Good Food, Good Life

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

Annual Financial Report

Management Report

Responsibility Statement

Consolidated Financial Statements

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

Table of Contents

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

December 31, 2015 and 2014

Management Report

Nestlé Holdings, Inc. ("NHI") (hereinafter, together with its subsidiaries, referred to as the "Company") is a wholly owned subsidiary of NIMCO US, Inc., which is a wholly owned subsidiary of Nestlé S.A., incorporated in Switzerland, which is the holding company of the Nestlé group of companies (hereinafter, referred to as the "Nestlé Group"). NHI is the holding company for Nestlé S.A.'s principal operating subsidiaries in the United States, other than Nestlé Waters North America Inc., Prometheus Laboratories, Inc., Nestlé Health Science-Pamlab, Inc., and Galderma Laboratories, Inc. The Company manufactures food and beverages, as well as products related to the nutrition, health, and wellness industries. The Company's products are primarily distributed in the United States.

Key Figures

		2015	2014	Change
		(Dollars in millions)		
Sales	$	21,399.1	21,200.9	0.9%
Cost of goods sold		(11,824.1)	(11,888.9)	(0.5)%
as a percentage of sales		(55.3)%	(56.1)%	
Trading operating profit		2,843.8	2,822.3	0.8%
as a percentage of sales		13.3%	13.3%	
Net financial expenses		(237.1)	(241.6)	(1.9)%
Income tax expense		(678.2)	(750.8)	(9.7)%
Net income		1,922.8	323.6	494.2%
as a percentage of sales		9.0%	1.5%	
Operating cash flows		2,622.0	2,462.5	6.5%
as a percentage of sales		12.3%	11.6%	
Capital expenditures		655.8	728.3	(10.0)%
as a percentage of sales		3.1%	3.4%	

Overview

While the labor market continues to improve, the United States economy still faced a variety of significant challenges in 2015. Despite these economic challenges, the Company has delivered improvements in Sales and maintained trading operating profit margins. This performance is due to the increased investment in its brands and ongoing execution of its proven strategies and operational efficiencies.

Sales

For the years ended December 31, 2015 and 2014, consolidated sales totaled $21.4 and $21.2 billion, respectively. The main factors per segment are as follows:

- **Nestlé USA Brands** sales were $9.8 billion for each of the years ended December 31, 2015 and 2014. While growth accelerated, it was offset by the *Juicy Juice*, fruit drinks, divestiture in 2014. In the frozen meals business, sales of the new ranges of *Lean Cuisine* and *Stouffer's* were strong, supported by positive consumption trends. Pizza's positive momentum also accelerated, driven by innovation. In ice cream, *Häagen-Dazs* and snacks continued to drive growth with new product launches. *Coffee-mate* maintained its good momentum through constant innovation and renovation of flavors and packaging as well as new distribution. Some prominent brands in this segment include *Coffee-mate*, *Nescafé*, *Nesquik, Stouffer's, DiGiorno, Lean Cuisine, Hot Pockets, Nestlé Crunch, Butterfinger, Nestlé Toll House* and *Dreyer's/Edy's*.

- **Nestlé Purina PetCare** sales were $7.3 and $7.1 billion for the years ended December 31, 2015 and 2014, respectively. Sales in PetCare continued to grow with strong sales performances from *Fancy Feast*, *Purina One* and cat litter. Increased brand support is helping the recovery of *Beneful*. Some notable brands in this segment include *Beneful, Alpo, Purina ONE, Purina Dog Chow, Pro Plan, Fancy Feast, Friskies, Purina Cat Chow and Tidys Cats Litter*.

- **Nutrition** sales were $2.0 billion for each of the years ended December 31, 2015 and 2014. Sales in this segment remained unchanged from 2014. Infant cereals performed well, while the infant formula and meals and drinks category softened. There was growth in the juvenile life insurance business. A notable brand in this segment is *Gerber*.

- **Other** businesses sales were $2.4 and $2.3 billion for the years ended December 31, 2015 and 2014, respectively. The Nestlé Health Science business reported good growth, driven by strong performances in *Boost* and *Carnation Breakfast Essentials* in the consumer care category. *Nespresso* delivered solid growth and continued to build momentum. Sales of the recently launched *VertuoLine* system machines accelerated on the back of the new varieties of machines and Grands Crus coffee and the new communication campaign.

Profitability

Trading operating profit was $2.8 billion for each of the years ended December 31, 2015 and 2014, which equaled approximately 13.3% of sales. The percentage of sales was flat primarily due to increases in marketing, general and administrative expenses, which offset the increase in sales.

Cost of goods sold was $11.8 and $11.9 billion for the years ended December 31, 2015 and 2014, which equaled 55.3% and 56.1% of sales, respectively. The decrease was primarily due to lower commodity prices.

Distribution expenses were $1.9 billion for each of the years ended December 31, 2015 and 2014, which equaled 9.0% and 9.1% of sales, respectively. The decrease as a percentage of sales was due to fuel costs savings in delivery expenses, partially offset by increases in other networking expenses.

Marketing, general and administrative expenses were $3.6 and $3.3 billion for the years ended December 31, 2015 and 2014, respectively. The increase in expenses as a percentage of sales from 15.6% in 2014 to 16.7% in 2015 is primarily due to increases in media communication and other general expenses.

Net other trading expenses were $45.4 and $76.8 million for the years ended December 31, 2015 and 2014, respectively. The decrease was primarily due to decreases in impairment of property, plant and equipment and intangible assets, deferred compensation costs, restructuring costs, and litigation and onerous contracts partially offset by the decrease in the return on company-owned life insurance.

Net Profit Margin – Other Items of Interest

Net financial expenses decreased by $4.5 million in 2015 primarily due to a reduction in net financing cost partially offset by increased net interest expense on defined benefit plans.

The Company's income tax expense decreased by $72.6 million in 2015, primarily as a result of adjustments to prior years' taxes and the decreases in the amortization of goodwill and other intangible assets, offset by an increase in income from continuing operations before income taxes.

Cash Flow

Operating cash flow increased from $2.5 billion in 2014 to $2.6 billion in 2015. The change is primarily due to the effect of higher net income, partially offset by the increase in cash used for working capital.

Principal Risks and Uncertainties

Risk Management

At the Nestlé S.A. level, the Nestlé Group Enterprise Risk Management Framework ("ERM") is designed to identify, communicate, and mitigate risks in order to minimize their potential impact on the Nestlé Group, including the Company. The Nestlé Group has adopted a dual approach in identifying and assessing risks. A top-down assessment is performed annually at the Nestlé Group level to create a good understanding of the Group's mega-risks, to allocate ownership to drive specific actions around them and take any relevant steps to address them. A bottom-up assessment occurs in parallel and focuses on the global risk portfolio in the businesses/corporate functions. It involves the aggregation of individual assessments by the Zones, Globally Managed Businesses and all markets of the Nestlé Group. It is intended to provide a high-level risk mapping of Company risk and allows Company management to make sound decisions on the future operations of the Company and ensure that any risk growing in importance within the organization is captured and addressed in Nestlé's ERM agenda.

Risk assessments are the responsibility of line management; this applies equally to a business or a function, and any mitigating actions identified in the assessments are the responsibility of the individual line management. If Nestlé S.A. intervention is required, responsibility for mitigating actions will generally be determined by the Nestlé Group Executive Board. The results of the ERM are presented annually to the Nestlé Group Executive Board and to the Audit Committee of Nestlé S.A., and conclusions are reported to the Board of Directors of Nestlé S.A.

Factors Affecting Results

The Company's reputation is based on consumers' trust. Any major event triggered by a serious food safety or other compliance issue could have a negative effect on the Company's reputation or brand image. The Company has policies, processes, controls and regular monitoring (dedicated dashboard with relevant KPIs) in place to prevent such events.

The success of the Company depends on its ability to anticipate consumer preferences and to offer high-quality, appealing products. The Company's businesses are subject to some seasonality, and adverse weather conditions may impact sales.

The food industry as a whole is faced with the global challenge of increasing obesity. The Company makes its products available in a range of sizes and varieties designed to meet all needs and all occasions.

The Company is dependent on the sustainable supply of a number of raw materials, packaging materials, and services/utilities. Any major event triggered by natural hazards (drought, flood, etc.), change in macroeconomic environment (shift in production patterns, biofuels, excessive trading, etc.), resulting in input price volatilities and/or capacity constraints, could potentially impact the Company's financial results. The Company has policies, processes, controls and regular monitoring in place to (if ever possible) anticipate such events and adequately mitigate against them.

In particular, the Company manages risks and opportunities related to climate change and water resources proactively given the impact it may have on agriculture and food production systems.

The Company's liquidities/liabilities (currency fluctuation, interest rate, derivatives and/or hedging, pension funding obligations/retirement benefits, banking/commercial credit, and cost of capital, etc.) could be impacted by any major event in the financial markets. The Company, along with its parent company, Nestlé S.A., has the appropriate risk mitigation measures in place.

The Company is dependent on the sustainable manufacturing/supply of finished goods for all product categories. A major event in one of the Company's key plants, at a key supplier, contract manufacturers, co-packer, and/or warehouse facility could potentially lead to a supply disruption and impact upon the Company's financial results. Business continuity plans are established and regularly maintained in order to mitigate against such an event.

The Company depends on accurate, timely information and numerical data from key software applications, without disruption, to enable day-to-day decision making.

The Company is subject to environmental regimes and has put controls in place to comply with legislation concerning the protection of the environment, including the use of natural resources, release of air emissions and waste-water, and the generation, storage, handling, transportation, treatment, and disposal of waste materials.

The Company is subject to health and safety regimes and has procedures in place to comply with legislation concerning the protection of the health and welfare of employees and contractors.

The Company is party to a variety of legal proceedings arising out of the normal course of business. The Company believes that there are valid defenses for the claims and intends to defend any such litigation.

Security, political stability, legal and regulatory, fiscal, macroeconomic, foreign trade, labor, and/or infrastructure risks could potentially impact the Company's ability to do business. Events such as infectious disease could also impact upon the Company's ability to operate. Any of these events could potentially lead to a supply disruption and impact the Company's financial results. Regular monitoring and ad hoc business continuity plans are established in order to mitigate against such events.

Outlook

Although the economic outlook remains challenging, there are opportunities to leverage the Company's competitive advantages, deliver on growth opportunities, and benefit from the drive for continuous improvement. The Company is committed to supporting the Nestlé Group in achieving its financial objectives including organic growth in line with 2015, with improvements in margins and underlying earnings per share in constant currencies, and capital efficiency.

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

December 31, 2015 and 2014

Responsibility Statement

Steve Presley, Chief Financial Officer, confirms that to the best of his knowledge:

(a) the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of NHI, and the undertakings included in the consolidation taken as a whole; and

(b) the management report includes a fair review of the development and performance of the business and the position of NHI and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

March 23, 2016

KPMG

KPMG LLP
Suite 1800
21700 Oxnard Street
Woodland Hills, CA 91367-3642

Independent Auditors' Report

The Board of Directors
Nestlé Holdings, Inc.:

We have audited the accompanying consolidated financial statements of Nestlé Holdings, Inc. (an indirectly and wholly owned subsidiary of Nestlé S.A.) and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated income statements and statements of comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nestlé Holdings, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG LLP

Woodland Hills, California
March 23, 2016

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

Consolidated Balance Sheet

December 31, 2015 and 2014

(Dollars in thousands, except capital stock par value and shares)

Assets	**Note(s)**		**2015**	**2014**
Current assets:				
Cash and cash equivalents	11	$	140,204	268,345
Short-term investments	11		74,290	93,618
Trade and other receivables, net	3/11		6,025,152	4,505,006
Inventories, net	4		1,723,224	1,733,983
Derivative assets	5/11		82,554	90,270
Assets held for sale	13		20,403	31,190
Prepayments			96,512	86,432
Total current assets			**8,162,339**	**6,808,844**
Non-current assets:				
Property, plant and equipment, net	6		5,257,119	5,189,840
Employee benefits assets	7		29,179	273,715
Investments in joint ventures and associated companies	8		5,780	8,361
Deferred tax assets	9		995,885	926,149
Financial assets	11		3,927,548	3,859,581
Goodwill	10		17,085,873	16,762,813
Intangible assets, net	10		1,310,781	1,001,960
Total non-current assets			**28,612,165**	**28,022,419**
Total assets		**$**	**36,774,504**	**34,831,263**
Liabilities and Equity				
Current liabilities:				
Trade and other payables	11	$	1,568,668	1,390,882
Financial liabilities	11		4,610,326	3,434,847
Provisions	15		76,041	90,994
Derivative liabilities	5/11		855,522	532,086
Current income tax liabilities			53,601	59,180
Accruals	14		1,373,086	1,462,986
Total current liabilities			**8,537,244**	**6,970,975**
Non-current liabilities:				
Financial liabilities	11		7,824,790	9,197,417
Employee benefits liabilities	7		1,824,006	1,884,271
Deferred tax liabilities	9		2,195,104	2,051,283
Provisions			51,163	55,904
Other accrued liabilities			1,910,345	1,938,708
Total non-current liabilities			**13,805,408**	**15,127,583**
Total liabilities			**22,342,652**	**22,098,558**
Equity:				
Capital stock, $100 par value. Authorized, issued, and outstanding, 1,000 shares			100	100
Additional paid-in capital			5,624,297	5,624,297
Other equity reserves			(1,173,966)	(950,266)
Accumulated earnings			9,981,421	8,058,574
Total equity			**14,431,852**	**12,732,705**
Total liabilities and equity		**$**	**36,774,504**	**34,831,263**

See accompanying notes to consolidated financial statements.

