Good Food, Good Life

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

Annual Financial Report

Management Report

Responsibility Statement

Consolidated Financial Statements

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

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NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

December 31, 2017 and 2016

Management Report

Nestlé Holdings, Inc. (“NHI”) (hereinafter, together with its subsidiaries, referred to as the “Company”) incorporated in the State of Delaware, United States, 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., The Proactiv Company, LLC, and NSH Service, Inc. The Company engages primarily in the manufacture and sale of food products, pet care products, beverage products and juvenile life insurance. These businesses derive revenue across the United States.

Key Figures

		2017	2016	Change
		(Dollars in millions)		
Sales	$	21,975.4	22,069.2	(0.4)%
Cost of goods sold		(11,988.1)	(11,963.9)	0.2%
as a percentage of sales		(54.6)%	(54.2)%	
Trading operating profit		3,005.2	3,034.8	(1.0)%
as a percentage of sales		13.7%	13.8%	
Net financial expenses		(174.4)	(211.9)	(17.7)%
Income tax expense		(148.5)	(1,045.9)	(85.8)%
Net income		1,762.7	1,784.0	(1.2)%
as a percentage of sales		8.0%	8.1%	
Operating cash flows		2,920.6	3,424.9	(14.7)%
as a percentage of sales		13.3%	15.5%	
Capital expenditures		807.2	688.3	17.3%
as a percentage of sales		3.7%	3.1%	

Overview

Weak consumer demand persisted throughout the year, resulting in stagnant food and beverage category growth. As a result, the Company’s overall sales growth decreased slightly. The Company is actively involved in portfolio management; noted by product expansions, acquisitions during 2017, and divestiture activities planned for 2018. The Company is committed to continued execution of cost reduction initiatives, improved operational efficiencies, and further investment in its brands.

Sales

For the years ended December 31, 2017 and 2016, consolidated sales totaled $22.0 and $22.1 billion, respectively. The main factors per segment are as follows:

- **Nestlé USA Brands** sales were $9.8 and $9.9 billion for the years ended December 31, 2017 and 2016, respectively. Excluding the confectionery business, growth was flat, reflecting soft consumer demand and challenging category dynamics. The coffee creamer category generated growth, offset by declines in the confectionery and ice cream categories. Some prominent brands in this segment include *Coffee Mate*, *Nescafé, Nesquik, Stouffer's, DiGiorno, Lean Cuisine, Hot Pockets, Nestlé Crunch, Butterfinger, Nestlé Toll House, Dreyer's,* and *Edy's*.

- **Nestlé Purina PetCare** sales were $7.7 billion for the years ended December 31, 2017 and 2016. There was growth in the PetCare segment during 2017. Some notable brands in this segment include *Beneful*, *Alpo, Purina ONE, Dog Chow, Pro Plan, Beyond, Fancy Feast, Friskies, Cat Chow,* and *Tidys Cats*.

- **Nutrition** sales were $2.0 billion for the years ended December 31, 2017 and 2016. Sales growth was subdued with slightly negative growth in the context of ongoing weak category dynamics. The comprehensive re-launch of *Gerber's* baby food range is in progress, including new organic and natural lines. A notable brand in this segment is *Gerber*.

- **Other** businesses sales were $2.5 billion for the years ended December 31, 2017 and 2016.

Profitability

Trading operating profit was $3.0 billion for the years ended December 31, 2017 and 2016, which equaled approximately 13.7% and 13.8% of sales, respectively. The decrease, as a percentage of sales, was due to higher net other trading expenses and costs of goods sold, partially offset by the decreases in marketing, general and administrative expenses.

Cost of goods sold was $12.0 billion for the years ended December 31, 2017 and 2016, which equaled 54.6% and 54.2% of sales, respectively. The increase, as a percentage of sales, was due to higher commodity costs and other variable expenses, partially offset by operational efficiency savings generated through the Nestlé Continuous Excellence cost savings program.

Distribution expenses were $2.0 billion for the years ended December 31, 2017 and 2016, which equaled 9.3% and 9.0% of sales, respectively. The increase, as a percentage of sales, was due to higher transportation and warehousing expenses.

Marketing, general and administrative expenses were $3.5 and $3.8 billion for the years ended December 31, 2017 and 2016, respectively. The decrease in expenses as a percentage of sales from 17.0% in 2016 to 16.1% in 2017 was primarily due to marketing efficiencies.

Net other trading expenses were $219.4 and $117.7 million for the years ended December 31, 2017 and 2016, respectively. The increase was primarily due to restructuring costs and onerous contracts, partially offset by an increase in the returns on company-owned life insurance.

Net Profit Margin – Other Items of Interest

Net financial expenses decreased by $37.5 million in 2017 primarily due to reductions in net financing cost of net debt.

The Company's income tax expense decreased by $897.5 million in 2017, primarily as a result of lower tax rates enacted by the United States Federal Government tax reform, referred to as the Tax Cuts and Jobs Act of 2017 "(The Act)", and adjustments to prior years' taxes. The 2017 tax reform, among other things, reduces the federal corporate income tax rate from 35% to 21%, effective January 1, 2018, resulting in a one-time net income tax benefit in 2017 primarily related to a reduction of the Company's net deferred tax liability.

Cash Flow

Operating cash flow decreased from $3.4 billion in 2016 to $2.9 billion in 2017. The change is primarily due to working capital development, which saw a slower rate of improvement in 2017 following the reduction in 2016.

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.

A top-down assessment is performed at the Nestlé Group level once a year 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 resulting in the aggregation of individual assessments by all Markets and Globally Managed Businesses of the Nestlé Group. These different risk mappings allow the Company to make sound decisions on the future operations of the Company.

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, half-yearly to the Audit Committee of Nestlé S.A., and reported annually to the Board of Directors of Nestlé S.A.

The factors identified below are considered the most relevant for the Company's business and performance.

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 to ensure high-quality products and prevention of health risks arising from handling, preparation and storage throughout the value chain.

The success of the Company depends on its ability to anticipate consumer preferences and to offer high-quality, competitive, relevant, and innovative products. The Company's Nutrition, Health and Wellness strategy aims to enhance people's lives at all stages through industry-leading research and development to drive innovation and the continuous improvement of the Company's portfolio.

Prolonged negative perceptions concerning health implications of processed food and beverages categories could lead to an increase in regulation of the industry and may also influence consumer preferences. The Company has long-term objectives in place to apply scientific and nutritional know-how to enhance nutrition, health and wellness, contributing to healthier eating, drinking and lifestyle habits, as well as improve accessibility of safe and affordable food.

Changing customer relationships and channel landscape may inhibit the Company's growth if the Company fails to maintain strong engagements or adapt to changing customer needs. The Company's strategy is to maintain and develop strong relationships with customers across the United States to help them win in their respective prioritized categories where the Company operates.

The Company is dependent on the sustainable supply of a number of raw and packaging materials. Longer-term changes in weather patterns; water shortages; shift in production patterns; economic and social inequality in supply chains, etc. could result in capacity constraints, as well as reputational damage. The Company has policies, processes, controls and regular monitoring in place to (if ever possible) anticipate such events and adequately mitigate against them.

The Company manages risks related to climate change and water resources.

The Company is subject to environmental regimes and has 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 reliant on the procurement of materials, manufacturing and supply of finished goods for all product categories. A major event impacting input prices, or in one of the Company's key plants, at a key supplier, contract manufacturer, co packer, and/or warehouse facility could potentially lead to a supply disruption. Active price risk management on key commodities, and business continuity plans are established and regularly maintained in order to mitigate against such events.

The investment choices of the Company evolve over time and may include investments in emerging technologies; new business models; creation of, or entry into, new categories. This may result in broader exposures for the Company, e.g. a more highly regulated environment for the healthcare segment, etc. The Company's investment choices are aligned with the Company's strategy and prioritized based on the potential to create value over the long-term.

The Company, as part of its strategy, undertakes business transformations such as large scale change management projects, mergers, and acquisitions. To ensure the realization of the anticipated benefits of them, these transformations receive executive sponsorship with aligned targets as well as appropriate levels of resources to support successful execution of them.

The ability to attract and retain skilled, talented employees is critical to achieving the Company's strategy. The Company's initiatives and processes aim to sustain a high-performance culture, supported by a total awards approach and people development that emphasizes diversity, innovation and growth.

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, as well as long-term initiatives to promote safe and healthy employee behaviors.

The Company depends on accurate, timely data along with increasing integration of digital solutions, services and models, both internal and external. Disruption impacting the reliability, security and privacy of the data, as well as the information technology infrastructure, is a threat. Contingency plans along with policies and controls are in place aiming to protect and ensure compliance on both infrastructure and data.

The Company's liquidities/liabilities (currency, interest rate, hedging, cost of capital, pension obligations/retirement benefits, banking/commercial credit, 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 with strong governance to actively manage exposures and long-term asset and liability outlook.

Security, political instability, legal and regulatory, fiscal, macroeconomic, foreign trade, labor, and/or infrastructure risks could potentially impact the Company's ability to do business. Major events caused by natural hazards (such as flood, drought, infectious disease, etc.) could also impact upon the Company's ability to operate. Any of these events could 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

The global business environment remained challenging in 2017 and continues to be challenging in 2018. The Company is well positioned with strong, high quality brands, which are valued by the consumer but any adverse developments in the United States economy could impact consumer demand. By continuing to leverage the Company's competitive advantages and benefits from the drive for continuous improvement the Company will deliver on growth opportunities. The Company is committed to supporting the Nestlé Group in achieving its financial objectives including sales growth between 2% and 4%, Underlying Trading operating margin improvement, and an increase in underlying earnings per share in constant currency and capital efficiency.

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

December 31, 2017 and 2016

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 28, 2018

KPMG LLP
Suite 1500
550 South Hope Street
Los Angeles, CA 90071-2629

Independent Auditors' Report

The Board of Directors
Nestlé Holdings, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Nestlé Holdings, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated income statements, consolidated statements of comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nestlé Holdings, Inc. and its subsidiaries as of December 31, 2017 and 2016, and their consolidated financial performance and their consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United States of America, together with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with these requirements, respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key audit matter	How the matter was addressed in our audit
Revenue recognition (Sales)	
Revenue from the sale of goods is recognized at the moment when the significant risks and rewards of ownership have been transferred to the buyer; and is measured net of pricing allowances, other trade discounts, and price	We tested the design, implementation, and operating effectiveness of certain controls over the IT environment in which ordering and billing and other relevant support systems reside, including change control procedures in place around systems that bill revenue streams.

