



Nestlé Good food, Good life

**NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES**

Annual Financial Report

Management Report

Responsibility Statement

Consolidated Financial Statements

December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

**NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES**

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**NESTLÉ HOLDINGS, INC.
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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 an indirect 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, Atrium Biotech USA, LLC, and NSH Service, Inc. The Company engages primarily in the manufacture and sale of food products, pet care products, and beverage products. These businesses derive revenue across the United States.

Key Figures

	<u>2018</u>	<u>2017*</u>	<u>Change</u>
	(Dollars in millions)		
Sales	\$ 22,423.9	21,887.0	2.5%
Cost of goods sold	(12,380.5)	(12,044.1)	2.8%
<i>as a percentage of sales</i>	(55.2)%	(55.0)%	
Trading operating profit	2,156.0	3,014.4	(28.5)%
<i>as a percentage of sales</i>	9.6%	13.8%	
Net financial expenses	(212.4)	(185.4)	14.6%
Income tax expense	(669.4)	(145.9)	358.8%
Net (loss)/income	(406.5)	1,763.6	(123.0)%
<i>as a percentage of sales</i>	(1.8)%	8.1%	
Operating cash flows	2,016.6	3,014.3	(33.1)%
<i>as a percentage of sales</i>	9.0%	13.8%	
Capital expenditures	851.0	805.8	5.6%
<i>as a percentage of sales</i>	3.8%	3.7%	

* 2017 figures have been restated to include modifications as described in Note 1 Accounting Policies and related impacts as described in Note 22.

Overview

The Company is actively involved in portfolio management; noted by product expansions, acquisitions during 2017 and 2018, and divestiture activities in 2018. As a result, the Company has delivered improvements in sales. The Company is committed to continued execution of cost reduction initiatives, improved operational efficiencies, and further investment in its brands.

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Sales

For the years ended December 31, 2018 and 2017, consolidated sales totaled \$22.4 and \$21.9 billion, respectively. The main factors per segment are as follows:

- **Nestlé USA Brands** sales were \$9.9 and \$9.8 billion for the years ended December 31, 2018 and 2017, respectively. Sales growth was primarily driven by *Coffee-Mate*, pizza products and the addition of the licensed Starbucks business offset by the U.S. Confections divestiture. Some prominent brands in this segment include *Coffee-Mate*, *Nescafé*, *Nesquik*, *Stouffer's*, *DiGiorno*, *Lean Cuisine*, *Hot Pockets*, *Nestlé Toll House*, *Dreyer's*, *Edy's*, and *Starbucks*.
- **Nestlé Purina PetCare** sales were \$7.8 billion and \$7.6 billion for the years ended December 31, 2018 and 2017, respectively. Pet Care reported solid growth, particularly with *Pro Plan*, *Fancy Feast*, and *Tidycat*, and the e-commerce channel. Some notable brands in this segment include *Beneful*, *Alpo*, *Purina ONE*, *Dog Chow*, *Pro Plan*, *Beyond*, *Fancy Feast*, *Friskies*, *Cat Chow*, and *Tidy Cats*.
- **Nutrition** sales were \$1.1 billion for the years ended December 31, 2018 and 2017. 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 \$3.6 billion and \$3.3 billion for the years ended December 31, 2018 and 2017, respectively. The growth is primarily attributable to *Nespresso* which maintained strong double-digit growth.

Profitability

Trading operating profit was \$2.2 billion and \$3.0 billion for the years ended December 31, 2018 and 2017, which equaled approximately 9.6% and 13.8% of sales, respectively. The decrease, as a percentage of sales, was primarily due to higher royalties to affiliated companies.

Cost of goods sold was \$12.4 billion and \$12.0 billion for the years ended December 31, 2018 and 2017, which equaled 55.2% and 55.0% 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.

Distribution expenses were \$2.1 billion and \$1.9 billion for the years ended December 31, 2018 and 2017, which equaled 9.2% and 8.9% 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 billion for the years ended December 31, 2018 and 2017. The decrease in expenses as a percentage of sales from 15.9% in 2017 to 15.5% in 2018 was primarily due to decreases in media communication and other marketing and general expenses.

Net other trading expenses were \$225.5 million and \$219.4 million for the years ended December 31, 2018 and 2017, respectively. The increase was primarily due to reduced returns on company-owned life insurance and increased impairment of assets, partially offset by decreased restructuring and onerous contract costs.