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

Consolidated Income Statement

Years ended December 31, 2015 and 2014

(Dollars in thousands)

	Note		2015	2014
Sales	2	$	21,399,111	21,200,874
Cost of goods sold			(11,824,068)	(11,888,862)
Distribution expenses			(1,932,695)	(1,927,749)
Marketing, general and administrative expenses			(3,572,784)	(3,308,593)
Royalties to affiliated company			(1,180,428)	(1,176,607)
Net other trading expenses	17		(45,354)	(76,759)
Trading operating profit			**2,843,782**	**2,822,304**
Net other operating expenses	17		(9,968)	(1,515,471)
Operating profit			**2,833,814**	**1,306,833**
Net financial expenses	16		(237,073)	(241,635)
Share of results from joint ventures and associated companies			4,152	6,968
Income from continuing operations before income taxes			**2,600,893**	**1,072,166**
Income tax expense	18		(678,205)	(750,809)
Income from continuing operations			**1,922,688**	**321,357**
Income from discontinued operations, net of taxes			159	2,283
Net income		**$**	**1,922,847**	**323,640**

See accompanying notes to consolidated financial statements.

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

Consolidated Statement of Comprehensive Income

Years ended December 31, 2015 and 2014

(Dollars in thousands)

	Note		2015	2014
Net income		**$**	**1,922,847**	**323,640**
Other comprehensive income (loss):				
Fair value adjustments on available-for-sale financial instruments:				
Recognized in fair value reserve *			(134,903)	105,142
Reclassified from fair value reserve to income statement *			(56,818)	15,676
Fair value adjustments on cash flow hedges:				
Recognized in hedging reserve *			(77,176)	(87,227)
Reclassified from hedging reserve *			55,066	53,692
Income taxes on fair value adjustments on available-for-sale financial instruments and cash flow hedges	18		74,263	(30,036)
Total items that are or may be reclassified subsequently to the income statement			**(139,568)**	**57,247**
Remeasurement of defined benefit plans	7		(137,911)	(350,226)
Income taxes on remeasurement of defined benefit plans	18		53,779	136,575
Total items that will never be reclassified to the income statement			**(84,132)**	**(213,651)**
Other comprehensive losses			**(223,700)**	**(156,404)**
Total comprehensive income		**$**	**1,699,147**	**167,236**

* Included in other equity reserves.

See accompanying notes to consolidated financial statements.

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

Consolidated Statement of Changes in Equity

Years ended December 31, 2015 and 2014

(Dollars in thousands)

	Note	Capital stock	Additional paid-in capital	Other equity reserves	Accumulated earnings	Total
Equity as at December 31, 2013		**100**	**5,624,297**	**(793,862)**	**7,734,934**	**12,565,469**
Net income		—	—	—	323,640	323,640
Other comprehensive income (loss):						
Fair value adjustments on available-for-sale financial instruments		—	—	120,818	—	120,818
Fair value adjustments on cash flow hedges		—	—	(33,535)	—	(33,535)
Remeasurement of defined benefit plans	7	—	—	(350,226)	—	(350,226)
Taxes on other comprehensive income	18	—	—	106,539	—	106,539
Total other comprehensive loss		—	—	(156,404)	—	(156,404)
Total comprehensive income (loss)		—	—	(156,404)	323,640	167,236
Equity as at December 31, 2014		**100**	**5,624,297**	**(950,266)**	**8,058,574**	**12,732,705**
Net income		—	—	—	1,922,847	1,922,847
Other comprehensive income (loss):						
Fair value adjustments on available-for-sale financial instruments		—	—	(191,721)	—	(191,721)
Fair value adjustments on cash flow hedges		—	—	(22,110)	—	(22,110)
Remeasurement of defined benefit plans	7	—	—	(137,911)	—	(137,911)
Taxes on other comprehensive income	18	—	—	128,042	—	128,042
Total other comprehensive loss		—	—	(223,700)	—	(223,700)
Total comprehensive income (loss)		—	—	(223,700)	1,922,847	1,699,147
Equity as at December 31, 2015	$	**100**	**5,624,297**	**(1,173,966)**	**9,981,421**	**14,431,852**

See accompanying notes to consolidated financial statements.

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES
Consolidated Statement of Cash Flows
Years ended December 31, 2015 and 2014
(Dollars in thousands)

	Note	2015	2014
Cash flows from operating activities:			
Net income		**$ 1,922,847**	**323,640**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property, plant, and equipment	6	570,790	548,857
Loss on sales of property, plant and equipment		17,271	5,723
Impairment of property, plant and equipment	6/17	4,610	33,104
Amortization of intangible assets	10	86,715	101,684
Impairment of goodwill	10/17	—	1,425,781
Impairment of intangibles	10/17	6,300	2,479
Loss on disposal of assets held for sale and other		8,188	65,505
Increase in cash surrender value of Company-owned life insurance policies		(13,977)	(49,458)
Decrease in provisions		(19,694)	(42,846)
Increase (decrease) in deferred income taxes	18	9,954	(97,656)
Taxes on other comprehensive income	18	128,042	106,539
Change in working capital (excluding effects from acquisitions and divestitures):			
Trade and other receivables, net		(716,954)	(313,615)
Inventories, net		53,495	(223,909)
Prepayments and other current assets		(17,878)	514
Trade and other payables and liabilities		613,049	689,766
(Increase) decrease in working capital		(68,288)	152,756
Share of results from investments in associated companies		(4,311)	(9,251)
Dividends from associated companies		6,733	10,311
Non-monetary movements on financial assets and liabilities		(55,256)	10,382
Movements of trading derivatives		3,935	1,621
Movements of operating derivatives		(15,830)	10,073
Other employee benefits, net		33,751	(136,697)
Total adjustments		**698,933**	**2,138,907**
Net cash provided by operating activities		**2,621,780**	**2,462,547**
Cash flows from investing activities:			
Expenditure on property, plant and equipment	6	(655,810)	(728,314)
Proceeds from sale of property, plant and equipment		5,538	16,535
Expenditure on business acquisitions	20	(545,000)	—
Proceeds from business divestitures		(745)	89,138
Sale of net assets held for sale		12,520	—
Expenditure on intangible assets	10	(176,403)	(161,053)
Investments in non-current financial assets		(168,976)	(269,868)
Other movements		463	17,137
Net cash used in investing activities		**(1,528,413)**	**(1,036,425)**
Cash flows from financing activities:			
Net borrowings (repayment) of commercial paper		281,401	(1,434,303)
Net (repayment) borrowings of line of credit facilities		(25,136)	9,999
Bonds issued		599,381	1,587,210
Bonds repaid		(49,200)	(550,019)
Loans to affiliates issued, net	22	(523,969)	(694,622)
Loans to parent issued, net	22	(1,518,282)	(348,713)
Cash movement on derivatives hedging bond principal, net		4,319	3,630
Other changes in financial liabilities		9,978	(85,253)
Net cash used in financing activities		**(1,221,508)**	**(1,512,071)**
Net decrease in cash and cash equivalents		**(128,141)**	**(85,949)**
Cash and cash equivalents at beginning of the year		268,345	354,294
Cash and cash equivalents at end of the year		**$ 140,204**	**268,345**
Supplemental information:			
Cash paid for:			
Interest		$ 163,424	178,665
Taxes		777,667	473,491

See accompanying notes to consolidated financial statements.

(1) Accounting Policies

Nestlé Holdings, Inc. (“NHI”) (hereinafter, together with its subsidiaries, referred to as the “Company”) is a wholly owned subsidiary of NIMCO US, Inc., which is a wholly owned subsidiary of Nestlé S.A., incorporated in Switzerland, which is the holding company of the Nestlé group of companies (hereinafter, referred to as the Nestlé Group). NHI is the holding company for Nestlé S.A.’s principal operating subsidiaries in the United States, other than Nestlé Waters North America Inc., Prometheus Laboratories, Inc., Nestlé Health Science-Pamlab, Inc., and Galderma Laboratories, Inc. NHI was incorporated in the State of Delaware in 1983 under registration number 833330118. NHI is a corporation and has unlimited duration. The address of the registered office of NHI is 1209 Orange Street, Wilmington, Delaware 19801.

The Company manufactures food and beverages, as well as products related to the nutrition, health, and wellness industries. Its products are primarily distributed in the United States. Such products include soluble coffee, chocolate-based drinks, dairy products, infant nutrition, healthcare nutrition, ice cream, frozen and chilled food, culinary aids, and chocolate and confectionary. Other business activities include pet care products and juvenile life insurance.

The consolidated financial statements were authorized for issue by NHI’s directors on March 23, 2016.

(a) Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on an accrual basis and under the historical cost convention, unless stated otherwise. All significant consolidated companies, joint arrangements and associates have a December 31 accounting year-end.

Accounting policies are included in the relevant notes to the consolidated financial statements. The accounting policies below are applied throughout the financial statements.

The preparation of the consolidated financial statements requires Company management to exercise judgment and to make estimates and assumptions that affect the application of policies; the 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 could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Those areas affected are mainly provisions and contingencies (Note 15), goodwill and intangible assets with indefinite useful life impairment tests (Note 10), property, plant and equipment (Note 6), employee benefits (Note 7), allowance for doubtful receivables (Note 3), and income taxes (Note 18).

Scope of Consolidation

The consolidated financial statements comprise the financial statements of NHI and its subsidiaries. All material intercompany profits, transactions, and balances have been eliminated. The subsidiary companies, which are wholly and directly owned by NHI and incorporated in the United States, are as follows:

Gerber Products Company
JC Holdings, Inc.
Nespresso USA, Inc.
Nestlé Capital Corporation
Nestlé HealthCare Nutrition, Inc.
Nestlé Insurance Holdings, Inc.
Nestlé Purina PetCare Company
Nestlé Regional Globe Office North America, Inc.
Nestlé USA, Inc.
TSC Holdings, Inc.

Newly acquired companies are consolidated from the effective date of control using the acquisition method.

Foreign Currency

For the Company, transactions in currencies other than the Company's functional currency (U.S. dollars) are recorded at the rate of exchange at the transaction date. Monetary assets and liabilities that are denominated in foreign currencies are remeasured at the year-end rates. Any resulting exchange differences are recorded in the consolidated income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

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

Differences arising from the retranslation of opening net assets of the Company, together with differences arising from the restatement of the net results for the year of the Company from average or actual rates to year-end rates, are recognized in other comprehensive income or loss.

Sales

Sales represent amounts received and receivable from third parties for goods supplied to customers and for services rendered. Revenue from sales of goods is recognized in the consolidated income statement at the moment when the significant risks and rewards of ownership of the goods have been transferred to the buyer, which is mainly upon shipment. It is measured at the list price applicable to a given distribution channel after deduction of returns, sales taxes, pricing allowances, other trade discounts, and couponing and price promotions to consumers. Payments made to the customers for commercial services received are expensed as incurred.

Expenses

Cost of goods sold is determined on the basis of the cost of production or of purchase, adjusted for the variation of inventories. All other expenses, including those in respect of advertising and promotions, are recognized when the Company receives the risks and rewards of ownership of the goods or when it receives the services. Additional details of specific expenses are provided in the respective notes.

Changes in Presentation – Analyses by Segment

The amount of segment assets is no longer disclosed. Segment assets are not included in the measures used for allocating resources and assessing segment performance. The Company discloses on a voluntary basis the invested capital (Note 2) as well as goodwill and intangible assets by segment for consistency with long-standing practice. Goodwill and intangible assets are not included in the invested capital since the amounts recognized are not comparable between segments due to differences in the intensity of acquisition activity and changes in accounting standards, which were applicable at various points in time when the Company undertook significant acquisitions.

Other Changes in Presentation

Notes to the Consolidated Financial Statements have been restructured, with the accounting policy generally being placed immediately before the respective Note.

(b) Changes in Accounting Policies

A number of standards have been modified on miscellaneous points with effect from January 1, 2015. Such changes include Defined Benefit Plans: Employee Contributions (Amendments to IAS 19), as well as the Annual Improvements to IFRS 2010-2012 Cycle and the Annual Improvements to IFRS 2011-2013 Cycle. None of these amendments had a material effect on the Company's consolidated financial statements.