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Key audit matter	How the matter was addressed in our audit
promotions to customers (collectively, trade spend). The estimation of trade spend accruals requires judgment due to the diverse range of contractual agreements and commercial terms with the Company's customers. There is a risk that revenue may be misstated because of fraud resulting from the pressure management may feel to achieve performance targets. Revenue is also an important element of management incentive schemes.	We tested the design, implementation, and operating effectiveness of certain controls over the revenue cycle and the completeness and accuracy of the calculation of trade spend. We agreed cash receipts to the customer invoice, and agreed related quantities of goods being delivered to the bill of lading on a sample basis. On a sample basis, we tested certain sales transactions recorded at either side of the balance sheet date to determine whether revenue was completely and accurately recognized in the correct period. We tested on a sample basis manual journal entries recorded to increase or decrease revenue with characteristics we consider as indicators of a heightened risk of fraud to determine the appropriateness of the accounting entry with reference to the business rationale, journal entry support, and corroborative evidence provided by the Company. We considered the accuracy of the Company's description of the accounting policy related to revenue, and whether revenue is adequately disclosed throughout the consolidated financial statements.
Carrying value of goodwill and indefinite life intangible assets	
The Company has goodwill of $16,167 million and indefinite life intangible assets of $188 million as of December 31, 2017 which are required to be tested for impairment at least on an annual basis. The recoverability of these assets is dependent on achieving sufficient level of future net cash flows. The Company applies judgment in allocating these assets to individual cash generating units (CGUs), as well as in assessing the future performance and prospects of each CGU and determining the appropriate discount rates.	We assessed the appropriateness of the CGUs identified (i.e., level at which impairment testing has been conducted). We evaluated the accuracy of impairment tests applied to significant amounts of goodwill, the appropriateness of the assumptions used, and the methodology used by the Company to prepare its cash flow forecasts. For a sample of CGUs, identified based on quantitative and qualitative factors, and including among others the Infant Nutrition CGU, we assessed the historical accuracy of the forecasts by comparing the forecasts used in the prior year model to the actual performance in the current year. We compared the forecasts for future years to the latest plans and forecasts approved by the Company. We then challenged the robustness of the key assumptions used to determine the recoverable amount of these assets, including forecast cash flows, long-term growth rates and the discount rate based on our understanding of the

Key audit matter	How the matter was addressed in our audit
	commercial prospects of the assets. In addition, we identified and analyzed changes in assumptions from prior periods and made an assessment of the consistency of assumptions. We also considered the appropriateness of disclosures in relation to impairment sensitivities and disclosures in relation to the impairment recognized for the Infant Nutrition CGU.
Income taxes	
The Company is regularly subject to tax challenges and audits by tax authorities, in particular the United States Internal Revenue Service, on various matters, including intragroup financing, pricing and royalty arrangements, different business models, and other transaction-related matters. Where the amount of tax liabilities or assets is uncertain, the Company recognizes provisions that reflect the Company's best estimate of the most likely outcome, based on the facts known at the balance sheet date.	We evaluated Company management's judgment of tax risks, estimates of tax exposures, and contingencies with involvement of our tax specialists. We used third-party opinions, past and current experience with the tax authorities in the respective jurisdiction, and our tax specialists' own expertise to test the appropriateness of significant assumptions made by the Company to conclude on a best estimate of the most likely outcome of each uncertain tax position. We assessed the Company's analysis in conjunction with the approach elected to account for income tax uncertainties resulting from intragroup financing, pricing and royalty arrangements, different business models, and other transaction-related matters. We evaluated the appropriateness of the related presentation and disclosures of income taxes in the consolidated financial statements.
Carrying value of alternative investments (Post-employment Benefits)	
The Company provides post-employment benefits to employees some of which are defined benefit obligations for the Company. Plan assets are held separately from those of the Company in independently administered funds. 28% of the plan assets are alternative investments (for example, hedge funds, private equities, and real estate funds). Valuation of these alternative investments is complex and requires significant judgment by the Company.	We involved our valuation specialists in assessing the risk profile of the Company's population of alternative investments. In accordance with this risk profile we performed audit procedures, on a sample basis over the valuation of investments by comparing the Company's valuation to information provided directly to us via confirmations by fund managers and the custodian of the plan assets. For this sample of investments, we also obtained executed fund agreements and amendments and the most recent audited financial statements to identify additional information which would affect the value of the investments, including back testing and benchmarking. We evaluated the appropriateness of the related presentation and disclosures of the carrying value of

Key audit matter	How the matter was addressed in our audit
	alternative investments in the consolidated financial statements.

Other Information

Management is responsible for the other information in the annual financial report. The other information comprises the information included in the management report, but does not include the consolidated financial statements and our auditors' report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS; 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's consolidated financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with GAAS and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these *consolidated* financial statements.

As part of an audit in accordance with GAAS and ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Stuart McMullen.

Los Angeles, California
March 28, 2018

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

Consolidated Balance Sheet

December 31, 2017 and 2016

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

Assets	**Note(s)**		**2017**	**2016**
Current assets:				
Cash and cash equivalents	11	$	45,903	430,712
Short-term investments			54,601	42,475
Trade and other receivables, net	3/11		12,095,341	8,330,288
Inventories, net	4		1,674,582	1,591,315
Derivative assets	5/11		123,258	92,074
Assets held for sale	13		390,016	—
Prepayments			79,766	85,843
Total current assets			**14,463,467**	**10,572,707**
Non-current assets:				
Property, plant and equipment, net	6		5,334,907	5,329,648
Employee benefits assets	7		238,574	178,183
Investments in joint ventures and associated companies	8		50,066	8,621
Deferred tax assets	9		570,802	918,928
Financial assets			4,698,666	4,226,938
Goodwill	10		16,167,268	17,097,741
Intangible assets, net	10		1,348,836	1,188,159
Total non-current assets			**28,409,119**	**28,948,218**
Total assets		**$**	**42,872,586**	**39,520,925**
Liabilities and Equity				
Current liabilities:				
Trade and other payables	11	$	2,058,669	1,837,626
Financial liabilities	11		6,003,430	6,009,843
Provisions			202,029	115,012
Derivative liabilities	5/11		349,162	873,081
Current income tax liabilities			25,245	83,628
Accruals	14		1,583,260	1,538,798
Total current liabilities			**10,221,795**	**10,457,988**
Non-current liabilities:				
Financial liabilities	11		8,756,665	6,254,350
Employee benefits liabilities	7		1,805,925	1,785,210
Deferred tax liabilities	9		1,593,303	2,322,198
Provisions			112,248	98,640
Other accrued liabilities			2,304,969	2,223,484
Total non-current liabilities			**14,573,110**	**12,683,882**
Total liabilities			**24,794,905**	**23,141,870**
Equity:				
Capital stock, $100 par value. Authorized, issued, and outstanding, 1,000 shares			100	100
Additional paid-in capital			5,624,297	5,624,297
Other equity reserves			(1,074,886)	(1,010,767)
Accumulated earnings			13,528,170	11,765,425
Total equity			**18,077,681**	**16,379,055**
Total liabilities and equity		**$**	**42,872,586**	**39,520,925**

See accompanying notes to consolidated financial statements.

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

Consolidated Income Statement

Years ended December 31, 2017 and 2016

(Dollars in thousands)

	Note		2017	2016
Sales	2	$	21,975,415	22,069,217
Cost of goods sold			(11,988,149)	(11,963,856)
Distribution expenses			(2,035,228)	(1,984,555)
Marketing, general and administrative expenses			(3,531,336)	(3,753,965)
Royalties to affiliated company			(1,196,124)	(1,214,361)
Net other trading expenses	17		(219,398)	(117,683)
Trading operating profit			**3,005,180**	**3,034,797**
Net other operating expenses	17		(921,122)	(9,634)
Operating profit			**2,084,058**	**3,025,163**
Net financial expenses	16		(174,437)	(211,922)
Share of results from joint ventures and associated companies			1,618	3,157
Income from continuing operations before income taxes			**1,911,239**	**2,816,398**
Income tax expense	18		(148,494)	(1,045,947)
Income from continuing operations			**1,762,745**	**1,770,451**
Income from discontinued operations, net of taxes			—	13,553
Net income		**$**	**1,762,745**	**1,784,004**

See accompanying notes to consolidated financial statements.

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

Consolidated Statement of Comprehensive Income

Years ended December 31, 2017 and 2016

(Dollars in thousands)

	Note		2017	2016
Net income		**$**	**1,762,745**	**1,784,004**
Other comprehensive income (loss):				
Fair value adjustments on available-for-sale financial instruments:				
Recognized in fair value reserve *			135,215	77,227
Reclassified from fair value reserve to income statement *			(65,323)	(73,243)
Fair value adjustments on cash flow hedges:				
Recognized in hedging reserve *			4,767	39,111
Reclassified from hedging reserve *			15,166	49,965
Income taxes on fair value adjustments on available-for-sale financial instruments and cash flow hedges	18		(26,679)	(34,022)
Items that are or may be reclassified subsequently to the income statement			**63,146**	**59,038**
Remeasurement of defined benefit plans	7		111,798	183,626
Income taxes on remeasurement of defined benefit plans	18		(239,063)	(79,465)
Items that will never be reclassified to the income statement			**(127,265)**	**104,161**
Other comprehensive (loss) income			**(64,119)**	**163,199**
Total comprehensive income		**$**	**1,698,626**	**1,947,203**

* 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, 2017 and 2016

(Dollars in thousands)

		Capital stock	Additional paid-in capital	Other equity reserves	Accumulated earnings	Total
Equity as at December 31, 2015	**$**	**100**	**5,624,297**	**(1,173,966)**	**9,981,421**	**14,431,852**
Net income		—	—	—	1,784,004	1,784,004
Other comprehensive income for the year		—	—	163,199	—	163,199
Total comprehensive income for the year		—	—	163,199	1,784,004	1,947,203
Equity as at December 31, 2016	**$**	**100**	**5,624,297**	**(1,010,767)**	**11,765,425**	**16,379,055**
Net income		—	—	—	1,762,745	1,762,745
Other comprehensive loss for the year		—	—	(64,119)	—	(64,119)
Total comprehensive (loss) income for the year		—	—	(64,119)	1,762,745	1,698,626
Equity as at December 31, 2017	**$**	**100**	**5,624,297**	**(1,074,886)**	**13,528,170**	**18,077,681**

See accompanying notes to consolidated financial statements.