Net Profit Margin – Other Items of Interest

Net financial expenses increased by \$27.0 million in 2018 primarily due to increases in net financing cost partially offset by reductions in net interest expense on defined benefit plans.

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The Company's income tax expense increased by \$523.5 million in 2018, primarily as a result of the benefit recognized in 2017 resulting from new tax rates enacted by the United States tax reform.

Cash Flow

Operating cash flow was \$2.0 billion and \$3.0 billion for the years ended December 31, 2018 and 2017, respectively.

Principal Risks and Uncertainties

Risk Management

At the Nestlé S.A. level, the Nestlé Group Enterprise Risk Management ("ERM") framework is designed to assess 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 its future operations.

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

Maintaining high levels of trust with consumers is essential for the Company's success. 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.

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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; shifts 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.

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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 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 Company is well positioned with strong, high quality brands, which are valued by the customer but any adverse developments in the United States economy could impact consumer demand. There are opportunities to leverage the Company's competitive advantages, deliver on growth opportunities, and benefit from the drive for continuous improvement. The Company is committed to supporting the Nestlé Group in achieving its financial objectives including continued improvement in organic sales growth, underlying trading operating margin, underlying earnings per share in constant currency and capital efficiency.

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Responsibility Statement

Giulio Gerardo, Chief Financial Officer, confirms that to the best of his knowledge:

- (a) the financial statements, prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), 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.

April 3, 2019



KPMG LLP
 1676 International Drive
 McLean, VA 22102

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, 2018 and 2017, and the related consolidated income statements, consolidated statements of comprehensive income, changes in equity, and cash flows for the years ended December 31, 2018 and 2017, 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, 2018 and 2017, and their consolidated financial performance and their consolidated cash flows for the years ended December 31, 2018 and 2017 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 point in time when control has been transferred to the buyer; and is measured net of pricing allowances, other trade discounts, and price promotions to customers (collectively trade spend).	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.



Key Audit Matter	How the matter was addressed in our audit
<p>The judgments required by management to determine the transaction price and estimate the variable consideration the Company is entitled to are complex due to the diverse range of contractual agreements with the Company's customers.</p> <p>There is a risk that revenue may be misstated due to fraud resulting from the pressure management may feel to achieve performance targets given that revenue is an important element of management incentive schemes.</p>	<p>We tested the design, implementation, and operating effectiveness of certain controls over the revenue cycle and trade spend expense.</p> <p>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.</p> <p>We performed a substantive analytical procedure over trade spend expense and additionally we tested on a sample basis payments made to customers subsequent to year end to assess whether trade spend had been appropriately recorded in the correct period.</p> <p>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.</p> <p>We assessed the completeness and accuracy of the impact identified by the Company of its first-time adoption of <i>IFRS 15 - Revenue from Contracts with Customers</i> and its retrospective application to the earliest prior reporting period presented in the consolidated financial statements.</p> <p>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.</p>
<p>Carrying value of goodwill and indefinite life intangible assets</p>	
<p>The Company has recognized goodwill of \$15,652 million and indefinite life intangible assets of \$4,276 million as of December 31, 2018, 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.</p> <p>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.</p> <p>A goodwill impairment charge of \$260 million was recognized for the year ended December 31, 2018,</p>	<p>We evaluated the appropriateness 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.</p> <p>For a sample of CGUs, identified based on quantitative and qualitative factors, and including among others the Infant Nutrition CGU, we tested the design and implementation of controls over these impairment tests. We also 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 and compared the forecasts for future years to the latest plans and forecasts approved by the Company.</p>



Key Audit Matter	How the matter was addressed in our audit
<p>based on the Company's assessment of the recoverability of the Infant Nutrition CGU's assets.</p>	<p>We then challenged the appropriateness 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 commercial prospects of the assets. In addition, we identified and analyzed changes in key assumptions from prior periods and made an assessment of the consistency of assumptions.</p> <p>We also considered the appropriateness of disclosures in relation to goodwill, indefinite life intangible assets, and the impairment charge recognized for the Infant Nutrition CGU.</p>
<p>Income taxes</p>	
<p>The Company is regularly subject to tax challenges and audits by tax authorities, in particular the United States Internal Revenue Service, on various matters giving rise to tax uncertainties, including intragroup financing, pricing and royalty arrangements, different business models, and other transaction-related matters.</p> <p>Where the amount of tax liabilities or assets is uncertain, the Company recognizes management's best estimate of the most likely outcome based on the facts known at the reporting date.</p>	<p>We evaluated and tested the design and implementation of controls over 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 significant uncertain tax position.</p> <p>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.</p> <p>We evaluated the appropriateness of the related presentation and disclosures of income taxes in the consolidated financial statements.</p>