Changes in IFRS that may affect the Company after December 31, 2015

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the accounting period beginning on January 1, 2016 or later. The Company has not early adopted them.

IFRS 9 – Financial Instruments

This standard addresses the accounting principles for the financial reporting of financial assets and financial liabilities, including classification, measurement, impairment, derecognition and hedge accounting. The standard will affect the Company'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 under some circumstances and gains and losses on certain instruments with specific cash flow characteristics are never reclassified to the consolidated income statement at a later date. There is no expected impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the Company does not have any such liabilities. The Company is currently assessing the impact of the new impairment and hedge accounting requirements. In particular, it is expected that the new component hedge model may bring improved alignment between the risk management strategies and their accounting treatment. This standard is mandatory for the accounting period beginning on January 1, 2018.

IFRS 15 – Revenue from Contract with Customers

This standard combines, enhances and replaces specific guidance on recognizing revenue with a single standard. It defines a new five-step model to recognize revenue from customer contracts. The Company is currently assessing the potential impact of this new standard. This standard is mandatory for the accounting period beginning on January 1, 2018.

IFRS 16 – Leases

This standard will replace IAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The main effect on the Company is that IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for almost all leases and will therefore result in an increase of total assets and total liabilities. All things being equal, under the new standard higher trading operating profit would be partially or entirely offset by higher interest expenses. The company is currently assessing the precise impact of this new standard. This standard is mandatory for the accounting period beginning on January 1, 2019.

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 the Company's consolidated financial statements.

(2) Analyses by Segment

Segment Reporting

Operating segments reflect the Company's management structure and the way financial information is regularly reviewed by the chief operating decision maker ("CODM"). The CODM has been defined as a body comprising the members of the Nestlé Group Executive Board to whom the various operating segments report, since this is the level at which resources are allocated and results are assessed.

- The Company's management structure is aligned with the Nestlé Group management structure and is organized around products.
- The Nestlé USA Brands segment forms part of the Nestlé Group Zone Americas segment. It consists primarily of beverages, confections, snacks, frozen prepared foods, pizza, ice cream, and other food products.
- The PetCare segment also forms part of the Nestlé Group Zone Americas segment, and sells products and services for domestic pets.
- The Nutrition segment is part of the Nestlé Nutrition Globally Managed Business ("GMB") segment and consists primarily of infant and baby food products.
- The Other businesses segment category comprises other operating segments that do not meet the criteria for separate reporting, such as Nestlé Professional (forming part of the Nestlé Professional GMB), which sells products for the food services industry, Nestlé Health Science which provides pioneering science-based nutritional solutions to deliver improved personalized health care for people with medical conditions, and the Nespresso business unit. Nestlé Professional, Nespresso, and Nestlé Health Science form part of the Nestlé Group Other businesses segment.

Depreciation and amortization includes depreciation of property, plant and equipment and amortization of intangible assets.

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

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

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

(Dollars in thousands)

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

Invested capital and goodwill and intangible assets by segment represent the situation at the end of the year.

Capital additions represent the total cost incurred to acquire property, plant and equipment, intangible assets and goodwill, including those arising from business combinations. Capital expenditure represents the investment in property, plant and equipment only.

Unallocated items represent items whose allocation to a segment would be arbitrary. They mainly comprise corporate expenses and related assets.

The Company generates substantially all of its sales within the United States.

Revenue and Results

2015	**Brands [a]**	**PetCare**	**Nutrition [a]**	**Other [a]**	**Total**
Sales	9,815,803	7,268,675	1,963,300	2,351,333	21,399,111
Trading operating profit [b]	1,085,564	1,350,149	242,316	155,577	2,833,606
Net other trading expenses [c]	(31,151)	(3,737)	(5,512)	(6,515)	(46,915)
Of which impairment of property, plant and equipment	*(3,499)*	*(766)*	-	*(345)*	*(4,610)*
Of which restructuring costs	*(4,123)*	-	*(933)*	*(1,395)*	*(6,451)*
Depreciation and amortization	(281,751)	(171,061)	(98,255)	(106,438)	(657,505)

2014	**Brands [a]**	**PetCare**	**Nutrition [a]**	**Other [a]**	**Total**
Sales	9,830,903	7,098,926	1,996,924	2,274,121	21,200,874
Trading operating profit [b]	1,072,678	1,286,454	298,887	150,447	2,808,466
Net other trading expenses [c]	(54,334)	(5,788)	(6,750)	(10,695)	(77,567)
Of which impairment of property, plant and equipment	*(32,914)*	*(223)*	-	*33*	*(33,104)*
Of which restructuring costs	*(10,387)*	*(341)*	*(723)*	*(3,594)*	*(15,045)*
Depreciation and amortization	(285,408)	(187,275)	(103,235)	(74,623)	(650,541)

[a] Nestlé USA Brands primarily consists of beverage, prepared foods, ice cream, confections and snacks, and other food products. Nutrition primarily consists of infant and baby food products. Other primarily consists of Nestlé Professional, Nespresso and Nestlé Health Science, which do not meet the criteria for separate disclosure.

[b] The Company determines trading operating profit by allocating corporate expenses to its operating segments based on activity-based cost drivers.

[c] Included in Trading operating profit.

(Dollars in thousands)

Invested Capital and Other Information

2015	**Brands [a]**	**PetCare**	**Nutrition [a]**	**Other [a]**	**Total**
Invested capital	2,617,283	2,228,154	1,834,562	767,395	7,447,394
Goodwill and intangible assets	4,864,579	8,949,966	4,084,682	497,427	18,396,654
Impairment of goodwill	-	-	-	-	-
Impairment of intangible assets	*(6,300)*	-	-	-	*(6,300)*
Capital additions	262,485	811,710	165,338	83,033	1,322,566
Of which capital expenditure	*241,024*	*245,385*	*33,077*	*77,817*	*597,303*

2014	**Brands [a]**	**PetCare**	**Nutrition [a]**	**Other [a]**	**Total**
Invested capital	2,719,659	2,027,904	1,937,584	784,134	7,469,281
Goodwill and intangible assets	4,868,046	8,392,529	4,002,162	502,036	17,764,773
Impairment of goodwill	*(1,425,781)*	-	-	-	*(1,425,781)*
Impairment of intangible assets	*(18)*	-	*(2,461)*	-	*(2,479)*
Capital additions	284,103	287,112	177,741	122,793	871,749
Of which capital expenditure	*256,319*	*290,474*	*65,481*	*116,040*	*728,314*

Reconciliation of total segment trading operating profit to income from continuing operations before income taxes is as follows:

		2015	**2014**
Total segment trading operating profit	$	2,833,606	2,808,466
Unallocated items		10,176	13,838
Trading operating profit		**2,843,782**	**2,822,304**
Net other operating expenses		(9,968)	(1,515,471)
Operating profit		**2,833,814**	**1,306,833**
Net financial expenses		(237,073)	(241,635)
Share of results from associated companies		4,152	6,968
Income from continuing operations before income taxes	**$**	**2,600,893**	**1,072,166**

[a] Nestlé USA Brands primarily consists of beverage, prepared foods, ice cream, confections and snacks, and other food products. Nutrition primarily consists of infant and baby food products. Other primarily consists of Nestlé Professional, Nespresso and Nestlé Health Science, which do not meet the criteria for separate disclosure.

(Dollars in thousands)

Reconciliation from invested capital to total assets is as follows:

		2015	2014
Invested capital	$	7,447,394	7,469,281
Liabilities included in invested capital		4,588,686	4,277,796
Subtotal		**12,036,080**	**11,747,077**
Intangible assets and goodwill		18,396,654	17,764,773
Other assets		6,341,770	5,319,413
Total assets	**$**	**36,774,504**	**34,831,263**

Customers

The Company has one customer, with sales in all segments of the business, amounting to 26% and 25% of the Company's sales at December 31, 2015 and 2014, respectively.

(3) Trade and Other Receivables, net

		2015	2014
By type:			
Trade, less allowances of $6,794 and $6,090, respectively	$	1,659,970	1,528,253
Due from Nestlé S.A. controlled companies		4,130,719	2,781,896
Due from associated companies		4,250	1,979
Other		230,213	192,878
Trade and other receivables, net	**$**	**6,025,152**	**4,505,006**

The Company's largest trade customer represents 7% and 8% of trade and other receivables, net, at December 31, 2015 and 2014, respectively.

Past due and Allowance for Doubtful Receivables

Allowances for doubtful receivables represent the Company's estimates of losses that could arise from the failure or inability of customers to make payments when due. These estimates are based on the ageing of customers' balances, specific credit circumstances, and the Company's historical bad receivables experience.

(Dollars in thousands)

		2015	2014
By payment status:			
Not past due	$	5,973,646	4,493,547
Past due 1-30 days		38,142	39,289
Past due 31-60 days		6,127	4,699
Past due 61-90 days		2,827	1,708
Past due 91-120 days		1,582	780
Past due more than 120 days		9,622	3,215
Unapplied credit memos		—	(32,142)
Allowance for doubtful receivables		(6,794)	(6,090)
Trade and other receivables, net	**$**	**6,025,152**	**4,505,006**

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

The carrying value of trade receivables, net of allowance for doubtful receivables, approximates fair value.

(4) Inventories, net

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

		2015	2014
Raw materials and work in progress	$	514,795	485,396
Finished goods		1,272,520	1,323,554
Allowance for write-down to net realizable value		(64,091)	(74,967)
Inventories, net	**$**	**1,723,224**	**1,733,983**

(5) Derivative Assets and Liabilities and Hedge Accounting

Derivative Financial Instruments

The Company's derivatives mainly consist of currency forwards and swaps; commodity futures and options; and interest rate forwards and swaps. Derivatives are mainly used to manage exposures to foreign exchange, interest rate, and commodity price risk as described in the Market Risk section in Financial Risks (Note 12).

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

(Continued)

Hedge Accounting

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

Fair Value Hedges

The Company uses fair value hedges to mitigate foreign currency and interest rate risks of its recognized 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 recognized in the consolidated income statement.

Cash Flow Hedges

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

The effective part of the changes in fair value of hedging instruments are recognized in other comprehensive income or loss, while any ineffective part is recognized immediately in the consolidated income statement. When the hedged item results in the recognition of a non-financial asset or liability, the gains or losses previously recognized in other comprehensive income are included in the measurement cost of the asset or the liability. Otherwise, the gains or losses previously recognized in other comprehensive income are removed and recognized in the consolidated income statement at the same time as the hedged transaction.

Undesignated Derivatives

Derivatives which are not designated in a hedging relationship are classified as undesignated derivatives. They are acquired in the frame of approved risk management policies even though hedge accounting is not applied.

(Dollars in thousands)

	2015		
	Fair value assets	**Fair value liabilities**	**Contractual or notional amounts**
Fair value hedges:			
Interest rate and currency swaps	$ 74,154	315,004	1,563,176
Cash flow hedges:			
Currency forwards	109	3,734	53,334
Interest rate swaps	—	107,982	1,400,000
Interest rate and currency swaps	—	381,326	1,559,197
Commodity futures and options	8,291	45,975	637,604
Undesignated derivatives:			
Commodity futures and options	—	1,501	—
Total derivatives	**82,554**	**855,522**	**5,213,311**
Conditional offsets [(a)]			
Derivative assets and liabilities	(19,524)	(19,524)	
Balance after conditional offsets	**$ 63,030**	**835,998**	

	2014		
	Fair value assets	**Fair value liabilities**	**Contractual or notional amounts**
Fair value hedges:			
Interest rate and currency swaps	$ 78,019	150,734	1,708,687
Cash flow hedges:			
Currency forwards	—	4,263	42,895
Interest rate swaps	—	123,551	1,550,000
Interest rate and currency swaps	—	196,986	1,111,082
Commodity futures and options	11,282	54,350	466,216
Undesignated derivatives:			
Commodity futures and options	969	2,202	6,032
Total derivatives	**90,270**	**532,086**	**4,884,912**
Conditional offsets [(a)]			
Derivative assets and liabilities	(20,305)	(20,305)	
Balance after conditional offsets	**$ 69,965**	**511,781**	

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

(Dollars in thousands)

Impact on the consolidated income statement for fair value hedges:

		2015	2014
Hedged items	$	165,351	154,190
Hedging instruments		(166,284)	(156,416)
Net loss	**$**	**(933)**	**(2,226)**

The ineffective portion of gains/(losses) of cash flow hedges recorded during the years ended December 31, 2015 and 2014 in net financial expenses in the consolidated income statement was $(1,161) and $(2,777), respectively.

(6) Property, Plant and Equipment, net

Property, plant and equipment are shown in the consolidated balance sheet at their historical cost. Depreciation is provided on components that have homogenous useful lives by using the straight-line method so as to depreciate the initial cost down to the residual value over the estimated useful lives. The residual values are up to 30% on head offices and nil for all other asset types.