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES
Consolidated Statement of Cash Flows
Years ended December 31, 2017 and 2016
(Dollars in thousands)

	Note(s)	2017	2016
Cash flows from operating activities:			
Net income		$ **1,762,745**	**1,784,004**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property, plant, and equipment	6	579,904	577,680
Loss on sales of property, plant and equipment		10,979	16,077
Impairment of property, plant and equipment	6/17	14,118	12,203
Amortization of intangible assets	10	109,387	95,478
Impairment of goodwill	10/17	935,341	—
Loss on disposal of assets held for sale and other		8,015	2,427
Increase in cash surrender value of Company-owned life insurance policies		(75,307)	(43,809)
Increase in provisions		100,625	86,448
(Decrease)/increase in deferred income taxes	18	(387,434)	205,976
Taxes on other comprehensive income	18	(265,742)	(113,487)
Change in working capital (excluding effects from acquisitions and divestitures):			
Trade and other receivables, net		(658,893)	(6,081)
Inventories, net		(141,653)	117,234
Prepayments and other current assets		938	13,757
Trade and other payables and liabilities		940,548	736,398
Decrease in working capital		140,940	861,308
Share of results from investments in associated companies		(1,618)	(4,271)
Dividends from associated companies		173	316
Non-monetary movements on financial assets and liabilities		(99,913)	(58,683)
Movements of trading derivatives		3,252	1,354
Movements of operating derivatives		6,620	2,498
Movements of other employee benefits, net		78,518	(578)
Total adjustments		**1,157,858**	**1,640,937**
Net cash provided by operating activities		**2,920,603**	**3,424,941**
Cash flows from investing activities:			
Expenditure on property, plant and equipment		(805,840)	(646,380)
Proceeds from sale of property, plant and equipment		14,703	4,952
Expenditure on business acquisitions	20	(167,176)	—
(Expenditures)/proceeds from business divestitures		(8,015)	5,760
Sale of assets held for sale		—	28,903
Expenditure on intangible assets		(199,390)	(184,673)
Investments in joint ventures and associated companies		(40,000)	—
Proceeds from sale of intangible assets		—	10,000
Investments in non-current financial assets		(223,137)	(187,231)
Other movements		643	402
Net cash used in investing activities		**(1,428,212)**	**(968,267)**
Cash flows from financing activities:			
Net borrowings of commercial paper		888,234	2,755
Net borrowings of line of credit facilities		3,900	4,286
Bonds issued		4,100,765	1,286,194
Bonds repaid		(1,872,822)	(509,986)
Loans to/from affiliates issued, net		31,669	53,084
Loans to parent/Group issued, net		(4,690,140)	(2,908,469)
Cash movement on derivatives hedging bond principal, net		(317,359)	(137,060)
Other changes in financial liabilities		(21,447)	43,030
Net cash used in financing activities		**(1,877,200)**	**(2,166,166)**
Net (decrease) increase in cash and cash equivalents		**(384,809)**	**290,508**
Cash and cash equivalents at beginning of the year		430,712	140,204
Cash and cash equivalents at end of the year		$ **45,903**	**430,712**
Supplemental information:			
Cash paid for:			
Interest		$ 87,039	121,909
Taxes		931,477	845,506

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., The Proactiv Company, LLC, and NSH Service, 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 engages primarily in the manufacture and sale of food products, pet care products, beverage products and juvenile life insurance. These businesses derive revenue across the United States.

The consolidated financial statements were authorized for issue by NHI's directors on March 28, 2018.

(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 consolidated 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
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.

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,

(Continued)

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

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

(b) Changes in Accounting Standards

A number of standards have been modified on miscellaneous points with effect from January 1, 2017. Such changes include Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12), Disclosure Initiative (Amendments to IAS 7), and Annual Improvements 2014-2016 (specifically the amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of the Standard). None of these amendments had a material effect on the Company's consolidated financial statements.

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

The following new accounting standards, interpretations and amendments to existing standards have been published and are mandatory for the accounting period beginning on January 1, 2018 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. It will be mandatory for the accounting period beginning on January 1, 2018.

The Company has performed a review of the business model corresponding to the different portfolios of financial assets and of the characteristics of these financial assets. Consequently, debt instruments whose cash flows are solely payments of principal and interest ("SPPI") will be designated either at the amortised cost or at fair value through other comprehensive income depending on the objectives of the business model. This election will generate a reclassification between equity components, with no new impact on the total Company's equity.

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

Furthermore, the Company has updated the definitions of its hedging relationships in line with the risk management activities and policies, with a specific attention to the identification of the components in the pricing of the commodities.

Changes in accounting policies resulting from IFRS 9 will be applied retrospectively as at January 1, 2018, but with no restatement of comparative information for prior years. Consequently, the Company will recognize any difference between the carrying amount of financial instruments under IAS 39 and the carrying amount under IFRS 9 in opening accumulated retained earnings (or other equity components) of the accounting period including the date of initial application.

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

IFRS 15 – Revenue from Contract with Customers

This standard combines, enhances and replaces specific guidance on recognizing revenue with a single standard. It defines a new five-step model to recognize revenue from customer contracts. The Company has undertaken a review of the main types of commercial arrangements used with customers under this model and has tentatively concluded that the application of IFRS 15 will not have a material impact on the consolidated results or financial position. The effects identified so far are as follows:

- a proportion of sales is expected to be recognized on average 1-2 days later under the new standard, but the impact at the end of the period is compensated by a similar effect at the start of the year leading to an immaterial impact at the Company level;
- payments to customers currently treated as distribution costs will be reclassified as deductions from sales under the new standard.

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

IFRS 16 – Leases

This standard will replace IAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The main effect on the 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 property, plant and equipment and total financial debt. All things being equal, under the new standard trading operating profit will increase due to the replacement of the operating lease expense with amortization of lease assets. This increase would be partially or entirely offset by higher interest expense resulting in an insignificant impact on net profit. The Company is currently finalizing the precise impact of this new standard.

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

Improvements and Other Amendments to IFRS/IAS

A number of standards have been modified on miscellaneous points. These include Measuring an Associate or Joint Venture at Fair Value and Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28 Investments in Associates and Joint Ventures), Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2), Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4), and Foreign Currency Transactions and Advance Consideration (IFRIC Interpretation 22), as well as the Annual improvements to IFRS Standards 2015-2017 Cycle. None of these amendments are expected to have a material effect on the Company's consolidated financial statements.

The IASB issued IFRS 17 (Insurance Contracts) in May, 2017 which will replace IFRS 4 on accounting for insurance contracts and will establish principles for the recognition, measurement, presentation, and disclosure of insurance contracts issued. IFRS 17 applies to annual reporting periods on or after January 1, 2021. The Company is assessing the impact of implementing the new standard.

In June 2017, the IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. The current assessment of the Company is that the measurement of taxes will not be impacted. This standard is effective for periods beginning on or after January, 1, 2019 but the Company will early adopt beginning January 1, 2018 with 2017 comparatives restated accordingly. The uncertain tax liabilities will be reclassified on the face of the balance sheet to current and deferred taxes as deemed appropriate.

(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 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 Regionally Managed Business (RMB), 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.

Segment results (Trading operating profit) represent the contribution of the different segments to central overheads and the trading operating profit of the Company. Specific corporate expenses are allocated to the corresponding segments. In addition to the Trading operating profit, Underlying Trading operating profit is shown on a voluntary basis because it is one of the key metrics used by the Company to monitor the Company on segment performance.

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, goodwill and intangible assets by segment on a voluntary basis.

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

Goodwill and intangible assets are not included in invested capital since the amounts 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 the related impairment expenses are provided.

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

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

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 comprise mainly corporate expenses and related assets.

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

(Dollars in thousands)

Revenue and Results

2017	Brands [a]	PetCare	Nutrition [a]	Other [a]	Total
Sales	$ 9,830,286	7,668,408	1,988,972	2,487,749	21,975,415
Underlying Trading operating profit [b]	1,291,577	1,480,403	211,570	243,222	3,226,772
Trading operating profit [c]	1,185,561	1,447,264	203,875	170,174	3,006,874
Net other trading expenses [d]	(106,016)	(33,522)	(7,695)	(73,048)	(220,281)
Of which impairment of property, plant and equipment	*(10,430)*	*(5,426)*	*1,500*	*238*	*(14,118)*
Of which restructuring costs	*(56,184)*	*(28,515)*	*(4,827)*	*(59,710)*	*(149,236)*
Depreciation and amortization	(261,410)	(213,339)	(112,752)	(101,790)	(689,291)

2016	Brands [a]	PetCare	Nutrition [a]	Other [a]	Total
Sales	$ 9,884,845	7,654,729	2,002,313	2,527,330	22,069,217
Underlying Trading operating profit [b]	1,168,340	1,466,050	254,728	245,866	3,134,984
Trading operating profit [c]	1,079,644	1,464,440	238,976	233,451	3,016,511
Net other trading expenses [d]	(88,696)	(1,609)	(15,752)	(12,416)	(118,473)
Of which impairment of property, plant and equipment	*(5,121)*	-	*(3,791)*	*(3,291)*	*(12,203)*
Of which restructuring costs	*(84,795)*	-	*(3,617)*	*(8,213)*	*(96,625)*
Depreciation and amortization	(277,077)	(192,485)	(105,267)	(98,329)	(673,158)

[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] Trading operating profit before Net other trading expenses.

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

[d] Included in Trading operating profit.