Key Audit Matter	How the matter was addressed in our audit
<p>Purchase price accounting of acquired Starbucks' business</p>	
<p>On August 26, 2018, the Company completed the acquisition of the exclusive perpetual rights to market, sell, and distribute certain Starbucks' consumer goods and food service products for \$5,551 million. The acquisition was recognized in accordance with <i>IFRS 3 – Business Combinations</i> and <i>IFRS 10 – Consolidation</i>. Nestle hired external appraisers to assist in the valuation of the acquired business. The acquired assets consisted primarily of a \$4,271 million right of use indefinite-lived intangible asset representing the rights to market, sell, and distribute certain Starbucks' products in perpetuity. The valuation of the intangible asset is complex and requires significant judgment by the Company related to the methods and assumptions used to value the asset.</p>	<p>We tested the design and implementation of controls related to the Company's valuation of the acquired Starbucks business.</p> <p>We involved our valuation specialists to assess the valuation of the right of use intangible asset performed by the Company, including:</p> <ul style="list-style-type: none"> • Assessing the appropriateness of the overall valuation model in accordance with IFRS 3 and competency of the Company's external valuation expert • Challenging the appropriateness of key assumptions and consistency of those assumptions within the valuation model, including forecast cash flows, long-term growth rates, and the discount rate based on our understanding of the commercial prospects of the business • Performing benchmarking analyses related to certain assumptions • Verifying the mathematical accuracy of the valuation model. <p>We evaluated the appropriateness of the related presentation and disclosure of the acquisition and intangible asset in the consolidated financial statements.</p>

Other Information

Management is responsible for the other information included 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 David B. Crainer.

KPMG LLP

McLean, Virginia
April 3, 2019

**NESTLÉ HOLDINGS, INC.
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Consolidated Balance Sheet

December 31, 2018 and 2017

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

Assets	Note(s)	December 31, 2018	December 31, 2017 *
Current assets:			
Cash and cash equivalents	11	\$ 368,045	45,903
Short-term investments		1,256,010	54,601
Trade and other receivables, net	3/11	16,606,655	12,001,592
Inventories, net	4	1,685,947	1,742,700
Derivative assets	5/11	26,464	123,258
Assets held for sale	13	—	390,016
Prepayments		41,131	77,462
Total current assets		19,984,252	14,435,532
Non-current assets:			
Property, plant and equipment, net	6	6,200,920	5,937,153
Employee benefits assets	7	340,631	238,574
Investments in associates and joint ventures	8	38,824	50,066
Deferred tax assets	9	580,866	570,802
Financial assets		1,266,893	4,698,666
Goodwill	10	15,652,386	16,167,268
Intangible assets, net	10	4,598,515	1,348,836
Total non-current assets		28,679,035	29,011,365
Total assets		\$ 48,663,287	43,446,897
Liabilities and Equity			
Current liabilities:			
Trade and other payables	11	\$ 3,101,547	2,059,730
Financial liabilities	11	6,064,089	6,102,845
Provisions	15	191,980	202,029
Derivative liabilities	5/11	292,990	349,162
Current income tax liabilities		475,423	354,863
Accruals	14	1,608,194	1,764,205
Total current liabilities		11,734,223	10,832,834
Non-current liabilities:			
Financial liabilities	11	16,389,379	9,320,911
Employee benefits liabilities	7	1,675,234	1,805,925
Deferred tax liabilities	9	1,223,889	1,530,979
Provisions	15	79,245	88,913
Other accrued liabilities		6,398	1,974,022
Total non-current liabilities		19,374,145	14,720,750
Total liabilities		31,108,368	25,553,584
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		(1,002,750)	(1,074,886)
Accumulated earnings		12,933,272	13,343,802
Total equity		17,554,919	17,893,313
Total liabilities and equity		\$ 48,663,287	43,446,897

* 2017 restated figures include modifications as described in Note 1 Accounting policies and related impacts as described in Note 22. See accompanying notes to consolidated financial statements.