The useful lives are as follows:

Buildings and land improvements	15 – 40 years
Plant and machinery	10 – 25 years
Tools, furniture, and sundry	5 years
Vehicles	5 – 10 years
Information technology equipment	3 years

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

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

Borrowing costs incurred during the course of construction are capitalized if the assets under construction are significant and if their construction requires a substantial period to complete (typically more than one year). The capitalization rate is determined on the basis of the short-term borrowing rate for the period of construction. Premiums capitalized for leasehold land or buildings are amortized over the length of the lease. Government grants are recognized as deferred income, which is released to the consolidated income statement over the useful life of the related assets. Grants that are not related to assets are credited to the consolidated income statement when they are received.

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(Dollars in thousands)

Property, plant, and equipment comprise the following:

	Land and buildings	Plant and machinery	Tools, furniture, and sundry	Vehicles	Information technology equipment	Total
Gross value:						
At January 1, 2014	$ 3,012,125	5,317,694	657,438	292,093	382,872	9,662,222
Capital expenditure [(a)]	330,464	267,478	64,915	3,781	61,676	728,314
Disposals	(9,634)	(89,384)	(34,012)	(11,916)	(34,942)	(179,888)
Reclassifications/other	(97,837)	68,545	15,115	2,201	13,032	1,056
Reclassified as held for sale	(18,464)	(37,200)	(2,686)	(38)	(949)	(59,337)
Business divestitures	1,632	(16,921)	635	—	33	(14,621)
At December 31, 2014	**3,218,286**	**5,510,212**	**701,405**	**286,121**	**421,722**	**10,137,746**
Capital expenditure [(a)]	286,053	264,074	57,242	6,916	41,525	655,810
Disposals	(25,496)	(104,254)	(40,805)	(14,971)	(19,832)	(205,358)
Reclassifications/other	(146,434)	110,963	18,396	1,449	15,417	(209)
Reclassified as held for sale	914	1,913	43	38	310	3,218
Business acquisitions	6,206	12,215	545	204	—	19,170
Business divestitures	—	—	(7,636)	—	—	(7,636)
At December 31, 2015	**3,339,529**	**5,795,123**	**729,190**	**279,757**	**459,142**	**10,602,741**
Accumulated Depreciation and Impairments:						
At January 1, 2014	(928,179)	(2,824,041)	(420,829)	(150,336)	(252,787)	(4,576,172)
Depreciation	(85,842)	(312,790)	(79,941)	(28,495)	(41,789)	(548,857)
Disposals	8,499	76,025	30,757	11,374	34,374	161,029
Reclassifications/other	449	630	(891)	5	(1,249)	(1,056)
Impairment of assets (note 17)	(11,113)	(21,706)	—	(285)	—	(33,104)
Reclassified as held for sale	15,154	30,068	2,269	38	862	48,391
Business divestitures	(1)	2,479	(515)	—	(100)	1,863
At December 31, 2014	**(1,001,033)**	**(3,049,335)**	**(469,150)**	**(167,699)**	**(260,689)**	**(4,947,906)**
Depreciation	(92,375)	(315,487)	(76,127)	(26,106)	(60,695)	(570,790)
Disposals	21,689	90,949	32,566	13,651	18,703	177,558
Reclassifications/other	967	(611)	975	28	288	1,647
Impairment of assets (note 17)	(15)	(2,127)	(2,354)	—	(114)	(4,610)
Reclassified as held for sale	(173)	(4,295)	(38)	(38)	(248)	(4,792)
Business divestitures	—	—	3,271	—	—	3,271
At December 31, 2015	**(1,070,940)**	**(3,280,906)**	**(510,857)**	**(180,164)**	**(302,755)**	**(5,345,622)**
Net at December 31, 2014	**2,217,253**	**2,460,877**	**232,255**	**118,422**	**161,033**	**5,189,840**
Net at December 31, 2015	**$ 2,268,589**	**2,514,217**	**218,333**	**99,593**	**156,387**	**5,257,119**

[(a)] Including borrowing costs.

Additions to property, plant and equipment include $1,865 and $6,782 of finance leases in 2015 and 2014, respectively. The net book value of assets held under finance leases included in property, plant and equipment at December 31, 2015 and 2014 was $25,304 and $30,252, respectively.

At December 31, 2015 and 2014, property, plant and equipment included $42,224 and $315,058, respectively, of assets under construction. There were $59,299 and $82,513 in commitments for future capital expenditures as of December 31, 2015 and 2014, respectively.

Impairment of Property, Plant and Equipment

Consideration is given at each balance sheet date to determine whether there is any indication of impairment of the carrying amounts of the Company's property, plant and equipment. Indication could be unfavorable development of a business under competitive pressures or severe economic slowdown in a given market, as well as reorganization of the operations to leverage their scale.

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

Impairment of property, plant and equipment arises mainly from plans to optimize industrial manufacturing capacities within inefficient production facilities. The 2015 impairments were attributable to the declines in production at the facilities in Solon, Ohio; and Little Chute, Wisconsin, which are part of the Brands segment.

(7) Employee Benefits

Post-employment Benefits

The liabilities of the Company arising from defined benefit obligations, and the related current service cost, are determined using the projected unit credit method. The Company's external actuaries perform valuations on an annual basis. Such plans are either externally funded, with the plan assets held separately from those of the Company in independently administered funds, or unfunded. The deficit or excess of the fair value of plan assets over the present value of the defined benefit obligation is recognized as a liability or an asset on the consolidated balance sheet.

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

The Company also provides for benefits under defined contribution plans. Contributions to these plans are charged to the consolidated income statement as incurred.

Pensions and Retirement Benefits

Nestlé's primary pension plan is non-contributory for the employees. The plan is a pension equity design, under which members earn pension credits each year based on a schedule related to the sum of their age and service with Nestlé. A member's benefit is the sum of the annual pension credits earned multiplied by an average earning, payable as a lump sum. However, in lieu of the lump sum, members have the option of converting the benefit to a monthly pension annuity. The plan does not provide for automatic pension increases.

Post-employment Medical Benefits and Other Employee Benefits

The Company maintains medical benefit plans, classified as defined benefit plans under IAS 19, which cover eligible retired employees. The Company's obligations for other employee benefits consist mainly of end of service indemnities, which do not have the character of pensions.

Risks related to Defined Benefit Plans

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

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

Plan Amendments and Restructuring Events

During the year, there were minor plan amendments and restructuring events, which have been recognized as past service costs.

Asset-liability Management and Funding Arrangement

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

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

(Dollars in thousands)

Reconciliation of assets and liabilities recognized in the consolidated balance sheet is as follows:

	2015			2014		
	Defined benefit retirement plans	Post-employment medical benefits	Total	Defined benefit retirement plans	Post-employment medical benefits	Total
Present value of funded obligations	$ 3,923,249	—	3,923,249	4,087,144	—	4,087,144
Fair value of plan assets	(3,943,041)	—	(3,943,041)	(4,379,219)	—	(4,379,219)
Excess of assets over funded obligations	(19,792)	—	(19,792)	(292,075)	—	(292,075)
Present value of unfunded obligations	524,425	589,528	1,113,953	545,939	638,643	1,184,582
Unrecognized assets and minimum funding requirements	16,782	—	16,782	18,360	—	18,360
Net Defined Benefit Liabilities	$ **521,415**	**589,528**	**1,110,943**	**272,224**	**638,643**	**910,867**
Liabilities from cash-settled share-based transactions			59,020			55,024
Liabilities from non-current deferred compensation and other			624,864			644,665
Net Liabilities			$ **1,794,827**			$ **1,610,556**
Reflected in the balance sheet as follows:						
Employee benefit assets			$ (29,179)			$ (273,715)
Employee benefit liabilities			1,824,006			1,884,271
Net Liabilities			$ **1,794,827**			$ **1,610,556**

(Dollars in thousands)

The movement in the present value of defined benefit obligations is reflected as follows:

	2015			2014		
	Defined benefit retirement plans	**Post-employment medical benefits**	**Total**	**Defined benefit retirement plans**	**Post-employment medical benefits**	**Total**
At January 1	$ 4,633,083	638,643	5,271,726	4,040,302	650,602	4,690,904
of which funded defined benefit plans	*4,087,144*	*—*	*4,087,144*	*3,543,684*	*—*	*3,543,684*
of which unfunded defined benefit plans	*545,939*	*638,643*	*1,184,582*	*496,618*	*650,602*	*1,147,220*
Service cost	166,899	21,555	188,454	143,900	(46,754)	97,146
of which current service cost	*166,286*	*21,555*	*187,841*	*147,312*	*24,007*	*171,319*
of which past service cost	*613*	*—*	*613*	*(3,412)*	*(70,761)*	*(74,173)*
Interest expense	174,878	21,400	196,278	180,341	25,561	205,902
Actuarial (gains)/losses	(31,813)	(63,717)	(95,530)	591,522	37,734	629,256
Benefits paid on funded defined benefit plans	(451,013)	—	(451,013)	(275,041)	—	(275,041)
Benefits paid on unfunded defined benefit plans	(44,360)	(28,353)	(72,713)	(47,941)	(28,500)	(76,441)
At December 31	**$ 4,447,674**	**589,528**	**5,037,202**	**4,633,083**	**638,643**	**5,271,726**
of which funded defined benefit plans	*$ 3,923,249*	*—*	*3,923,249*	*4,087,144*	*—*	*4,087,144*
of which unfunded defined benefit plans	*524,425*	*589,528*	*1,113,953*	*545,939*	*638,643*	*1,184,582*

The movement in the fair value of defined benefit assets is reflected as follows:

	2015			2014		
	Defined benefit retirement plans	**Post-employment medical benefits**	**Total**	**Defined benefit retirement plans**	**Post-employment medical benefits**	**Total**
At January 1	$ (4,379,219)	—	(4,379,219)	(4,043,723)	—	(4,043,723)
Interest income	(171,104)	—	(171,104)	(190,475)	—	(190,475)
Actual return on plan assets, excluding interest income	235,019	—	235,019	(275,806)	—	(275,806)
Employer contributions	(78,750)	—	(78,750)	(144,256)		(144,256)
Benefits paid on funded defined benefit plans	451,013	—	451,013	275,041	—	275,041
At December 31	**$ (3,943,041)**	**—**	**(3,943,041)**	**(4,379,219)**	**—**	**(4,379,219)**

(Dollars in thousands)

The major categories of plan assets as a percentage of total plan assets are as follows:

	2015	2014
December 31:		
Equities	13.54%	13.20%
Debts	49.30	51.20
of which government debts	*23.58*	*24.64*
of which corporate debts	*25.72*	*26.56*
Alternative investments	37.16	35.60
Total	100.00%	100.00%

Equity, government debts, and commodities represent 37% and 38% of the plan assets in 2015 and 2014, respectively. Almost all of them are quoted in an active market. Corporate debts, real estate, hedge funds and private equities represent 63% and 62% of the plan assets in 2015 and 2014, respectively. Almost all of them are not quoted in an active market.

The movement in unrecognized assets and minimum funding requirements is as follows:

	2015			2014		
	Defined benefit retirement plans	Post-employment medical benefits	Total	Defined benefit retirement plans	Post-employment medical benefits	Total
At January 1	$ 18,360	—	18,360	21,584	—	21,584
Limitation of interest income	636	—	636	856	—	856
Changes due to asset ceiling	(2,214)	—	(2,214)	(4,080)	—	(4,080)
At December 31	**$ 16,782**	**—**	**16,782**	**18,360**	**—**	**18,360**

Expenses recognized in the consolidated income statement are as follows:

	2015			2014		
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total
Service cost	$ 159,985	20,702	180,687	137,566	(47,169)	90,397
Net Interest expense/(income)	6,921	20,739	27,660	(5,042)	24,808	19,766
Administration expenses	9,672	—	9,672	10,215	—	10,215
Defined benefit expenses	**176,578**	**41,441**	**218,019**	**142,739**	**(22,361)**	**120,378**
Defined contribution expenses	90,422	—	90,422	86,568	—	86,568
Total expenses	**$ 267,000**	**41,441**	**308,441**	**229,307**	**(22,361)**	**206,946**

(Dollars in thousands)

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

Remeasurement of defined benefit plans recognized in the consolidated statement of comprehensive income is reflected as follows:

	2015			2014		
	Defined benefit retirement plans	**Post-employment medical benefits**	**Total**	**Defined benefit retirement plans**	**Post-employment medical benefits**	**Total**
Actual return on plan assets, excluding interest income	$ (235,019)	—	(235,019)	275,806	—	275,806
Experience adjustments on plan liabilities	(3,261)	26,957	23,696	(48,775)	29,887	(18,888)
Change in demographic assumptions on plan liabilities	(101,740)	19,528	(82,212)	(154,407)	(17,537)	(171,944)
Change in financial assumptions on plan liabilities	136,814	17,232	154,046	(388,340)	(50,084)	(438,424)
Transfer from/(to) unrecognized assets and other	1,578	—	1,578	3,224	—	3,224
Remeasurement of defined benefit plans	**$ (201,628)**	**63,717**	**(137,911)**	**(312,492)**	**(37,734)**	**(350,226)**

	2015	**2014**
Principal financial actuarial assumptions:		
Discount rates	4.25%	4.00%
Expected rates of salary increases	3.50	3.50
Medical cost trend rates	5.0% – 7.5%	5.0% – 7.0%

Life expectancy as reflected in the following table is based upon the RP-2014 mortality table for 2015 and 2014.