(Dollars in thousands)

Invested Capital and Other Information

2017	**Brands [a]**	**PetCare**	**Nutrition [a]**	**Other [a]**	**Total**
Invested capital	$ 2,260,153	2,348,368	2,003,206	670,810	7,282,537
Goodwill and intangible assets	4,936,325	8,746,016	3,316,840	516,923	17,516,104
Impairment of goodwill	-	-	*(935,341)*	-	*(935,341)*
Capital additions	385,789	386,095	182,432	137,679	1,091,995
Of which capital expenditure	*281,605*	*373,077*	*38,193*	*112,965*	*805,840*

2016	**Brands [a]**	**PetCare**	**Nutrition [a]**	**Other [a]**	**Total**
Invested capital	$ 2,258,541	2,126,233	1,920,341	649,966	6,955,081
Goodwill and intangible assets	4,861,222	8,749,726	4,171,992	502,960	18,285,900
Impairment of goodwill	-	-	-	-	-
Capital additions	279,471	304,337	182,577	118,414	884,799
Of which capital expenditure	*263,835*	*277,330*	*41,263*	*105,830*	*688,258*

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

	2017	**2016**
Underlying Trading operating profit[b]	$ 3,226,772	3,134,984
Net other trading expenses	(220,281)	(118,473)
Unallocated items	(1,311)	18,286
Trading operating profit	**3,005,180**	**3,034,797**
Net other operating expenses	(921,122)	(9,634)
Operating profit	**2,084,058**	**3,025,163**
Net financial expenses	(174,437)	(211,922)
Share of results from associated companies	1,618	3,157
Income from continuing operations before income taxes	**$ 1,911,239**	**2,816,398**

[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] Trading operating profit before Net other trading expenses.

(Dollars in thousands)

Reconciliation from invested capital to total assets is as follows:

		2017	2016
Invested capital	$	7,282,537	6,955,081
Liabilities included in invested capital		5,689,825	5,287,012
Subtotal		**12,972,362**	**12,242,093**
Intangible assets and goodwill		17,516,104	18,285,900
Other assets		12,384,120	8,992,932
Total assets	**$**	**42,872,586**	**39,520,925**

Customers

The Company has one customer, with sales in all segments of the business, amounting to 25% of the Company's sales for the years ended December 31, 2017 and 2016, respectively.

(3) Trade and Other Receivables, net

		2017	2016
By type:			
Trade, less allowances of $6,494 and $5,516, respectively	$	1,646,966	1,675,047
Due from Nestlé S.A. controlled companies		10,235,434	6,441,971
Due from associated companies		2,600	1,964
Other		210,341	211,306
Trade and other receivables, net	**$**	**12,095,341**	**8,330,288**

The Company's largest trade customer represents 3% and 5% of trade and other receivables, net, at December 31, 2017 and 2016, 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 (except if due to commercial disputes, for example overpricing or promotions). These estimates are based on the ageing of customers' balances, specific credit circumstances, and the Company's historical bad receivables experience.

(Dollars in thousands)

		2017	2016
By payment status:			
Not past due	$	12,009,366	8,258,503
Past due 1-30 days		74,366	61,820
Past due 31-60 days		9,141	5,518
Past due 61-90 days		3,626	2,405
Past due 91-120 days		1,678	1,345
Past due more than 120 days		3,658	6,213
Allowance for doubtful receivables		(6,494)	(5,516)
Trade and other receivables, net	**$**	**12,095,341**	**8,330,288**

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 and other 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 cash flow hedges for the purchase of raw materials and finished goods.

		2017	2016
Raw materials and work in progress	$	492,354	498,672
Finished goods		1,209,102	1,126,453
Allowance for write-down to net realizable value		(26,874)	(33,810)
Inventories, net	**$**	**1,674,582**	**1,591,315**

(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.

Hedge Accounting

The Company designates and documents the use of certain derivatives and other financial assets or financial liabilities as hedging instruments against changes in fair values of recognized assets and liabilities (fair value hedges) and highly probable forecast transactions (cash flow hedges). The effectiveness of such hedges is assessed at inception and verified 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.

(Continued)

(Dollars in thousands)

	2017		
	Fair value assets	**Fair value liabilities**	**Contractual or notional amounts**
Fair value hedges:			
Interest rate and currency swaps	$ 59,927	136,089	1,057,539
Cash flow hedges:			
Currency forwards	1,097	1,143	92,858
Interest rate swaps	—	46,833	1,400,000
Interest rate and currency swaps	55,575	135,332	3,334,693
Commodity futures and options	5,336	28,647	565,229
Undesignated derivatives:			
Currency forwards	229	—	229
Commodity futures and options	1,094	1,118	60,218
Total derivatives	**123,258**	**349,162**	**6,510,766**
Conditional offsets (*)			
Derivative assets and liabilities	(111,070)	(111,070)	
Balance after conditional offsets	**$ 12,188**	**238,092**	

	2016		
	Fair value assets	**Fair value liabilities**	**Contractual or notional amounts**
Fair value hedges:			
Interest rate and currency swaps	$ 56,790	291,924	1,295,140
Cash flow hedges:			
Currency forwards	117	2,970	51,073
Interest rate swaps	—	79,645	1,400,000
Interest rate and currency swaps	—	473,912	1,459,048
Commodity futures and options	34,279	24,630	753,422
Undesignated derivatives:			
Currency forwards	—	—	—
Commodity futures and options	888	—	—
Total derivatives	**92,074**	**873,081**	**4,958,683**
Conditional offsets (*)			
Derivative assets and liabilities	(14,357)	(14,357)	
Balance after conditional offsets	**$ 77,717**	**858,724**	

(*) 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:

		2017	2016
Hedged items	$	(84,363)	120,857
Hedging instruments		81,799	(117,936)
Net (loss) gain	**$**	**(2,564)**	**2,921**

The ineffective portion of gains/(losses) of cash flow hedges recorded during the years ended December 31, 2017 and 2016 in net financial expenses in the consolidated income statement was $459 and $1,852, 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, if there is reasonable assurance that the terms of the grant will be met.

(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, 2016	$	**3,339,529**	**5,795,123**	**729,190**	**279,757**	**459,142**	**10,602,741**
Capital expenditure (*)		330,819	251,786	67,285	1,985	36,383	688,258
Disposals		(6,011)	(84,223)	(32,378)	(12,529)	(59,181)	(194,322)
Reclassifications/other		(109,506)	75,307	30,797	1,450	(428)	(2,380)
Business divestitures		—	—	(2,744)	—	—	(2,744)
At December 31, 2016		**3,554,831**	**6,037,993**	**792,150**	**270,663**	**435,916**	**11,091,553**
Accumulated Depreciation and Impairments:							
At January 1, 2016		**(1,070,940)**	**(3,280,906)**	**(510,857)**	**(180,164)**	**(302,755)**	**(5,345,622)**
Depreciation		(99,598)	(328,424)	(73,461)	(24,244)	(51,953)	(577,680)
Disposals		4,612	71,916	28,416	10,967	57,382	173,293
Reclassifications/other		(1,174)	3,071	(8,037)	317	5,823	—
Impairment of assets (note 17)		—	(8,547)	(3,655)	—	(1)	(12,203)
Business divestitures		—	—	307	—	—	307
At December 31, 2016		**(1,167,100)**	**(3,542,890)**	**(567,287)**	**(193,124)**	**(291,504)**	**(5,761,905)**
Net at December 31, 2016	$	**2,387,731**	**2,495,103**	**224,863**	**77,539**	**144,412**	**5,329,648**
Gross value:							
At January 1, 2017	$	**3,554,831**	**6,037,993**	**792,150**	**270,663**	**435,916**	**11,091,553**
Capital expenditure (*)		368,744	319,272	72,591	8,522	38,102	807,231
Disposals		(15,490)	(88,009)	(42,442)	(42,155)	(27,174)	(215,270)
Reclassifications/other		(124,143)	80,538	45,451	(1,270)	3,935	4,511
Reclassified as held for sale		(146,325)	(438,655)	(25,330)	(16,375)	(8,114)	(634,799)
Business acquisitions		9,311	225	567	119	138	10,360
Business divestitures		—	—	—	—	—	—
At December 31, 2017		**3,646,928**	**5,911,364**	**842,987**	**219,504**	**442,803**	**11,063,586**
Accumulated Depreciation and Impairments:							
At January 1, 2017		**(1,167,100)**	**(3,542,890)**	**(567,287)**	**(193,124)**	**(291,504)**	**(5,761,905)**
Depreciation		(101,459)	(329,391)	(73,173)	(21,397)	(54,484)	(579,904)
Disposals		11,616	80,377	40,397	31,891	26,542	190,823
Reclassifications/other		6,419	13,139	(23,363)	5	6,453	2,653
Impairment of assets (note 17)		(5,879)	(2,848)	35	(5,426)	—	(14,118)
Reclassified as held for sale		71,333	327,980	18,064	10,517	5,878	433,772
Business acquisitions		—	—	—	—	—	—
Business divestitures		—	—	—	—	—	—
At December 31, 2017		**(1,185,070)**	**(3,453,633)**	**(605,327)**	**(177,534)**	**(307,115)**	**(5,728,679)**
Net at December 31, 2017	$	**2,461,858**	**2,457,731**	**237,660**	**41,970**	**135,688**	**5,334,907**

(*) Including borrowing costs.

Additions to property, plant and equipment include $913 and $2,603 of finance leases in 2017 and 2016, respectively. The net book value of assets held under finance leases included in property, plant and equipment at December 31, 2017 and 2016 was $33,006 and $41,629, respectively.

At December 31, 2017 and 2016, property, plant and equipment included $83,447 and $62,933, respectively, of assets under construction. There were $85,392 and $94,617 in commitments for future capital expenditures as of December 31, 2017 and 2016, respectively.

Impairment of Property, Plant and Equipment

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

In assessing value in use, the estimated future cash flows are discounted to their present value, based on the time value of money and 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 2017 impairments were attributable to the sourcing and process changes for some confections and ice cream production which are part of the Brands segment and the head office move from Glendale, California to Arlington, Virginia.

(7) Employee Benefits

Employee Remuneration

The Company’s salaries of $2,837 million (2016: $2,907 million) and welfare expenses of $877 million (2016: $871 million) represent a total of $3,714 million (2016: $3,778 million). In addition, certain Company employees are eligible for long-term incentives in the form of equity compensation plans, which cost amounts to $69 million (2016: $45 million). Employee remuneration is allocated to the appropriate headings of expenses by function.