**NESTLÉ HOLDINGS, INC.
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Consolidated Income Statement
Years ended December 31, 2018 and 2017
(Dollars in thousands)

	Note	2018	2017 *
Sales	2	\$ 22,423,945	21,887,026
Cost of goods sold		(12,380,475)	(12,044,096)
Distribution expenses		(2,064,750)	(1,939,970)
Marketing, general and administrative expenses		(3,472,684)	(3,473,011)
Royalties to affiliated company		(2,124,487)	(1,196,124)
Net other trading expenses	17	(225,501)	(219,398)
Trading operating profit		2,156,048	3,014,427
Net other operating expenses	17	(1,677,200)	(921,122)
Operating profit		478,848	2,093,305
Net financial expenses	16	(212,399)	(185,405)
Profit before taxes, associates, and joint ventures		266,449	1,907,900
Income tax expense	18	(669,419)	(145,889)
(Loss)/profit from associates and joint ventures		(3,579)	1,618
(Loss)/profit for the year		\$ (406,549)	1,763,629

* 2017 restated figures include modifications as described in Note 1 Accounting policies and related impacts as described in Note 22. See accompanying notes to consolidated financial statements.

**NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES**

Consolidated Statement of Comprehensive Income

Years ended December 31, 2018 and 2017

(Dollars in thousands)

	2018	2017*
(Loss)/profit for the year recognized in the income statement	\$ (406,549)	1,763,629
Fair value adjustments on available-for-sale financial instruments, net of taxes	—	53,182
Fair value adjustments on debt instruments, net of taxes	(40,988)	—
Fair value adjustments on cash flow hedges, net of taxes	29,866	9,964
Items that are or may be reclassified subsequently to the income statement	(11,122)	63,146
Remeasurement of defined benefit plans, net of taxes	76,929	(127,265)
Fair value changes on equity instruments, net of taxes	2,348	—
Items that will never be reclassified to the income statement	79,277	(127,265)
Other comprehensive income (loss) for the year	68,155	(64,119)
Total comprehensive (loss)/income for the year	\$ (338,394)	1,699,510

* 2017 restated figures include modifications as described in Note 1 Accounting policies and related impacts as described in Note 22. See accompanying notes to consolidated financial statements.

**NESTLÉ HOLDINGS, INC.
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Consolidated Statement of Changes in Equity
Years ended December 31, 2018 and 2017
(Dollars in thousands)

	<u>Capital stock</u>	<u>Additional paid-in capital</u>	<u>Other equity reserves</u>	<u>Accumulated earnings</u>	<u>Total</u>
Equity as at December 31, 2016 as originally published	\$ 100	5,624,297	(1,010,767)	11,765,425	16,379,055
First application of IFRS 15	—	—	—	(151,783)	(151,783)
First application of IFRS 16	—	—	—	(33,469)	(33,469)
Equity restated as at January 1, 2017*	\$ 100	5,624,297	(1,010,767)	11,580,173	16,193,803
Profit for the year *	—	—	—	1,763,629	1,763,629
Other comprehensive (loss) for the year	—	—	(64,119)	—	(64,119)
Total comprehensive (loss) income for the year*	—	—	(64,119)	1,763,629	1,699,510
Equity restated as at December 31, 2017*	\$ 100	5,624,297	(1,074,886)	13,343,802	17,893,313
Equity as at January 1, 2018	100	5,624,297	(1,074,886)	13,343,802	17,893,313
First application of IFRS 9	—	—	3,981	(3,981)	—
Equity as at January 1, 2018 after first application of IFRS 9	100	5,624,297	(1,070,905)	13,339,821	17,893,313
Loss for the year	—	—	—	(406,549)	(406,549)
Other comprehensive income for the year	—	—	68,155	—	68,155
Total comprehensive income/(loss) for the year	—	—	68,155	(406,549)	(338,394)
Equity as at December 31, 2018	\$ 100	5,624,297	(1,002,750)	12,933,272	17,554,919

* 2017 restated figures include modifications as described in Note 1 Accounting policies and related impacts as described in Note 22.
See accompanying notes to consolidated financial statements.