	Life expectancy at age 65 for a male member currently aged 65 (in years)		**Life expectancy at age 65 for a female member currently aged 65 (in years)**	
Mortality table	**2015**	**2014**	**2015**	**2014**
RP-2014	21.1	21.1	23.2	23.1

(Dollars in thousands)

Sensitivity Analyses on Present Value of Defined Benefit Obligations

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

	2015	2014
As reported	$ 4,447,674	4,633,083
Discount rates		
Increase of 50 basis points	4,218,253	4,391,448
Decrease of 50 basis points	4,689,810	4,888,215
Expected rates of salary increases		
Increase of 50 basis points	4,484,244	4,676,932
Decrease of 50 basis points	4,411,588	4,589,817
Expected rates of pension adjustments		
Increase of 50 basis points	4,635,299	4,828,436
Decrease of 50 basis points	4,447,674	4,633,083
Medical cost trend rates		
Increase of 50 basis points	596,710	645,658
Decrease of 50 basis points	582,782	631,541
Mortality assumption		
Setting forward the tables by 1 year	4,371,290	4,555,828
Setting back the tables by 1 year	4,522,941	4,708,991

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

Share-Based Payments

Cash-settled share-based payments are granted to certain key members of Company management. Expenses arising from such transactions are recognized in the consolidated income statement over the vesting period. These payments are fair valued at each reporting date and measured using generally accepted pricing models. The cost of cash-settled share-based payments is adjusted for the forfeitures of the participants' rights that no longer satisfy the plan conditions, as well as for early vesting.

For individuals transferred to the Company from another subsidiary of Nestlé S.A., who received equity-settled share-based payments, the Company recognizes a liability to settle the obligation in cash.

Share-Based Payments - Restricted Stock Units

At January 1, 2006, the Company began granting Restricted Stock Units ("RSUs") to key members of management, entitling employees to a cash payment. The RSUs vest on the third anniversary of the grant date and may be redeemed on a date determined by the Company (generally within 2.5 months following vesting). The amount of the cash payment is determined based on the number of RSUs multiplied by the ten-day average of both the Nestlé S.A. share price and the exchange rate preceding the redemption date.

(Dollars in thousands)

Upon voluntary resignation or termination of employment for cause, all RSUs granted and outstanding become null and void without any compensation. However, upon termination of employment, as a result of death, redundancy, disability, retirement, termination without cause, or divestiture, all RSUs granted and outstanding will continue to vest and become vested on the third anniversary of the grant date and will be redeemed on a date determined by the Company. Effective January 1, 2015, RSUs will no longer be granted.

Share-Based Payments - Performance Stock Units

At January 1, 2015, the Company began granting Performance Stock Units ("PSUs") to key members of management, entitling employees to a cash payment. The PSUs vest on the third anniversary of the grant date and may be redeemed on a date determined by the Company (generally within 2.5 months following vesting). Upon vesting, the number of shares delivered ranges from 0% to 200% of the initial grant and is determined by the degree by which the performance measures of the PSUs have been met. These measures are the relative Total Shareholder Return of the Nestlé S.A. share in relation to the STOXX Europe 600 Food & Beverage Net Return Index (as from 2014 the STOXX Global 1800 Food & Beverage Net Return Index); and the growth of the underlying earnings per share in constant currencies. Each of the two measures has equal weighting in determining the vesting level of the initial PSUs award. The amount of the cash payment is determined based on the number of vested PSUs multiplied by the ten-day average of both the Nestlé S.A. share price and the exchange rate preceding the redemption date. Upon voluntary resignation or termination of employment for cause, all PSUs granted and outstanding become null and void without any compensation. However, upon termination of employment, as a result of death, redundancy, disability, retirement, termination without cause or divestiture, all PSUs granted and outstanding will continue to vest and become vested on the third anniversary of the grant date and will be redeemed on a date determined by the Company.

The table below summarizes the number of RSUs and PSUs at December 31, 2015 and 2014:

	2015	2014	2015	2014
	Number of RSUs	**Number of RSUs**	**Number of PSUs**	**Number of PSUs**
Outstanding at beginning of the year	1,413,667	1,250,800	—	—
Adjustment to the beginning balance of the year	—	17,514	—	—
Forfeited during the year	(20,268)	(9,276)	(16,761)	—
Exercised during the year	(540,300)	(260,884)	—	—
Granted during the year	—	415,513	597,223	—
Outstanding at the end of the year	**853,099**	**1,413,667**	**580,462**	**—**
Vested at the end of the year	**441,173**	**542,857**	**—**	**—**

(Dollars in thousands)

The average fair value of RSUs at December 31, 2015 is $68.66 (2014: $64.00). The average fair value of PSUs at December 31, 2015 is $73.44.

Share-Based Payments - Group-issued Restricted Stock Units

Members of management of the Nestlé Group are awarded Group Restricted Stock Units ("GRSUs") that entitle participants to receive freely disposable Nestlé S.A. shares or an equivalent amount in cash at the end of a three-year restriction period. For individuals who participate in this plan and are transferred to the Company from another subsidiary of Nestlé S.A., the Company recognizes a liability to settle the obligation in cash. The amount of the cash payment is determined based on the number of GRSUs multiplied by the ten-day average of both the share price of Nestlé S.A. share price and the exchange rate preceding the redemption date. There were no GRSUs granted in 2014 and 2015.

The table below summarizes the number of GRSUs at December 31, 2015 and 2014:

	2015	2014
	Number of GRSUs	**Number of GRSUs**
Outstanding at beginning of the year	92,124	146,729
Transferred (to)/from another affiliate/Others	21,906	(10,162)
Exercised during the year	(54,314)	(44,443)
Forfeited during the year	(2,280)	—
Outstanding at the end of the year	**57,436**	**92,124**
Vested at the end of the year	**57,436**	**56,827**

The fair value of the GRSUs corresponds to the market price of Nestlé S.A. shares when granted, recognized over the three-year vesting period and remeasured for subsequent changes in the market price. The average fair value of GRSUs at December 31, 2015 is $68.81 (2014: $62.74).

Share-Based Payments - Group-issued Performance Share Units

From 2014, members of Group Management are awarded Group Performance Share Units ("GPSUs") that entitle participants to receive freely disposable Nestlé S.A. shares or an equivalent amount in cash (accounted for as cash-settled share-based payment transactions) at the end of a three-year restriction period. For individuals transferred to the Company from another subsidiary of Nestlé S.A., the Company recognizes a liability to settle the obligation in cash. Upon vesting, the number of shares delivered ranges from 0% to 200% of the initial grant and is determined by the degree by which the performance measures of the GPSUs have been met. These measures are the relative Total Shareholder Return of the Nestlé S.A. share in relation to the STOXX Europe 600 Food & Beverage Net Return Index (as from 2014 the STOXX Global 1800 Food & Beverage Net Return Index); and the growth of the underlying earnings per share in constant currencies. Each of the two measures has equal weighting in determining the vesting level of the initial GPSUs award. The amount of the cash payment is determined based on the number of vested GPSUs multiplied by the ten-day average of both the share price of Nestlé S.A. share price and the exchange rate preceding the redemption date.

(Dollars in thousands)

The table below summarizes the number of the GPSUs at December 31, 2015 and 2014:

	2015	2014
	Number of GPSUs	**Number of GPSUs**
Outstanding at beginning of the year	24,232	—
Transferred (to)/from another affiliate/Others	35,743	10,487
Exercised during the year	(2,851)	—
Forfeited during the year	(2,025)	—
Granted during the year	26,780	13,745
Outstanding at the end of the year	**81,879**	**24,232**
Vested at the end of the year	—	—

The fair value of the GPSUs corresponds to the market price of Nestlé S.A. shares when granted, recognized over the three-year vesting period and remeasured for subsequent changes in the market price. The average fair value of GRSUs at December 31, 2015 is $77.01 (2014: $75.87).

(8) Investments in Joint Ventures and Associated Companies

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

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

Associates and joint ventures are accounted for using the equity method. The net assets and results are adjusted to comply with the Company' accounting policies. The carrying amount of goodwill arising from the acquisition of associates and joint ventures is included in the carrying amount of investments in associates and joint ventures.

(Dollars in thousands)

The Company has the following investments in joint ventures and associated companies:

	Ownership interest		Net book value	
	2015	**2014**	**2015**	**2014**
Williams Inland Distributors, LLC	45%	45%	$ 4,224	3,664
Beverage Partners North America	50	50	1,556	4,697
Total investments in joint ventures and associated companies			**$ 5,780**	**8,361**

(9) Deferred Taxes

Deferred taxation is the tax attributable to the temporary differences that arise when taxation authorities recognize and measure assets and liabilities with rules that differ from the principles of the consolidated financial statements. It also arises from temporary differences stemming from tax losses carried forward.

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

Deferred tax assets by types of temporary differences are as follows:

	2015	**2014**
Employee benefits	$ 718,095	680,254
Inventories, receivables, payables, accruals, and provisions	196,860	196,907
Financial instruments	56,525	34,099
Net operating losses	13,559	1,719
Others	10,846	13,170
Total deferred tax assets	**$ 995,885**	**926,149**

Deferred tax liabilities by types of temporary differences are as follows:

	2015	**2014**
Tangible fixed assets	$ 791,917	725,828
Employee benefits	—	29,907
Goodwill and other intangible assets	1,134,850	984,115
Financial instruments	—	56,261
Others	268,337	255,172
Total deferred tax liabilities	**$ 2,195,104**	**2,051,283**

At December 31, 2015 and 2014, deferred taxes were recognized for all temporary differences, unless an exception from the general principal applied. Additionally, the Company had net operating losses and tax credits, which can be carried forward to the extent taxable income will be generated. In earlier years, a portion of the net operating losses and tax credits that the Company does not expect to realize were transferred to unrecognized deferred tax assets. These unrecognized deferred tax assets total $21,690, all of which expire in more than five years. Excluding the unrecognized deferred tax assets, a benefit has been fully recognized based on the Company's expectation of probable taxable profits before the unused tax losses expire.

(10) Goodwill and Intangible Assets

Goodwill

Goodwill is initially recognized during a business combination (Note 20). Subsequently it is measured at cost less impairment.

Intangible Assets

This heading includes intangible assets that are internally generated or acquired, either separately or in a business combination, when they are identifiable and can be reliably measured. Internally generated intangible assets (essentially management information system software) are capitalized provided that there is an identifiable asset that will be useful in generating future benefits in terms of savings, economies of scale, etc.

Indefinite life intangible assets are those assets for which there is no foreseeable limit to their useful economic life as they arise from contractual or other legal rights that can be renewed without significant cost and are the subject of continuous marketing support. They are not amortized but tested for impairment annually or more frequently if an impairment indicator is triggered. The assessment of the classification of intangible assets as indefinite is reviewed annually.

Finite life intangible assets are amortized over the shorter of their contractual or useful economic lives. They mainly comprise management information systems and rights and customer lists. Finite life intangible assets are amortized on a straight-line basis assuming a zero residual value: management information systems over a period ranging from 3 to 5 years; and other finite life intangible assets over 5 to 20 years or longer, depending on specific circumstances. Useful lives and residual values are reviewed annually. Amortization of intangible assets is allocated to the appropriate headings of expenses by function in the consolidated income statement.

(Dollars in thousands)

	Goodwill	Total Intangible Assets
Gross Value:		
At January 1, 2014	$ 20,622,069	1,789,120
of which indefinite useful life	—	*121,500*
Expenditure	—	161,053
Disposals	—	(44,719)
Acquisition of businesses [a]	(15,443)	1,765
At December 31, 2014	**20,606,626**	**1,907,219**
of which indefinite useful life	—	*121,500*
Expenditure	—	176,403
Disposals	—	(46,631)
Acquisition of businesses [b]	323,060	225,800
At December 31, 2015	**20,929,686**	**2,262,791**
of which indefinite useful life	—	*333,400*
Accumulated Amortization and Impairments:		
At January 1, 2014	(2,418,032)	(845,785)
Amortization	—	(101,684)
Impairments [c]	(1,425,781)	(2,479)
Disposals		44,718
Disposal of businesses	—	(29)
At December 31, 2014	**(3,843,813)**	**(905,259)**
Amortization	—	(86,715)
Impairments	—	(6,300)
Disposals	—	46,264
At December 31, 2015	**$ (3,843,813)**	**(952,010)**
Net at December 31, 2014	**$ 16,762,813**	**1,001,960**
Net at December 31, 2015	**$ 17,085,873**	**1,310,781**

[a] The valuation of the assets and liabilities of the acquired business, Zuke's, was in process at the end of 2013 and values were determined provisionally. Upon final valuation in 2014, the goodwill balance was reduced by $15,443.