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 and will never be reclassified into profit 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. The related past service costs of $4,300 have been recognized in the income statement primarily under cost of goods sold.

(Dollars in thousands)

Asset-liability Management and Funding Arrangement

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

The overall investment policy and strategy for the 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.

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

	2017			2016		
	Defined benefit retirement plans	**Post-employment medical benefits**	**Total**	**Defined benefit retirement plans**	**Post-employment medical benefits**	**Total**
Present value of funded obligations	$ 4,196,745	—	4,196,745	3,955,842	—	3,955,842
Fair value of plan assets	(4,435,319)	—	(4,435,319)	(4,155,361)	—	(4,155,361)
Excess of assets over funded obligations	(238,574)	—	(238,574)	(199,519)	—	(199,519)
Present value of unfunded obligations	488,208	610,967	1,099,175	504,912	602,631	1,107,543
Unrecognized assets and minimum funding requirements	—	—	—	21,336	—	21,336
Net Defined Benefit Liabilities	$ **249,634**	**610,967**	**860,601**	**326,729**	**602,631**	**929,360**
Liabilities from cash-settled share-based transactions			$ 96,386			$ 62,744
Liabilities from non-current deferred compensation and other			610,364			614,923
Net Liabilities			$ **1,567,351**			$ **1,607,027**
Reflected in the consolidated balance sheet as follows:						
Employee benefit assets			$ (238,574)			$ (178,183)
Employee benefit liabilities			1,805,925			1,785,210
Net Liabilities			$ **1,567,351**			$ **1,607,027**

(Dollars in thousands)

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

		2017			2016		
		Defined benefit retirement plans	**Post-employment medical benefits**	**Total**	**Defined benefit retirement plans**	**Post-employment medical benefits**	**Total**
At January 1	$	4,460,754	602,631	5,063,385	4,447,674	589,528	5,037,202
of which funded defined benefit plans		*3,955,842*	—	*3,955,842*	*3,923,249*	—	*3,923,249*
of which unfunded defined benefit plans		*504,912*	*602,631*	*1,107,543*	*524,425*	*589,528*	*1,113,953*
Service cost		169,858	18,362	188,220	169,697	19,042	188,739
of which current service cost		*165,525*	*18,362*	*183,887*	*169,697*	*19,042*	*188,739*
of which past service cost		*4,333*	—	*4,333*	—	—	—
Interest expense		168,150	21,556	189,706	176,045	22,896	198,941
Actuarial (gains)/losses		275,875	(3,554)	272,321	(25,350)	1,939	(23,411)
Benefits paid on funded defined benefit plans		(320,608)	—	(320,608)	(263,611)	—	(263,611)
Benefits paid on unfunded defined benefit plans		(69,076)	(28,028)	(97,104)	(43,701)	(30,774)	(74,475)
At December 31	**$**	**4,684,953**	**610,967**	**5,295,920**	**4,460,754**	**602,631**	**5,063,385**
of which funded defined benefit plans	*$*	*4,196,745*	—	*4,196,745*	*3,955,842*	—	*3,955,842*
of which unfunded defined benefit plans		*488,208*	*610,967*	*1,099,175*	*504,912*	*602,631*	*1,107,543*

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

		2017			2016		
		Defined benefit retirement plans	**Post-employment medical benefits**	**Total**	**Defined benefit retirement plans**	**Post-employment medical benefits**	**Total**
At January 1	$	4,155,361	—	4,155,361	3,943,041	—	3,943,041
Interest income		162,120	—	162,120	164,072	—	164,072
Actual return on plan assets, excluding interest income		362,783	—	362,783	164,815	—	164,815
Employer contributions		144,739	—	144,739	190,745	—	190,745
Benefits paid on funded defined benefit plans		(389,684)	—	(389,684)	(307,312)	—	(307,312)
At December 31	**$**	**4,435,319**	**—**	**4,435,319**	**4,155,361**	**—**	**4,155,361**

(Continued)

(Dollars in thousands)

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

	2017	**2016**
December 31:		
Equities	16.54%	15.90%
Debts	55.27	53.66
of which government debts	*29.94*	*34.80*
of which corporate debts	*25.33*	*18.86*
Alternative investments	28.19	30.44
Total	100.00%	100.00%

Equity and government debts represent 46% and 51% of the plan assets in 2017 and 2016, respectively. Almost all of them are quoted in an active market. Corporate debts, real estate, hedge funds and private equities represent 54% and 49% of the plan assets in 2017 and 2016, respectively. Almost all of them are not quoted in an active market.

Expenses recognized in the consolidated income statement are as follows:

	2017			**2016**		
	Defined benefit retirement plans	**Post-employment medical benefits and other benefits**	**Total**	**Defined benefit retirement plans**	**Post-employment medical benefits and other benefits**	**Total**
Service cost	$ 163,216	17,658	180,874	162,874	18,300	181,174
Net Interest expense	8,433	20,889	29,322	14,375	22,202	36,577
Administration expenses	9,480	—	9,480	9,845	—	9,845
Defined benefit expenses	**181,129**	**38,547**	**219,676**	**187,094**	**40,502**	**227,596**
Defined contribution expenses			98,529			94,212
Total expenses			**318,205**			**321,808**

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

(Dollars in thousands)

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

	2017			2016		
	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	$ 362,783	—	362,783	164,815	—	164,815
Experience adjustments on plan liabilities	5,958	18,330	24,288	60,910	7,159	68,069
Change in demographic assumptions on plan liabilities	—	—	—	47,759	5,411	53,170
Change in financial assumptions on plan liabilities	(281,833)	(14,776)	(296,609)	(83,319)	(14,555)	(97,874)
Transfer from/(to) unrecognized assets and other	21,336	—	21,336	(4,554)	—	(4,554)
Remeasurement of defined benefit plans	**$ 108,244**	**3,554**	**111,798**	**185,611**	**(1,985)**	**183,626**

	2017	**2016**
Principal financial actuarial assumptions:		
Discount rates	3.50%	4.00%
Expected rates of salary increases	3.00	3.00
Medical cost trend rates	5.0% – 7.00%	5.0% – 7.25%

Life expectancy as reflected in the following table is based upon the RP-2014 mortality table for 2017 and 2016.

	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	**2017**	**2016**	**2017**	**2016**
RP-2014	20.9	20.9	23.0	22.9

(Continued)

(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.

		2017	2016
As reported	$	5,295,920	5,063,385
Discount rates			
Increase of 50 basis points		4,986,328	4,808,626
Decrease of 50 basis points		5,638,038	5,320,412
Expected rates of salary increases			
Increase of 50 basis points		5,339,183	5,102,010
Decrease of 50 basis points		5,253,250	5,025,273
Medical cost trend rates			
Increase of 50 basis points		5,295,943	5,063,406
Decrease of 50 basis points		5,284,252	5,051,474
Mortality assumption			
Setting forward the tables by 1 year		5,193,754	4,965,090
Setting back the tables by 1 year		5,385,452	5,148,603

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

Weighted average duration of Defined Benefit Obligations

At December 31, 2017, the weighted-average duration of the defined benefit obligation was 12.3 years.

(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's accounting policies. The carrying amount of goodwill arising from the acquisition of associates and joint ventures is included in the carrying amount of investments in associates and joint ventures.

In June 2017, the Company acquired a minority interest in Freshly, Inc., a leading provider of Direct to Consumer healthy prepared meals.

(Dollars in thousands)

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

	Ownership interest			Net book value	
	2017	**2016**		**2017**	**2016**
Freshly, Inc.	20%	—%	$	38,181	—
Williams Inland Distributors, LLC	45	45	$	4,529	4,368
Beverage Partners North America	50	50		7,356	4,253
Total investments in joint ventures and associated companies			**$**	**50,066**	**8,621**

(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 reporting 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:

		2017	**2016**
Employee benefits	$	401,777	674,701
Inventories, receivables, payables, accruals, and provisions		153,411	205,037
Financial instruments		2,367	22,941
Net operating losses		7,355	6,511
Others		5,892	9,738
Total deferred tax assets	**$**	**570,802**	**918,928**

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

		2017	**2016**
Tangible fixed assets	$	532,081	794,992
Goodwill and other intangible assets		880,139	1,248,842
Financial instruments		9,307	—
Others		171,776	278,364
Total deferred tax liabilities	**$**	**1,593,303**	**2,322,198**

At December 31, 2017 and 2016, 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 as a result of the accounting for 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 comprise mainly 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 intangibles assets over the estimated useful life or the related contractual period, generally 5 to 20 years or longer, depending on specific circumstances. Useful lives and residual values are review annually. Amortization of finite life intangible assets starts when they are available for use and is allocated to the appropriate headings of expenses by function in the income statement.

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

(Dollars in thousands)

		Goodwill	Total Intangible Assets
Gross Value:			
At January 1, 2016	$	20,929,686	2,262,791
of which indefinite useful life		—	*333,400*
Expenditure		—	184,873
Disposals		—	(258,409)
Acquisition of businesses [(a)]		11,868	83
At December 31, 2016		**20,941,554**	**2,189,338**
of which indefinite useful life		—	*121,500*
Accumulated Amortization and Impairments:			
At January 1, 2016		(3,843,813)	(952,010)
of which indefinite useful life		—	—
Amortization		—	(95,478)
Impairments		—	—
Disposals		—	46,309
At December 31, 2016		**(3,843,813)**	**(1,001,179)**
of which indefinite useful life		—	—
Net at December 31, 2016	$	**17,097,741**	**1,188,159**
of which indefinite useful life		—	*121,500*
Gross Value:			
At January 1, 2017	$	20,941,554	2,189,338
of which indefinite useful life		—	*121,500*
Expenditure		—	199,390
Disposals		—	(53,798)
Acquisition of businesses [(a)]		86,765	72,719
Reclassified as held for sale		(102,476)	(824)
At December 31, 2017		**20,925,843**	**2,406,825**
of which indefinite useful life		—	*188,202*
Accumulated Amortization and Impairments:			
At January 1, 2017		(3,843,813)	(1,001,179)
of which indefinite useful life		—	—
Amortization		—	(109,387)
Impairments		(935,341)	—
Disposals		—	51,916
Reclassified as held for sale		20,579	661
At December 31, 2017		**(4,758,575)**	**(1,057,989)**
of which indefinite useful life		—	—
Net at December 31, 2017	$	**16,167,268**	**1,348,836**
of which indefinite useful life [(b)]		—	*188,202*

[(a)] The valuation of the assets and liabilities of the acquired business, Merrick Pet Care Holdings Corporation, was in process at the end of 2015 and the values were determined provisionally. Upon final valuation in 2016, the goodwill balance was increased by $11,868 (Note 20).

