and the end of the comparative period), NFI did not have any financial assets that were impaired or past due but not 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 flows 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.

### **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.

## 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 250 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 2013	Year 2012
Foreign currency	-1 902	-1 646
Interest rate	-377	-670
Foreign currency and interest rate combined	-2 182	-2 071

## Liquidity Risk

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

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 minimize the dependence on banks, NFI has taken measures to maintain its access to the capital markets.

### 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. Staff**

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

In Luxembourg the Company employs one part-time employee and two full-time employees at 2013 year-end (one part-time employee and two full-time employees at 2012 year-end).

## **12. Events after the balance sheet date**

There have been no significant events after the balance sheet date.

#### **4. Responsibility Statement**

Marina Vanderveken-Verhulst, Director category B and Saskia Deknock, Director category B 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.

25 March, 2014