[b] The valuation of the assets and liabilities of acquired business, Merrick Pet Care Holdings Corporation, is in process and the values are determined provisionally.

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

Impairment of Goodwill and Intangible Assets

Goodwill and indefinite life intangible assets are tested for impairment at least annually and upon the occurrence of an indication of impairment. Finite life intangible assets are tested when there is an indication of impairment.

The annual impairment tests are performed at the same time each year and at the cash generating unit ("CGU") level. The Company defines its CGU for goodwill impairment testing based on the way that it monitors and derives economic benefits from the acquired goodwill. For indefinite life intangible assets, the Company defines its CGU as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The impairment tests are performed by comparing the carrying value of the assets of the CGU with their recoverable amount based on their value in use, which corresponds to their future projected cash flows discounted at an appropriate pre-tax rate of return. Usually, the cash flows correspond to estimates made by management in financial plans and business strategies covering a period of five years after making adjustments to consider the assets in their current condition. They are then projected to perpetuity using a multiple which corresponds to a steady or declining growth rate. The Company assesses the uncertainty of these estimates by performing sensitivity analysis. The discount rate reflects the current assessment of the time value of money and the risks specific to the CGU (essentially country risk). The business risk is included in the determination of the cash flows. Both the cash flows and the discount rates include inflation. An impairment loss in respect of goodwill is never subsequently reversed.

Impairment Charge

There was no goodwill impairment in 2015.

In 2014, an impairment of goodwill of $1,425,781 was recorded with regards of the Direct Store Delivery system (DSD) CGU for Frozen Pizza and Ice Cream.

Annual Impairment Tests

Impairment reviews have been conducted for goodwill and intangible assets with indefinite useful life items allocated to five cash generating units (CGU).

The following three CGUs have been considered as significant either with regard to the total goodwill or to the total intangible assets with indefinite useful life for which detailed results are presented: PetCare, Infant Nutrition, and Direct Store Delivery system (DSD) for Frozen Pizza and Ice Cream.

(Dollars in thousands)

	2015		
	Goodwill	**Intangible assets with indefinite useful life**	**Total**
PetCare	$ 8,801,844	211,900	9,013,744
Infant Nutrition	3,198,718	121,500	3,320,218
DSD for Frozen Pizza and Ice Cream	2,694,169	—	2,694,169
Subtotal	**14,694,731**	**333,400**	**15,028,131**
as % of total carrying amount	*86%*	*100%*	*86%*
Other CGU's	2,391,142	—	2,391,142
Total	**$ 17,085,873**	**333,400**	**17,419,273**

	2014		
	Goodwill	**Intangible assets with indefinite useful life**	**Total**
PetCare	8,478,784	—	8,478,784
Infant Nutrition	3,198,718	121,500	3,320,218
DSD for Frozen Pizza and Ice Cream	2,694,169	—	2,694,169
Subtotal	**14,371,671**	**121,500**	**14,493,171**
as % of total carrying amount	*86%*	*100%*	*86%*
Other CGU's	2,391,142	—	2,391,142
Total	**16,762,813**	**121,500**	**16,884,313**

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

(Dollars in thousands)

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

	2015				
	Period of Cash Flow Projections	**Annual Sales Growth**	**Annual Margin Evolution**	**Terminal Growth Rate**	**Pre-Tax Discount Rate**
PetCare	5 years	3% to 3.4%	Stable	2.0%	7.2%
Infant Nutrition	5 years	2.3% to 5.6%	Improvement	2.0%	7.4%
DSD for Frozen Pizza and Ice Cream	5 years	0.1% to 1%	Improvement	1.5%	7.7%

	2014				
	Period of Cash Flow Projections	**Annual Sales Growth**	**Annual Margin Evolution**	**Terminal Growth Rate**	**Pre-Tax Discount Rate**
PetCare	5 years	4% to 6%	Stable	2.0%	7.6%
Infant Nutrition	5 years	0% to 8%	Improvement	1.0%	7.7%
DSD for Frozen Pizza and Ice Cream	5 years	-2% to 1%	Improvement	1.5%	7.6%

- The pre-tax discount rate has been computed based on external sources of information.
- The cash flows for the first 5 years were based upon financial plans approved by Nestlé Group Management which are consistent with the Nestlé Group's approved strategy for this period. They are based on past performance and current initiatives.
- The terminal growth rates have been determined to reflect the long term view of the nominal evolution of the business.

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

	Sensitivity
Sales growth (CAGR)	Decrease by 390 basis points
Margin improvement	Decrease by 45 basis points
Terminal growth rate	Decrease by 90 basis points
Pre-tax discount rate	Increase by 120 basis points

(11) Financial Instruments

Financial Assets

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

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

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

Classes and Categories of Financial Instruments

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

Loans and Receivables

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

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method less appropriate allowances for doubtful receivables, see Trade and Other Receivables, net (Note 3).

Financial Assets Designated at Fair Value through Income Statement

Certain investments are designated at fair value through the 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. Company-owned life insurance policies are categorized as financial assets at fair value through profit and loss. They are reported at their cash surrender value with any changes in cash surrender value being recognized in the consolidated income statement.

Held-for-Trading Assets and Liabilities

Held-for-trading assets and liabilities are derivative financial instruments. Subsequent to initial measurement, items classified as held-for-trading are carried at fair value and all their gains and losses, realized and unrealized, are recognized in the consolidated income statement unless they are part of a hedging relationship (see Derivative Assets and Liabilities and Hedge Accounting, Note 5).

Available-for-Sale Assets

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

Subsequent to initial measurement, available-for-sale assets are stated at fair value with all unrealized gains or losses recognized in other comprehensive income until their disposal at which time such gains or losses are recognized in the consolidated income statement.

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

Financial Liabilities at Amortized Cost

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

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

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

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

(Dollars in thousands)

		2015	2014
By class:			
Cash and cash equivalents [(a)]	$	140,204	268,345
Trade and other receivables, net		6,025,152	4,505,006
Derivative assets (note 5)		82,554	90,270
Bonds and debt funds		2,741,285	2,710,665
Equity and equity funds		452,527	457,477
Investments in life insurance company general accounts		539,905	529,898
Policy loans		132,937	121,931
Other financial assets [(b)]		135,184	133,228
Total financial assets		**10,249,748**	**8,816,820**
Trade and other payables		1,568,668	1,390,882
Financial liabilities – current		4,610,326	3,434,847
Derivative liabilities (note 5)		855,522	532,086
Financial liabilities – non-current		7,824,790	9,197,417
Total financial liabilities		**14,859,306**	**14,555,232**
Net financial position	**$**	**(4,609,558)**	**(5,738,412)**

(a) Includes bank balance of $140,204 (2014: $268,138) and time deposits of $0 (2014: $207).

(b) Includes short-term investments.

		2015	2014
By category:			
Loans and receivables (including cash and cash equivalents) [(a)]	$	6,274,682	4,881,601
Derivative assets		82,554	90,270
Financial assets at fair value through Income Statement		430,586	452,783
Available-for-sale assets (including short-term investments) [(b)]		3,461,926	3,392,166
Total financial assets		**10,249,748**	**8,816,820**
Liabilities at amortized cost [(a)]		14,003,784	14,023,146
Derivative liabilities		855,522	532,086
Total financial liabilities		**14,859,306**	**14,555,232**
Net financial position	**$**	**(4,609,558)**	**(5,738,412)**
of which at fair value [(c)]	*$*	*3,026,256*	*3,309,846*

(a) Carrying amount of these instruments is a reasonable approximation of their fair value. For bonds included in liabilities at amortized cost, see the Bonds table.

(b) Available-for-sale securities primarily represent portfolio assets totaling $2,816,542 and $2,759,566 at December 31, 2015 and 2014, respectively. These portfolio assets include both debt and equity securities.

(c) Comprised of the following categories: available-for-sale assets, financial assets at fair value through income statement, derivative assets and liabilities with the exception of note (d) below.

(Continued)

(Dollars in thousands)

(d) The Company owns 34,000 Class A voting convertible preferred shares of Nestlé Canada, Inc. representing a 12.9% non-controlling net investment in a foreign entity and is classified as an available-for-sale equity security in accordance with IAS 39. The investment is recorded at its historical cost of $93,287 instead of at fair value since it could not be reliably measured.

Fair Value Hierarchy of Financial Instruments

The Company determines the fair value of its financial instruments on the basis of the following hierarchy.

i. The fair value of financial instruments quoted in active markets is based on their quoted closing price at the balance sheet date. Examples include exchange-traded commodity derivative and other financial assets such as investments in equity and debt securities.

ii. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques using observable market data. Such valuation techniques include discounted cash flows, standard valuation models based on market parameters for interest rates, yield curves, foreign exchange rates, dealer quotes for similar instruments, and use of comparable arm's length transactions. For example, the fair value of forward exchange contracts, currency swaps and interest rate swaps is determined by discounting estimated future cash flows using a risk-free interest rate.

iii. The fair value of financial instruments that is determined on the basis of entity-specific valuations using inputs that are not based on observable market data (unobservable inputs). When the fair value of unquoted instruments cannot be measured with sufficient reliability, the Company carries such instruments at cost less impairment, if applicable.

		2015	**2014**
Fair value hierarchy of financial instruments:			
Derivative assets	$	6,346	10,621
Bonds and debt funds		73,834	51,504
Equity and equity funds		86,941	81,840
Other financial assets		3,107	3,570
Derivative liabilities		(18,742)	(21,021)
Prices quoted in active markets (Level 1)		**151,486**	**126,514**
Derivative assets		76,208	79,649
Bonds and debt funds		2,646,907	2,642,589
Equity and equity funds		270,662	280,070
Investments in life insurance company general accounts		539,905	529,898
Other financial assets		18,175	17,681
Derivative liabilities		(836,780)	(511,065)
Valuation techniques based on observable market data (Level 2)		**2,715,077**	**3,038,822**
Valuation techniques based on unobservable input (Level 3)		**159,693**	**144,510**
Total financial instruments at fair value	**$**	**3,026,256**	**3,309,846**

There have been no significant transfers between the different hierarchy levels in 2015.

(Continued)

(Dollars in thousands)

Bonds

	Comments	Coupon	Effective interest rate	Year of issue/ maturity	2015	2014
AUD 275,000	(b)	5.50%	5.69%	2011-2016	$ 204,763	234,069
NOK 1,000,000	(b)	3.38	3.59	2011-2016	115,856	138,892
USD 200,000	(c)	2.00	2.06	2011-2016	199,901	199,794
USD 900,000	(c)	1.38	1.46	2012-2017	898,934	898,222
NOK 3,000,000	(a)	2.50	2.66	2012-2017	339,668	401,683
AUD 200,000	(a)	4.00	4.11	2012-2017	145,778	163,141
NOK 1,000,000	(a)	2.25	2.31	2012-2017	113,406	134,219
GBP 250,000	(b)	1.63	1.71	2013-2017	369,117	388,747
CHF 250,000	(b)	2.63	2.66	2007-2018	270,022	273,439
USD 500,000	(c)	1.25	1.32	2012-2018	499,337	499,019
AUD 175,000	(b)	3.75	3.84	2013-2018	130,244	146,498
USD 400,000	(c)	1.38	1.50	2013-2018	398,717	398,230
AUD 200,000	(a)	3.88	4.08	2013-2018	145,133	162,322
AUD 300,000	(a)	4.13	4.33	2013-2018	217,748	243,624
AUD 100,000	(b)	4.13	4.34	2013-2018	75,787	85,298
USD 500,000	(c)	2.00	2.17	2013-2019	496,740	495,957
USD 500,000	(c)	2.25	2.41	2013-2019	497,496	496,753
USD 400,000	(c)	2.00	2.06	2014-2019	399,144	398,926
AUD 250,000	(b)	4.25	4.43	2014-2020	192,711	217,269
NOK 1,000,000	(b)	2.75	2.85	2014-2020	119,342	140,921
USD 650,000	(c)	2.13	2.27	2014-2020	646,257	645,382
AUD 175,000	(b)	3.63	3.77	2014-2020	133,338	149,213
GBP 400,000	(a)	1.75	1.82	2015-2020	591,166	–
Other bonds issued by Nestlé Purina PetCare Company:						
USD 47,680	(c)	7.75	6.25	1995-2015	—	48,195
USD 63,210	(c)	9.30	6.46	1991-2021	71,361	72,605
USD 78,963	(c)	8.63	6.46	1992-2022	87,683	88,812
USD 43,927	(c)	8.13	6.47	1993-2023	47,994	48,436
USD 51,164	(c)	7.88	6.45	1995-2025	55,877	56,231
Other Bonds					1,841	3,377
Total carrying amount (*)					**$ 7,465,361**	**7,229,274**
of which due within one year					*520,522*	*49,723*
of which due after one year					*6,944,839*	*7,179,551*
Fair value (*) of bonds, based on prices quoted (level 2)					7,556,661	7,367,516

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

Several bonds are hedged by currency and/or interest derivatives. The fair value of these derivatives is shown under derivative assets of $74,154 (2014: $78,019) and under derivative liabilities of $696,330 and (2014:$ 347,720).