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

(Continued)

Impairment of Goodwill and Intangible Assets

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

The annual impairment tests are performed at the same time each year and at the cash generating unit ("CGU") level. The 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 these CGU with their recoverable amount, based on their value in use, which corresponds to their future project 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 making sensitivity analyses. The discount rate reflects the current assessment of the time value of money and the risks specific to the CGU (essentially country risk). The business risk is included in the determination of the cash flows. Both the cash flows and the discount rates include inflation. An impairment loss in respect of goodwill is never subsequently reversed.

Impairment Charge

The 2017 impairment charge relates to the Infant Nutrition CGU, which is reported in the Nutrition segment.

The Infant Nutrition CGU is composed mainly of goodwill and intangible assets. These have arisen mainly from the acquisitions of Gerber Products Company and Gerber Life Insurance Company in 2007.

An annual impairment test for the Infant Nutrition CGU was conducted in the second half of the year. Growth has slowed in the life insurance business resulting in lower projected sales increases and reduced profitability forecasted in the impairment testing. The combination of these factors resulted in an overall downward revision of projected cash flows and a recoverable amount of the CGU lower than its carrying amount. Consequently, a goodwill impairment charge amounting to $935,341 ($2016: $0) has been recognized under the heading of Net other operating expenses in the consolidated income statement. The 2017 carrying amount of the Infant Nutrition CGU now amounts to $3,801,700, which includes $2,263,377 of goodwill and $121,500 of intangible assets with indefinite useful life.

The recoverable amount of the CGU has been determined based upon a value-in-use calculation. A pre-tax discount rate of 8.2% (2016: 7.1%) was used in this calculation. The increase in discount rate is primarily due to the increase in the risk free rate. There was no impairment of the carrying amounts of the other assets of the CGU.

(Continued)

(Dollars in thousands)

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.

	2017		
	Goodwill	**Intangible assets with indefinite useful life**	**Total**
PetCare	$ 8,813,712	—	8,813,712
Infant Nutrition (*)	2,263,377	121,500	2,384,877
DSD for Frozen Pizza and Ice Cream	2,694,169	—	2,694,169
Subtotal	**13,771,258**	**121,500**	**13,892,758**
as % of total carrying amount	*85%*	*65%*	*85%*
Other CGU's	2,396,010	66,702	2,462,712
Total	**$ 16,167,268**	**188,202**	**16,355,470**

	2016		
	Goodwill	**Intangible assets with indefinite useful life**	**Total**
PetCare	8,813,712	—	8,813,712
Infant Nutrition	3,198,718	121,500	3,320,218
DSD for Frozen Pizza and Ice Cream	2,694,169	—	2,694,169
Subtotal	**14,706,599**	**121,500**	**14,828,099**
as % of total carrying amount	*86%*	*100%*	*86%*
Other CGU's	2,391,142	—	2,391,142
Total	**17,097,741**	**121,500**	**17,219,241**

(*) After impairment.

For each CGU, the recoverable amount is higher than or equivalent to its carrying amount. The recoverable amount has been determined based upon a value-in-use calculation. Cash flows have been projected over the

 (Continued)

(Dollars in thousands)

next 5 years. They have been extrapolated using a steady or declining terminal growth rate and discounted at a pre-tax weighted average rate.

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

	2017				
	Period of Cash Flow Projections	**Annual Sales Growth**	**Annual Margin Evolution**	**Terminal Growth Rate**	**Pre-Tax Discount Rate**
PetCare	5 years	1.0% to 2.2%	Declining	2.0%	9.0%
Infant Nutrition	5 years	0.7% to 1.7%	Improvement	2.3%	8.2%
DSD for Frozen Pizza and Ice Cream	5 years	-2.0% to -1.9%	Improvement	1.8%	8.7%

	2016				
	Period of Cash Flow Projections	**Annual Sales Growth**	**Annual Margin Evolution**	**Terminal Growth Rate**	**Pre-Tax Discount Rate**
PetCare	5 years	3% to 5.3%	Stable	2.0%	7.7%
Infant Nutrition	5 years	2.2% to 4.7%	Improvement	2.0%	7.1%
DSD for Frozen Pizza and Ice Cream	5 years	0.6% to 1.2%	Improvement	1.5%	7.7%

- 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 Infant Nutrition for which any negative change would lead to further impairment, and
- the CGU DSD for Frozen Pizza and Ice Cream for which the following changes in the material assumptions lead to a situation where the value in use equals the carrying amount.

	Sensitivity
Sales growth (CAGR)	Decrease by 410 basis points
Margin improvement	Decrease by 50 basis points
Terminal growth rate	Decrease by 110 basis points
Pre-tax discount rate	Increase by 140 basis points

(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.

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

At each balance sheet date, the 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 in part) 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 Instruments at Fair Value through Income Statement

Certain financial assets 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 which represents the fair value with any changes in cash surrender value being recognized in the consolidated income statement.

Held-for-trading assets and liabilities are derivative financial instruments. Subsequent to initial measurement, these items are carried at fair value and all their gains and losses, 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 gains or losses recognized against other comprehensive income or loss until their disposal when 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 in part) when either the Company is discharged from its obligation, they expire, are canceled or replaced by a new liability with substantially modified terms.

(Dollars in thousands)

		2017	2016
By class:			
Cash and cash equivalents [(a)]	$	45,903	430,712
Trade and other receivables, net		12,095,341	8,330,288
Derivative assets (note 5)		123,258	92,074
Bonds and debt funds		3,509,735	3,033,679
Equity and equity funds		386,386	446,604
Investments in life insurance company general accounts		555,625	549,492
Loans to Affiliates		30,408	—
Policy loans		162,427	147,360
Other financial assets [(b)]		108,686	92,278
Total financial assets		**17,017,769**	**13,122,487**
Trade and other payables		2,058,669	1,837,626
Financial liabilities – current		6,003,430	6,009,843
Derivative liabilities (note 5)		349,162	873,081
Financial liabilities – non-current		8,756,665	6,254,350
Total financial liabilities		**17,167,926**	**14,974,900**
Net financial position	**$**	**(150,157)**	**(1,852,413)**

		2017	2016
By category:			
Loans and receivables (including cash and cash equivalents) [(c)]	$	12,254,964	8,626,893
Derivative assets		123,258	92,074
Financial assets at fair value through Income Statement		511,269	450,381
Available-for-sale assets (including short-term investments) [(d)]		4,128,278	3,953,139
Total financial assets		**17,017,769**	**13,122,487**
Liabilities at amortized cost [(c)]		16,818,764	14,101,819
Derivative liabilities		349,162	873,081
Total financial liabilities		**17,167,926**	**14,974,900**
Net financial position	**$**	**(150,157)**	**(1,852,413)**
of which at fair value [(e)]	*$*	*4,320,356*	*3,529,225*

(a) Includes bank balance of $45,903 (2016: $230,708) and time deposits of $0 (2016: $200,004).

(b) Includes short-term investments.

(c) 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.

(d) Available-for-sale securities primarily represent portfolio assets totaling $3,461,772 and $3,094,409 at December 31, 2017 and 2016, respectively. These portfolio assets include both debt and equity securities.

(e) 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 (f) below.

(f) 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.

(Continued)

(Dollars in thousands)

Fair Value Hierarchy of Financial Instruments

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

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

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

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

	2017	2016
Fair value hierarchy of financial instruments:		
Derivative assets	$ 41,390	13,324
Bonds and debt funds	182,025	184,605
Equity and equity funds	9,349	94,015
Other financial assets	2,300	2,697
Derivative liabilities	(16,847)	(22,322)
Prices quoted in active markets (Level 1)	**218,217**	**272,319**
Time deposits	1,042	200,004
Derivative assets	81,868	78,750
Bonds and debt funds	3,321,339	2,845,281
Equity and equity funds	281,441	257,092
Investments in life insurance company general accounts	555,625	549,492
Other financial assets	18,303	19,956
Derivative liabilities	(332,315)	(850,759)
Valuation techniques based on observable market data (Level 2)	**3,927,303**	**3,099,816**
Valuation techniques based on unobservable input (Level 3)	**174,836**	**157,090**
Total financial instruments at fair value	**$ 4,320,356**	**3,529,225**

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

 (Continued)

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

(Dollars in thousands)

Changes in liabilities arising from financing activities

		2017	2016
At January 1	$	(13,109,673)	(13,239,428)
Currency retranslations and exchange differences		(242,102)	202,135
Changes in fair values		12,697	18,871
Imputed Interest on financial debt		(47,172)	(31,242)
Inflows/(Outflows) on interest derivatives		527,227	(41,167)
Inflows from bonds and other non-current financial debt		(4,100,765)	(1,307,199)
Outflows from bonds and other on-current financial debt		1,725,238	2,728,540
Inflows/(Outflows) from current financial debt		156,202	(1,440,183)
At December 31		(15,078,348)	(13,109,673)
of which current financial debt		(6,003,430)	(6,009,843)
of which non-current financial debt		(8,756,665)	(6,254,350)
of which derivatives hedging financial debt		(318,253)	(845,480)

(Dollars in thousands)