[a] Subject to an interest rate and currency swap that creates a U.S. dollar liability at fixed rates.

[b] Subject to an interest rate and currency swap that creates a U.S. dollar liability at floating rates.

[c] Not subject to an interest rate or currency swap.

(12) Financial Risks

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

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

A Nestlé S.A. Asset and Liability Management Committee ("ALMC"), under the supervision of the Chief Financial Officer of Nestlé S.A., is the governing body for the establishment and subsequent execution of Nestlé S.A.'s Financial Asset and Liability Management Policy. It ensures implementation of strategies and achievement of objectives of Nestlé S.A.'s Financial Asset and Liabilities Management Policy, which are executed by the Centre Treasury, the Regional Treasury Centres, and in specific local circumstances, by the affiliated companies. The activities of the Centre Treasury and of the Regional Treasury Centres are supervised by an independent Middle Office, which verifies the compliance of the strategies proposed and/or operations executed within the approved guidelines and limits set by the ALMC. Approved Treasury Management Guidelines define and classify risks as well as determine, by category of transaction, specific approval, execution, and monitoring procedures. In accordance with the aforementioned policies, the Company only enters into derivative transactions relating to assets, liabilities, or anticipated future transactions.

Credit Risk

Credit Risk Management

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

The Company aims to minimize its financial credit risk through the application of risk management policies. Credit limits are set based on a counterparty value and a probability of default. The methodology used to set the list of counterparty limits includes Enterprise Value ("EV"), counterparty Credit Ratings ("CR"), and Credit Default Swaps ("CDS"). Evolution of counterparties is monitored regularly, taking into consideration EV, CR, and CDS evolution by Nestlé S.A. As a result of this review, changes on credit limits and risk allocation are carried out.

The Company avoids the concentration of credit risk on its liquid assets by spreading them over several institutions and sectors.

Trade receivables are subject to credit limits, control, and approval procedures in all the affiliated companies. Due to its large geographic base and number of customers, the Company is not exposed to material concentrations of credit risk on its Trade and Other Receivables, net (Note 3). Nevertheless, global commercial counterparties are constantly monitored following the similar methodology used for financial counterparties.

(Dollars in thousands)

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

Credit rating of financial assets (excluding receivables and inter-group loans):

		2015	2014
Investment grade (A- and above)	$	2,726,252	3,051,229
Investment grade (BBB+, BBB and BBB-)		991,688	751,965
Non-investment grade (BB+ and below)		65,329	80,175
Not rated [(a)]		428,705	428,445
Total financial assets (excluding receivables and inter-group loans)	**$**	**4,211,974**	**4,311,814**

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

The source of the credit ratings is Standard & Poor's; if not available, the Company uses other credit rating equivalents. The Company deals mainly with financial institutions located in Switzerland, the European Union, and North America.

Liquidity Risk

Liquidity Risk Management

Liquidity risk is the risk that a company may encounter difficulties in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. Such risk may result from inadequate market depth, disruption, or refinancing problems. The Company's objective is to manage this risk by limiting exposures in financial instruments that may be affected by liquidity problems and by maintaining sufficient back-up facilities.

(Dollars in thousands)

Contractual maturities of certain financial assets and financial liabilities and derivatives (including interest)

	2015						
	1st year	**2nd year**	**3rd to 5th year**	**After the 5th year**	**Contractual amount**	**Interest and Impact of Discounting**	**Carrying amount**
Trade and other payables	$ 1,568,668	—	—	—	1,568,668	—	1,568,668
Commercial paper	3,212,400	—	—	—	3,212,400	(844)	3,211,556
Bonds	699,068	2,036,972	5,066,254	279,871	8,082,165	(616,804)	7,465,361
Other financial debt	879,061	861,424	15,991	3,931	1,760,407	(2,208)	1,758,199
Total financial debt	**4,790,529**	**2,898,396**	**5,082,245**	**283,802**	**13,054,972**	**(619,856)**	**12,435,116**
Financial liabilities (excluding derivatives)	**6,359,197**	**2,898,396**	**5,082,245**	**283,802**	**14,623,640**	**(619,856)**	**14,003,784**
Non-currency derivative assets	8,291	—	—	—	8,291	—	8,291
Non-currency derivative liabilities	(83,480)	(27,127)	(45,620)	(2,362)	(158,589)	3,131	(155,458)
Gross amount receivable from currency derivatives	453,949	1,049,381	1,943,364	—	3,446,694	(145,554)	3,301,140
Gross amount payable from currency derivatives	(543,799)	(1,341,734)	(2,192,185)	—	(4,077,718)	150,777	(3,926,941)
Net derivatives	**(165,039)**	**(319,480)**	**(294,441)**	**(2,362)**	**(781,322)**	**8,354**	**(772,968)**
of which derivatives under cash flow hedges [(a)]	*$ (66,995)*	*(292,876)*	*(172,001)*	*(2,362)*	*(534,234)*	*3,617*	*(530,617)*

	2014						
	1st year	**2nd year**	**3rd to 5th year**	**After the 5th year**	**Contractual amount**	**Interest and Impact of Discounting**	**Carrying amount**
Trade and other payables	$ 1,390,882	—	—	—	1,390,882	—	1,390,882
Commercial paper	2,932,280	—	—	—	2,932,280	(2,125)	2,930,155
Bonds	230,967	743,587	5,546,529	1,464,080	7,985,163	(755,889)	7,229,274
Other financial liabilities	837,577	760,635	871,027	6,635	2,475,874	(3,039)	2,472,835
Total financial debt	**4,000,824**	**1,504,222**	**6,417,556**	**1,470,715**	**13,393,317**	**(761,053)**	**12,632,264**
Financial liabilities (excluding derivatives)	**5,391,706**	**1,504,222**	**6,417,556**	**1,470,715**	**14,784,199**	**(761,053)**	**14,023,146**
Non-currency derivative assets	12,251	—	—	—	12,251	—	12,251
Non-currency derivative liabilities	(104,560)	(29,678)	(42,262)	(6,969)	(183,469)	3,366	(180,103)
Gross amount receivable from currency derivatives	135,267	451,999	2,120,269	499,997	3,207,532	(177,501)	3,030,031
Gross amount payable from currency derivatives	(74,490)	(487,473)	(2,335,927)	(555,812)	(3,453,702)	149,707	(3,303,995)
Net derivatives	**(31,532)**	**(65,152)**	**(257,920)**	**(62,784)**	**(417,388)**	**(24,428)**	**(441,816)**
of which derivatives under cash flow hedges [(a)]	*$ (76,957)*	*(11,884)*	*(258,482)*	*(6,969)*	*(354,292)*	*(13,576)*	*(367,868)*

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

Market Risk

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

Foreign Currency Risk

The Company is exposed to foreign currency risk from transactions and translation. Transactional exposures arise from transactions in foreign currency. They are managed within a prudent and systematic hedging policy in accordance with the Company's specific business requirements through the use of currency forwards and swaps.

Interest Rate Risk

Interest rate risk on financial debt is managed based on duration and interest management targets set by the ALMC through the use of fixed rate debt and interest rate swaps.

Taking into account the impact of interest derivatives, the proportion of financial debt subject to fixed interest rates for a period longer than one year represents 65% (2014: 66%).

Price Risk

Commodity Price Risk

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

The Company's objective is to minimize the impact of commodity price fluctuations and this exposure is hedged in accordance with the policies set by the Company's management and the Nestlé Group policy on commodity price risk management.

The regional Commodity Purchasing Competence Centre is responsible for managing commodity price risks on the basis of internal directives and centrally determined limits, generally through the use of exchange-traded commodity derivatives.

The commodity price risk exposure of future purchases is primarily managed using a combination of derivatives (mainly futures and options) and executory contracts.

As a result of the short product business cycle of the Company, the majority of the anticipated future raw material transactions outstanding at the balance sheet date are expected to occur in the next year.

Equity Price Risk

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

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. The Company uses simulation to calculate VaR based on the historic data for a 250-day 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

The Company uses the described VaR analysis to estimate the potential one-day loss in the fair value of its financial and commodity instruments.

The Company cannot predict the actual future movements in market rates and prices, 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 the Company's financial assets and liabilities that are subject to foreign currency, interest rate, and price risk.

The estimated potential one-day loss from the Company's foreign currency, interest rate, and equity price risk sensitive instruments, as calculated using the above-described historic VaR model, is $(600) and $(128) for the years ended December 31, 2015 and 2014, respectively.

The estimated potential one-day loss from the Company's commodity price risk sensitive instruments, as calculated using the above described historic VaR model, is not significant.

Capital Risk Management

The Company's capital risk management strategy is to maintain a sound capital base to support the continued development of the Company's operations, utilizing various funding sources available to it. Substantially all of the Company's debt is guaranteed by Nestlé S.A., which allows the Company to borrow from third parties at lower interest rates. In order to ensure that the return on invested capital is optimized, the Company establishes strict limits on annual additions of property, plant and equipment.

(Dollars in thousands)

(13) Assets Held for Sale

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

		2015	2014
Total assets held for sale - business units	$	20,403	31,190

As of December 31, 2015, the assets held for sale balance represents certain wholly owned foreign subsidiaries, which are part of the PetCare segment. The Company's share of profit in the PetCare portion was $159 in 2015 and increased the business units held for sale balance to $20,403. The Company has plans to sell these wholly owned foreign subsidiaries to Nestlé S. A. in 2016.

As of December 31, 2014, the assets held for sale balance represented certain wholly owned foreign subsidiaries, which are part of the PetCare segment, a prepared foods factory which is included in the Nestlé USA Brands segment and a Nestlé Professional beverage factory which is included in the Others segment. The Company's share of profit in the PetCare portion was $2,283 in 2014 and increased the business units held for sale balance to $20,244. The remaining balance of $10,946 relates to the prepared foods factory which was sold in 2015 and the Nestlé Professional beverage factory assets, which were reclassified out of assets held for sale and back into tangible assets in 2015.

(14) Accruals

Accruals and deferred income consist of expenses relating to the current year, which will not be invoiced until after the balance sheet date, and cash received in advance relating to the following year.

Accruals are as follows:

		2015	2014
Accrued payroll	$	366,491	536,734
Accrued trade spend and promotional expenses		422,241	327,466
Accrued life insurance policy reserves		224,352	191,152
Accrued interest		89,016	88,485
Accrued defined contribution expense		18,735	15,835
Other accrued expenses		252,251	303,314
Total accruals	$	**1,373,086**	**1,462,986**

(Dollars in thousands)

(15) Provisions and Contingencies

Provisions

Provisions include liabilities of uncertain timing or amount that arise from restructuring plans, environmental, litigation, and other risks. Provisions are recognized when a legal or constructive obligation exists stemming from a past event and when the future cash outflows can be reliably estimated. Obligations from restructuring plans are recognized when detailed formal plans have been established and when there is a valid expectation that such plans will be carried out by either starting to implement them or announcing their main features. Obligations under litigation reflect Company management's best estimates of the outcomes based on the facts known at the balance sheet date.

Contingent Assets and Liabilities

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

Provisions are as follows:

		Restructuring	Environmental	Other	Total
At December 31, 2014	$	61,511	15,511	69,876	146,898
Provisions made in the year		7,737	2,036	15,554	25,327
Amounts used		(23,587)	(2,371)	(18,545)	(44,503)
Unused amounts reversed		(1,286)	—	—	(1,286)
Unwind of discount		—	701	67	768
At December 31, 2015	$	44,375	15,877	66,952	127,204
of which expected to be settled within 12 months	*$*	*42,420*	*1,998*	*31,623*	*76,041*

Restructuring

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

During 2015, the Company continued with a number of reorganizations within the Nestlé USA Brands, Nutrition and Other segments to reduce selling expenses and general and administrative expenses as well as to streamline factory operations. As part of this effort, net increases to restructuring provisions of $6,451 were recorded.

Environmental

Situations where the Company is found liable for remediation or cleanup efforts by the U.S. environmental Protection Agency ("EPA") or other governmental agencies on specific sites represent known liabilities. In these instances, it is the Company's policy to accrue for environmental cleanup costs when they are assessed. As assessments and cleanups proceed, these liabilities are reviewed and adjusted as additional information becomes available regarding the nature and extent of contamination, methods of remediation required, other actions by governmental agencies or private parties, and the amount, if any, of available coverage by the Company's insurance carriers.