Bonds

	Comments	Coupon	Effective interest rate	Year of issue/ maturity	2017	2016
USD 900,000	(c)	1.38	1.46	2012-2017	$ –	899,658
NOK 3,000,000	(a)	2.50	2.66	2012-2017	–	346,592
AUD 200,000	(a)	4.00	4.11	2012-2017	–	144,254
NOK 1,000,000	(a)	2.25	2.31	2012-2017	–	115,569
GBP 250,000	(b)	1.63	1.71	2013-2017	–	305,098
CHF 250,000	(b)	2.63	2.66	2007-2018	257,027	253,594
USD 500,000	(c)	1.25	1.32	2012-2018	499,987	499,660
AUD 175,000	(b)	3.75	3.84	2013-2018	136,488	127,862
USD 400,000	(c)	1.38	1.50	2013-2018	399,716	399,213
AUD 200,000	(a)	3.88	4.08	2013-2018	155,644	143,790
AUD 300,000	(a)	4.13	4.33	2013-2018	233,316	215,636
AUD 100,000	(b)	4.13	4.34	2013-2018	79,185	74,212
USD 500,000	(c)	2.00	2.17	2013-2019	498,359	497,541
USD 500,000	(c)	2.25	2.41	2013-2019	499,043	498,261
USD 400,000	(c)	2.00	2.06	2014-2019	399,592	399,366
AUD 250,000	(b)	4.25	4.43	2014-2020	201,038	188,073
NOK 1,000,000	(b)	2.75	2.85	2014-2020	124,593	119,221
USD 650,000	(c)	2.13	2.27	2014-2020	648,069	647,153
AUD 175,000	(b)	3.63	3.77	2014-2020	140,933	130,963
GBP 400,000	(a)	1.75	1.82	2015-2020	537,564	489,251
GBP 100,000	(b)	1.75	1.68	2016-2020	137,872	127,108
USD 550,000	(c)	1.88	2.03	2016-2021	547,437	546,668
USD 600,000	(c)	1.38	1.52	2016-2021	596,931	596,091
GBP 500,000	(a)	1.00	1.17	2017-2021	669,692	–
USD 650,000	(c)	2.38	2.50	2017-2022	646,966	–
USD 300,000	(c)	2.25	2.35	2017-2022	298,762	–
USD 800,000	(c)	2.38	2.55	2017-2022	793,567	–
EUR 850,000	(a)	0.88	0.92	2017-2025	1,012,834	–
CHF 550,000	(a)	0.25	0.24	2017-2027	563,851	–
CHF 150,000	(a)	0.55	0.54	2017-2032	153,750	–
Other bonds issued by Nestlé Purina PetCare Company:						
USD 63,210	(c)	9.30	6.46	1991-2021	68,622	70,035
USD 78,963	(c)	8.63	6.46	1992-2022	85,198	86,480
USD 43,927	(c)	8.13	6.47	1993-2023	47,023	47,524
USD 51,164	(c)	7.88	6.45	1995-2025	55,098	55,499
Other Bonds					1,823	1,831
Total carrying amount [d]					$ **10,489,980**	**8,026,203**
of which due within one year					*1,761,363*	*1,811,171*
of which due after one year					*8,728,617*	*6,215,032*
Fair value [d] of bonds, based on prices quoted (level 2)					10,570,170	8,104,819

Several bonds are hedged by currency and/or interest derivatives. The fair value of these derivatives is shown under derivative assets of $115,502 (2016: $56,790) and under derivative liabilities of $271,421 (2016: $765,836).

(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.

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

(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 subsidiaries. Approved Treasury Management Guidelines define and classify risks as well as determine, by category of transaction, specific approval, execution, and monitoring procedures. The activities of the Centre Treasury and of the Regional Treasury Centres are supervised by an independent Middle Office, which verifies the compliance of the strategies and/or operations with the approved guidelines and decisions taken by the ALMC.

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 financial assets (liquid, non-current and derivative) and on trade and other receivables.

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

The 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 subsidiaries. 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, 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

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

		2017	2016
Investment grade (A- and above)	$	3,137,203	3,104,783
Investment grade (BBB+, BBB and BBB-)		1,156,434	1,145,588
Non-investment grade (BB+ and below)		169,363	134,780
Not rated (*)		413,385	396,673
Total financial assets (excluding receivables and inter-group loans)	**$**	**4,876,385**	**4,781,824**

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

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)

	2017						
	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	$ 2,058,669	—	—	—	2,058,669	—	2,058,669
Commercial paper	4,112,129	—	—	—	4,112,129	(9,584)	4,102,545
Bonds	1,968,578	1,569,509	5,790,735	1,884,457	11,213,279	(723,298)	10,489,981
Other financial debt	140,611	6,083	12,312	16,853	175,859	(8,290)	167,569
Total financial debt	**6,221,318**	**1,575,592**	**5,803,047**	**1,901,310**	**15,501,267**	**(741,172)**	**14,760,095**
Financial liabilities (excluding derivatives)	**8,279,987**	**1,575,592**	**5,803,047**	**1,901,310**	**17,559,936**	**(741,172)**	**16,818,764**
Non-currency derivative assets	6,430	—	—	—	6,430	—	6,430
Non-currency derivative liabilities	(51,312)	(16,336)	(10,379)	—	(78,027)	1,429	(76,598)
Gross amount receivable from currency derivatives	1,022,500	46,298	1,875,086	1,775,335	4,719,219	(107,894)	4,611,325
Gross amount payable from currency derivatives	(1,149,493)	(98,266)	(2,161,668)	(1,911,640)	(5,321,067)	554,006	(4,767,061)
Net derivatives	**(171,875)**	**(68,304)**	**(296,961)**	**(136,305)**	**(673,445)**	**447,541**	**(225,904)**
of which derivatives under cash flow hedges (*)	*$ (180,222)*	*(69,405)*	*(199,443)*	*(136,305)*	*(585,375)*	*435,428*	*(149,947)*

	2016						
	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	$ 1,837,626	—	—	—	1,837,626	—	1,837,626
Commercial paper	3,216,975	—	—	—	3,216,975	(2,664)	3,214,311
Bonds	1,996,955	1,852,741	4,522,584	199,201	8,571,481	(545,278)	8,026,203
Other financial debt	986,092	12,034	16,637	19,721	1,034,484	(10,805)	1,023,679
Total financial debt	**6,200,022**	**1,864,775**	**4,539,221**	**218,922**	**12,822,940**	**(558,747)**	**12,264,193**
Financial liabilities (excluding derivatives)	**8,037,648**	**1,864,775**	**4,539,221**	**218,922**	**14,660,566**	**(558,747)**	**14,101,819**
Non-currency derivative assets	35,167	—	—	—	35,167	—	35,167
Non-currency derivative liabilities	(55,678)	(22,719)	(28,034)	—	(106,431)	2,156	(104,275)
Gross amount receivable from currency derivatives	1,041,875	858,966	1,088,554	—	2,989,395	(80,320)	2,909,075
Gross amount payable from currency derivatives	(1,393,276)	(994,871)	(1,352,187)	—	(3,740,334)	119,360	(3,620,974)
Net derivatives	**(371,912)**	**(158,624)**	**(291,667)**	**—**	**(822,203)**	**41,196**	**(781,007)**
of which derivatives under cash flow hedges (*)	*$ (284,402)*	*(137,900)*	*(151,423)*	—	*(573,725)*	*26,964*	*(546,761)*

(*) 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. 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% (2016: 54%).

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 Global Procurement Organization 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 $(142) and $(295) for the years ended December 31, 2017 and 2016, 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.

		2017	2016
Total assets held for sale - business units	$	390,016	—

As of December 31, 2017, the assets held for sale balance is mainly comprised of the confectionery business. The assets reclassified (primarily fixed assets and inventory) are reported within the Brands segment.

(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:

		2017	2016
Accrued payroll	$	434,833	427,456
Accrued trade spend and promotional expenses		362,416	458,990
Accrued life insurance policy reserves		247,413	227,668
Accrued interest		102,616	87,165
Accrued defined contribution expense		24,869	17,333
Other accrued expenses		411,113	320,186
Total accruals	$	**1,583,260**	**1,538,798**

(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 stemming from a past event exists and when the future cash outflows can be reliably estimated. Provisions are measured at the present value of the expenditures unless the impact of discounting is immaterial. Obligations 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 reporting date.

(Dollars in thousands)

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

Provisions are as follows:

		Restructuring	Environmental	Other	Total
At December 31, 2016	$	126,616	20,325	66,711	213,652
Provisions made in the year		152,867	150	43,883	196,900
Amounts used		(74,475)	(1,954)	(10,766)	(87,195)
Unused amounts reversed		(3,631)	—	(6,463)	(10,094)
Unwind of discount		—	908	106	1,014
At December 31, 2017	$	201,377	19,429	93,471	314,277
of which expected to be settled within 12 months	*$*	*166,826*	*1,595*	*33,608*	*202,029*

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 2017, the Company continued with a number of reorganizations within the Nestlé USA Brands, Nutrition, PetCare, and Other segments to reduce structural costs and to optimize production. As part of these actions, net increases to restructuring provisions of $149,236 were recorded in the consolidated financial statements.

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.

(Dollars in thousands)

Other Provisions

In 2017, the Company recorded provisions concerning non-cancelable leases 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 of net debt and net interest income/(expense) on defined benefit plans.

Net financing cost of net debt 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".

	Note		2017	2016
Interest income		$	181,360	112,220
Interest expense			(325,878)	(287,239)
Net financing cost of net debt			**(144,518)**	**(175,019)**
Interest income on defined benefit plans			13,082	8,145
Interest expense on defined benefit plans			(42,404)	(44,722)
Net interest expense on defined benefit plans	7		**(29,322)**	**(36,577)**
Other			(597)	(326)
Net financial expenses		$	**(174,437)**	**(211,922)**

(Dollars in thousands)

Interest expenses on amounts due to affiliated and associated companies and bonds and commercial paper guarantee fees to Nestlé S.A. amounted to $(59,027) and $(71,744) in 2017 and 2016, respectively. Interest income on amounts due from affiliated and associated companies amounted to $179,437 and $111,169 in 2017 and 2016, 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 and non-commercialized intangible assets, results on disposals of businesses (including impairment and subsequent remeasurement of businesses classified as held for sale, as well as other directly related disposal costs like restructuring costs directly linked to businesses disposed of and legal, advisory and other professional fees), acquisition-related costs and other income and expenses that fall beyond the control of aoperating segments and relate to events such as natural disasters.