Other Provisions

In 2015, the Company recorded provisions concerning non-cancelable leases, service agreements and litigation.

Contingencies

(a) Litigation

The Company is exposed to a number of asserted claims and unasserted potential claims encountered in the normal course of business. In the opinion of Company management, the resolution of these matters will not have a material impact on the Company's consolidated financial position.

(b) Exposure for Environmental Matters

The Company has contingent liabilities related to environmental matters where the Company has received "Notices of Potential Liability" from, or has been identified as a "Potentially Responsible Party" by, the EPA or other government agencies regarding the alleged disposal of hazardous material at various sites around the country that allegedly require environmental cleanup.

These proceedings are being vigorously defended or resolutions are being negotiated. Although the outcome of these proceedings is unknown, Company management does not believe that any resulting liability would be material to the consolidated financial position of the Company.

(16) Net Financial Income/(Expense)

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

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

(Dollars in thousands)

	Note	2015	2014
Interest income		$ 51,805	24,574
Interest expense		(260,794)	(245,682)
Net financing cost		**(208,989)**	**(221,108)**
Interest income on defined benefit plans	7	14,738	29,272
Interest expense on defined benefit plans	7	(42,398)	(49,038)
Net interest expense on defined benefit plans		**(27,660)**	**(19,766)**
Other		(424)	(761)
Net financial expenses		$ **(237,073)**	**(241,635)**

Interest expenses on amounts due to affiliated and associated companies and bond and commercial paper guarantee fees to Nestlé S.A. amounted to $(79,643) and $(75,346) in 2015 and 2014, respectively. Interest income on amounts due from affiliated and associated companies amounted to $51,476 and $23,851 in 2015 and 2014, respectively.

(17) Net Other Trading and Operating Income/(Expenses)

Net Other Trading Income/(Expense)

These include restructuring costs, impairment of property, plant and equipment and intangible assets, litigation and onerous contracts, result of disposal of property, plant and equipment, and specific other income and expenses that fall within the control of operating segments.

Restructuring costs are restricted to dismissal indemnities and employee benefits paid to terminated employees upon the reorganization of a business. They do not include dismissal indemnities paid for normal attrition such as poor performance, professional misconduct, etc.

Net Other Operating Income/(Expense)

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

(Dollars in thousands)

Net other trading income/(expenses) is as follows:

		2015	2014
Return on company-owned life insurance	$	15,167	48,294
Reversal of restructuring costs		1,286	962
Franchise and royalty income		1,190	874
Miscellaneous trading income		749	769
Other trading income		**18,392**	**50,899**
Litigation and onerous contracts [(a)]		(29,144)	(38,066)
Impairment of property, plant and equipment and intangible assets		(10,910)	(35,583)
Losses on (or cost of) deferred compensation		(2,223)	(27,597)
Restructuring costs		(7,737)	(16,007)
Miscellaneous trading expenses		(13,732)	(10,405)
Other trading expenses		**(63,746)**	**(127,658)**
Total net other trading expenses	$	**(45,354)**	**(76,759)**

Net other operating income/(expenses) is as follows:

		2015	2014
Dividend income	$	4,551	4,419
Gain on investments		578	644
Miscellaneous operating income		1,382	1,513
Other operating income		**6,511**	**6,576**
Loss on disposal of businesses [(b)]		(7,821)	(67,162)
Other operating litigation		(2,443)	(2,407)
Impairment of goodwill [(c)]		—	(1,425,781)
Natural disaster		—	(22,450)
Miscellaneous operating expenses		(6,215)	(4,247)
Other operating expenses		**(16,479)**	**(1,522,047)**
Total net other operating expenses	$	**(9,968)**	**(1,515,471)**

[(a)] Relating principally to a number of separate legal cases, liabilities linked to voluntary product withdrawals and various separate onerous contracts.

[(b)] See acquisitions and disposals of businesses (Note 20).

[(c)] See goodwill and intangible assets (Note 10).

(Dollars in thousands)

(18) Income Tax Expense

The Company files a consolidated return with NIMCO US, Inc. However, the Company also records its own tax expense and liability as if it filed on a standalone basis. Taxes and fiscal risks recognized in the consolidated financial statements reflect Company management's best estimate of the outcome based on the facts known at the balance sheet date. These facts may include, but are not limited to, changes in tax laws and interpretations thereof in the United States. They may have an impact on the income tax as well as the resulting assets and liabilities. Any differences between tax estimates and final tax assessments are charged to the consolidated income statement in the period in which they are incurred, unless anticipated.

Taxes include current taxes on income and other taxes such as taxes on capital and adjustments relating to prior years. Income tax is presented within the consolidated income statement, except to the extent that it relates to items directly taken to other comprehensive income.

Income from associates and joint ventures and the share of other comprehensive income of associates and joint ventures are shown net of tax effects.

The components of income tax (expense) from continuing operations are as follows:

		2015	2014
Current tax	$	(540,209)	(741,926)
Deferred tax		(9,954)	97,656
Taxes recorded to other comprehensive income		(128,042)	(106,539)
Income tax expense	$	**(678,205)**	**(750,809)**

The components of deferred tax (expense) benefit by type are as follows:

		2015	2014
Tangible fixed assets	$	(63,338)	(37,018)
Goodwill and other intangible assets		(62,673)	120,744
Employee benefits		65,860	63,642
Inventories, receivables, payables, accruals, and provisions		(6,238)	1,348
Financial instruments		78,687	(31,553)
Net operating losses		(5,684)	—
Other		(16,568)	(19,507)
Deferred tax (expense)	$	**(9,954)**	**97,656**

(Dollars in thousands)

Taxes recognized in other comprehensive income:

		2015	2014
Tax effect relating to:			
Fair value adjustments on cash flow hedges	$	(8,623)	(13,080)
Fair value of available-for-sale assets		(65,640)	43,116
Defined benefit plan actuarial gains		(53,779)	(136,575)
Total taxes recognized	**$**	**(128,042)**	**(106,539)**

Reconciliation of income from continuing operations before income taxes multiplied by the applicable tax rate to income tax (expense) is as follows:

		2015	2014
Tax at theoretical rate	$	(1,006,443)	(410,673)
Tax effect on non-deductible amortization of goodwill and other intangible assets		(116)	(310,870)
Permanent differences on company-owned life insurance policies		9,497	24,446
Tax effect of non-deductible or non-taxable items		50,302	49,581
Prior years' taxes		274,121	(96,002)
Other taxes		(5,566)	(7,291)
Income tax expense	**$**	**(678,205)**	**(750,809)**
Effective tax rate		26%	70%

(19) Lease Commitments

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

Assets acquired under finance leases are capitalized and depreciated in accordance with the Company's policy on property, plant and equipment unless the lease term is shorter. The associated finance lease obligations are included under financial debt. Leasehold improvements are amortized over their useful life or the lease term, whichever is shorter.

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

The Company is obligated under various operating and finance leases primarily for buildings, distribution facilities, equipment, railroad, and agricultural properties as follows:

(Dollars in thousands)

(a) Operating Leases

		Future value
Within one year	$	99,416
In the second year		82,571
In the third to fifth year inclusive		134,384
After the fifth year		87,392
Total operating leases	$	**403,763**

The Company recognized rent expense of $116,381 and $113,616 in 2015 and 2014, respectively, in the consolidated income statement. This expense was offset by sublease income of $872 in 2015. Sublease payments of $4,725 are expected to be received in future years.

(b) Finance Leases

		Present value	Future value
Within one year	$	10,289	10,449
In the second year		10,987	11,423
In the third to fifth year inclusive		14,473	15,741
After the fifth year		3,587	3,931
Total finance leases	**$**	**39,336**	**41,544**

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

(20) Acquisitions and Disposals of Businesses

Business Combinations

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

(a) Modification of the Scope of Consolidation

Acquisitions

In 2015, the acquisition during the year was:

(Dollars in thousands)

Merrick Pet Care Holdings Corporation, USA, natural and organic pet food products (PetCare), 100%, September.

There were no acquisitions in 2014.

Disposals

In 2015, the main disposal during the year was:

COMPAT pumps (Other), 100%, (June).

In 2014, the main disposals were:

Juicy Juice, fruit drinks (Nestlé USA Brands), 100% (June); and Powerbar (Nutrition), 100% (September).

(b) Acquisitions of Businesses

On September 1, 2015, the Company acquired Merrick Pet Care Holdings Corporation, one of the fastest-growing natural and organic pet food companies in the United States. The business includes three leading brands such as *Merrick*, *Castor and Pollux*, and *Whole Earth Farms*. This acquisition is included in the PetCare segment and will enhance the Company's pet care product portfolio in the United States where the Company has already established a leadership in the pet foods product categories. The goodwill arising from this acquisition represents a strong natural and organic pet foods presence and is not expected to be deductible for tax purposes.

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

		2015
		Total
Property, plant and equipment	$	19,170
Intangible assets		225,800
Inventories and other assets		66,218
Financial assets		77
Employee benefits, deferred taxes, and provisions		(64,595)
Other liabilities		(24,730)
Fair value of identifiable net assets	$	**221,940**

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

(Dollars in thousands)

The goodwill arising on acquisition and the cash outflow were:

		2015 Total
Fair value of consideration transferred	$	545,000
Fair value of identifiable net assets		(221,940)
Goodwill	**$**	**323,060**
Fair value of consideration transferred		545,000
Cash and cash equivalents acquired		—
Cash outflow on acquisitions	**$**	**545,000**

Acquisition-related costs, which mostly relate to the acquisitions of Merrick Pet Care Holdings Corporation, were recognized under net operating expenses in the consolidated income statement (Note 17) for an amount of $1,213.

There were no acquisitions in 2014.

(c) Disposals of Businesses

The loss on disposals of businesses $7,821 (Note 17) is due to the derecognition of net assets from the consolidated balance sheet primarily for Compat Pump (Other).

(21) Events after the Balance Sheet Date

The values of assets and liabilities at the balance sheet date are adjusted if there is evidence that subsequent adjusting events warrant a modification of these values. These adjustments are made up to the date of authorization of the 2015 consolidated financial statements. Other non-adjusting events are disclosed in the notes to the consolidated financial statements.

Other than the following, the Company was not aware of specific events or transactions occurring after December 31, 2015, and up to March 23, 2016 that would have a material impact on the accounting or presentation of the accompanying consolidated financial statements.

On January 31, 2016, the Company sold 100% of the acquired intellectual property of Merrick Pet Care Holdings Corporation to other companies controlled by Nestlé S.A.

(Dollars in thousands)

The following bonds were issued or matured under the Debt Issuance Programme established by NHI and Nestlé Finance International Ltd.:

Issuances

Issue date	Face value	Coupon	Maturity
1/15/2016	GBP 100,000	1.75%	12/9/2020
3/9/2016	USD 400,000	1.88%	3/9/2021
3/17/2016	USD 150,000	1.88%	3/9/2021

Maturities

Issue date	Face value	Coupon	Maturity
1/28/2011	AUD 175,000	5.50%	1/28/2016
3/3/2011	AUD 100,000	5.50%	1/28/2016
2/8/2011	NOK 1,000,000	3.38%	2/8/2016

(22) Transactions with Related Parties

Compensation of Key Company Management Personnel

Key Company management personnel comprise five high-ranking officers in each of the following subsidiaries: Nestlé USA, Inc., Nestlé Purina PetCare Company, and Gerber Products Company. These officers hold the positions of Chief Executive Officer, Chief Financial Officer, Head of Human Resources, General Counsel, and Head of Sales or Sales/Marketing. The Chief Executive Officer and the Chief Financial Officer of Nestlé USA, Inc. are directors of NHI. There are no non-executive directors.

The compensation paid or payable to key Company management for employee services is shown below:

		2015	2014
Salaries and other short-term employee benefits	$	18,749	20,495
Share-based payments		5,822	4,638
Post-employment benefits		1,080	1,502
Total compensation	**$**	**25,651**	**26,635**

(Dollars in thousands)

Loans with Related Parties

		2015	2014
Loans from Nestlé S.A.:			
At January 1	$	1,600,083	1,850,083
Loan repayments		—	(250,000)
At December 31	**$**	**1,600,083**	**1,600,083**
Loans to NIMCO US, Inc. (Parent):			
At January 1		916,990	568,277
Loans granted during year		1,518,282	348,713
At December 31	**$**	**2,435,272**	**916,990**
Loans from affiliates:			
At January 1	$	320,553	346,673
Loans received during year		20,612	3,958
Loan repayments		(317,034)	(30,078)
At December 31	**$**	**24,131**	**320,553**
Loans to affiliates:			
At January 1	$	1,324,607	906,105
Loans granted during year		273,043	519,197
Loan repayments		(45,496)	(100,695)
At December 31	**$**	**1,552,154**	**1,324,607**

The above loans with related parties are in the trade and other receivables, trade and other payables, and current and non-current financial liabilities balances of the consolidated balance sheet.