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

		2017	2016
Return on company-owned life insurance	$	82,262	46,844
Reversal of unused restructuring costs		3,631	6,939
Franchise and royalty income		883	800
Miscellaneous trading income		99	730
Other trading income		**86,875**	**55,313**
Restructuring costs		(152,867)	(103,564)
Litigation and onerous contracts (*)		(69,757)	(24,122)
Result on deferred compensation		(61,481)	(33,069)
Impairment of property, plant and equipment and intangible assets		(14,118)	(12,203)
Miscellaneous trading expenses		(8,050)	(38)
Other trading expenses		**(306,273)**	**(172,996)**
Total net other trading expenses	$	**(219,398)**	**(117,683)**

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

(Dollars in thousands)

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

	2017	2016
Other operating income [(a)]	$ **44,512**	**6,717**
Impairment of goodwill [(b)]	(935,341)	—
Natural disaster	(12,144)	(2,238)
Expenditures/ Loss on disposal of businesses [(c)]	(8,015)	(5,213)
Other operating litigation	(687)	(1,827)
Miscellaneous operating expenses	(9,447)	(7,073)
Other operating expenses	**(965,634)**	**(16,351)**
Total net other operating expenses	$ **(921,122)**	**(9,634)**

(a) Primarily related to the Merrick Pet Care, Inc. acquisition in 2015.

(b) See goodwill and intangible assets (Note 10).

(c) See acquisitions and disposals of businesses (Note 20).

(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.

On December 22, 2017, new federal tax reform legislation was enacted in the United States, resulting in significant changes from previous tax law. "The Act" reduces the federal corporate income tax rate to 21% from 35% effective January 1, 2018. The rate change resulting from "The Act" resulted in a one-time reduction of the Company's net deferred tax liabilities of $780,496 and a corresponding one-time deferred income tax benefit in 2017. The Company's federal income tax expense for periods beginning in 2018 will be based on the new rate.

"The Act" also provides for immediate deduction of 100% of the costs of qualified property that are incurred and the property placed in service during the period from September 27, 2017 to December 31, 2022. This provision will begin to phase down by 20% per year beginning January 1, 2023 and will be completely phased out as of January 1, 2027.

(Dollars in thousands)

“The Act” also changes the taxation of foreign earnings, and companies generally will not be subject to United States federal income taxes upon the receipt of dividends from foreign subsidiaries and will not be permitted foreign tax credits related to such dividends.

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

		2017	2016
Current tax	$	(801,670)	(953,458)
Deferred tax		387,434	(205,976)
Taxes recorded to other comprehensive income		265,742	113,487
Income tax (expense)	$	**(148,494)**	**(1,045,947)**

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

		2017	2016
Tangible fixed assets	$	259,231	(4,259)
Goodwill and other intangible assets		385,718	(114,024)
Employee benefits		(272,924)	(43,433)
Inventories, receivables, payables, accruals, and provisions		(51,626)	12,019
Financial instruments		(29,881)	(33,584)
Net operating losses		(5,215)	(12,185)
Other		102,131	(10,510)
Deferred tax (expense)	$	**387,434**	**(205,976)**

(Continued)

(Dollars in thousands)

Taxes recognized in other comprehensive income (loss):

		2017	2016
Tax effect relating to:			
Fair value adjustments on cash flow hedges	$	(9,969)	(34,854)
Fair value of available-for-sale assets		(16,710)	832
Defined benefit plan actuarial losses		(239,063)	(79,465)
Total taxes recognized	**$**	**(265,742)**	**(113,487)**

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

		2017	2016
Tax at theoretical rate	$	(730,438)	(1,077,292)
Tax effect on non-deductible amortization and impairment of goodwill and other intangible assets		(360,221)	(116)
Permanent differences on company-owned life insurance policies		36,293	23,346
Tax effect of non-deductible or non-taxable items		81,182	67,643
Prior years' taxes		57,906	(65,175)
Change of tax rate		780,496	18,162
Other taxes		(13,712)	(12,515)
Income tax (expense)	**$**	**(148,494)**	**(1,045,947)**
Effective tax rate		8%	37%

(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	$	128,860
In the second year		108,955
In the third to fifth year inclusive		239,388
After the fifth year		326,110
Total operating leases	$	**803,313**

The Company recognized rent expense of $142,701 and $120,650 in 2017 and 2016, respectively, in the consolidated income statement. This expense was offset by sublease income of $1,205 in 2017 and 2016, respectively. Cumulative sublease payments of $1,882 are expected to be received in future years.

(b) Finance Leases

		Present value	Future value
Within one year	$	12,690	13,563
In the second year		5,128	6,083
In the third to fifth year inclusive		9,454	12,312
After the fifth year		13,249	16,853
Total finance leases	**$**	**40,521**	**48,811**

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 2017, the acquisitions during the year included:

Sweet Earth, Inc., plant-based foods manufacturer (Brands), 100%, (October)

(Dollars in thousands)

Chameleon Cold Brew, LLC, premium crafted coffee (Brands), 100%, (November)

There were no acquisitions in 2016.

Disposals

There were no disposals in 2017.

In 2016, the main disposals during the year were:

Infinity Pumps (Other), 100%, (April) and Nutrament (Other), 100%, (December).

(b) Acquisitions of Businesses

On October 18, 2017, the Company acquired Sweet Earth, Inc., giving Nestlé immediate entry into the rapidly growing plant-based foods segment. The business includes two brands *Sweet Earth Natural Foods* and *Enlighted Foods*. This acquisition is included in the Brands segment and will enhance the Company's frozen foods portfolio of vegetarian and flexitarian choices in line with modern health trends.

On November 1, 2017, the Company acquired Chameleon Cold Brew, LLC, a leading provider of premium crafted coffee. The business includes one brand, *Chameleon Cold-Brew*, which is included in the Brands segment and will enhance the Company's coffee portfolio with this number one organic cold brew brand in the US, and one of the top three refrigerated cold brew brands in the US.

There were no acquisitions in 2016. However, the provisional values from the acquisition of Merrick Pet Care Holdings Corporation in 2015 were adjusted by the Company in 2016 resulting in an increase in goodwill of $11,868, which brought the goodwill total to $334,928 in 2016.

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

		2017	2016 (*)
		Total	**Total**
Property, plant and equipment	$	10,360	(2,380)
Intangible assets		72,719	83
Inventories and other assets		11,689	(11,196)
Employee benefits, deferred taxes, and provisions		(6,668)	1,925
Other liabilities		(7,689)	(300)
Fair value of identifiable net assets	$	**80,411**	**(11,868)**

(*) Measurement period adjustments recorded in 2016.

(Dollars in thousands)

The goodwill arising on acquisition and the cash outflow were:

	2017	2016 (*)
	Total	**Total**
Fair value of consideration transferred	$ 167,176	$ —
Fair value of identifiable net assets	(80,411)	11,868
Goodwill	**$ 86,765**	**$ 11,868**
Fair value of consideration transferred	167,176	—
Cash and cash equivalents acquired	—	—
Cash outflow on acquisitions	**$ 167,176**	**$ —**

(*) Measurement period adjustments recorded in 2016.

Acquisition-related costs, which mostly relate to the acquisitions of Sweet Earth, Inc. and Chameleon Cold Brew, LLC in 2017 and Merrick Pet Care Holdings Corporation in 2015, were recognized under net operating expenses in the consolidated income statement (Note 17) for an amount of $8,931 in 2017 and $1,804 in 2016.

(c) Disposals of Businesses

In 2017, the expenditures on disposals of businesses of $8,015 (Note 17) is primarily due to the Confectionery business.

In 2016, the loss on disposals of businesses of $5,213 (Note 17) is due to the derecognition of net assets from the consolidated balance sheet primarily for Infinity Pumps (Other).

(Dollars in thousands)

(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 2017 consolidated financial statements.

Other than the following, the Company was not aware of specific events or transactions occurring after December 31, 2017, and up to March 28, 2018 that would have a material impact on the accounting or presentation of the accompanying consolidated financial statements.

As of December 31, 2017, the assets held for sale balance is mainly comprised of the confectionery business. A sale agreement was signed on January 16, 2018, and completion of the transaction and the loss of control is expected to occur before the end of the first quarter of 2018. The assets reclassified (primarily fixed assets) are part of the Brands segment. The estimated gain on the transaction amounts to approximately $750,000.

On February 15, 2018, Nestlé S.A. announced that its Board of Directors has decided to explore strategic options, including a potential sale, for its Gerber Life Insurance business. This business was a part of the Gerber acquisition from Novartis in 2007. Its 2017 sales were $856 million. Nestlé remains fully committed to retain and develop the Gerber baby food business, which is an integral part of the Company's infant nutrition growth platform.

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

Issued

Issue date	Face value	Coupon	Maturity
3/22/2018	USD 550,000	3.13%	3/22/2023

Maturities

Issue date	Face value	Coupon	Maturity
10/16/2012	USD 500,000	1.25%	1/16/2018
1/18/2013	AUD 175,000	3.75%	1/18/2018
2/14/2007	CHF 250,000	2.63%	2/14/2018

(Dollars in thousands)

(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:

		2017	2016
Salaries and other short-term employee benefits	$	15,456	19,513
Share-based payments		11,448	6,150
Post-employment benefits		1,255	1,204
Total compensation	**$**	**28,159**	**26,867**

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

(Dollars in thousands)

Loans with Related Parties

		2017	2016
Loans from Nestlé S.A.:			
At January 1	$	850,052	1,600,083
Loan repayments		(850,052)	(750,031)
At December 31	**$**	**—**	**850,052**
Loans to Nestlé S.A.:			
At January 1	$	198,790	—
Loans granted during year		—	198,790
At December 31	**$**	**198,790**	**198,790**
Loans to NIMCO US, Inc. (Parent):			
At January 1	$	4,592,220	2,435,272
Loans granted during year		3,840,087	2,156,948
At December 31	**$**	**8,432,307**	**4,592,220**
Loans from affiliates:			
At January 1	$	11,404	24,131
Loans received during year		14,541	10,599
Loan repayments		—	(23,326)
At December 31	**$**	**25,945**	**11,404**
Loans to affiliates:			
At January 1	$	1,486,343	1,552,154
Loans granted during year		155,825	193,078
Loan repayments		(172,953)	(258,889)
At December 31	**$**	**1,469,215**	**1,486,343**

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.