**NESTLÉ HOLDINGS, INC.
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Consolidated Statement of Cash Flows
Years ended December 31, 2018 and 2017
(Dollars in thousands)

	Note	2018	2017*
Cash flows from operating activities:			
Net (loss)/income		\$ (406,549)	1,763,629
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property, plant, and equipment	6	696,282	671,405
Loss on sales of property, plant and equipment		18,682	10,979
Impairment of property, plant and equipment	6/17	69,753	39,118
Amortization of intangible assets	10	70,542	109,387
Impairment of goodwill	10/17	260,000	935,341
Impairment of intangibles	10	8,288	—
Loss on disposal of assets held for sale and other	19	1,368,804	8,015
Decrease (increase) in cash surrender value of Company-owned life insurance policies		5,964	(75,307)
(Decrease) increase in provisions		(19,717)	77,290
Deferred tax (benefit) expense	18	(314,221)	(390,195)
Taxes on other comprehensive income	18	(26,318)	(265,742)
Change in working capital (excluding effects from acquisitions and divestitures):			
Trade and other receivables, net		(185,474)	(658,893)
Inventories, net		(55,224)	(141,653)
Prepayments and other current assets		(963)	938
Trade and other payables and liabilities		631,254	942,965
Decrease in working capital		389,593	143,357
Share from investments in associates and joint ventures		3,579	(1,618)
Dividends from associates and joint ventures		111	173
Non-monetary movements on financial assets and liabilities		83,474	(99,913)
Movements of trading derivatives		—	3,252
Movements of operating derivatives		(62,709)	6,620
Other employee benefits, net		(128,950)	78,518
Total adjustments		2,423,157	1,250,680
Net cash provided by operating activities		2,016,608	3,014,309
Cash flows from investing activities:			
Capital expenditures	6	(851,043)	(805,840)
Proceeds from sale of property, plant and equipment		18,678	14,703
Acquisition of businesses	19	(5,551,456)	(167,176)
Proceeds from business divestitures	19	2,911,199	—
Expenditure on intangible assets		(174,238)	(199,390)
Investments (net of divestments) in associates and joint ventures	8	7,356	(48,015)
(Outflows) from treasury investments		(238,936)	(223,137)
Other investing activities		(1,201,409)	643
Net cash used in investing activities		(5,079,849)	(1,428,212)
Cash flows from financing activities:			
Net borrowings of commercial paper		503,851	888,234
Net (repayment) borrowings of line of credit facilities		(14,957)	3,900
Bonds issued		8,514,746	4,100,765
Bonds repaid		(1,744,803)	(1,872,822)
Cash movement on derivatives hedging bond principal, net		(111,173)	(317,359)
Loans (from)/to affiliates issued, net		(1,116,465)	31,669
Loans to parent company issued, net		(2,500,915)	(4,690,140)
Other changes in financial liabilities		(144,901)	(115,153)
Net cash provided (used in) by financing activities		3,385,383	(1,970,906)
Net increase (decrease) in cash and cash equivalents		322,142	(384,809)
Cash and cash equivalents at beginning of the year		45,903	430,712
Cash and cash equivalents at end of the year		\$ 368,045	45,903
Supplemental information:			
Cash paid for:			
Interest		\$ 181,762	101,745
Taxes		903,362	931,477

* 2017 restated figures include modifications as described in Note 1 Accounting policies and related impacts as described in Note 22.
See accompanying notes to consolidated financial statements.

**NESTLÉ HOLDINGS, INC.
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Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

(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 an indirect 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, and beverage products. These businesses derive revenue across the United States.

The consolidated financial statements were authorized for issue by NHI’s directors on April 3, 2019.

(a) Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Company comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on a historical cost basis, unless stated otherwise. All 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 - leases (Note 6), employee benefits (Note 7), allowance for doubtful receivables (Note 3), and income taxes (Note 18).

**NESTLÉ HOLDINGS, INC.
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Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

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 taken to the consolidated income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

Other Revenue

Other revenue is primarily sales-based royalties and license fees from third parties which have been earned during the period.

Expenses

Cost of goods sold is determined on the basis of the cost of production or of purchase, adjusted for the variation of inventories. All other expenses, including those in respect of advertising and promotions, are recognized when the Company receives the risks and rewards of ownership of the goods or when it receives the services. Government grants that are not related to assets are credited to the consolidated income statement as a reduction of the related expense when they are received, if there is reasonable assurance that the terms of the grant will be met. Additional details of specific expenses are provided in the respective notes.

**NESTLÉ HOLDINGS, INC.
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Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

(b) Changes in Presentation – Income Statement

The costs of maintenance and other costs of trade assets (such as coffee machines and freezers) previously reported under marketing, general, and administrative expenses have been reclassified to cost of goods sold to better align with the function of the expenditure.

2017 comparatives have been restated (see Note 22– presented in column “Other”).

(c) Changes in Accounting Policies

The following main changes have been applied voluntarily:

- some costs that were previously included in the carrying value of inventory are now expensed as incurred, following a revaluation of the relevance of including these costs (the major part of which relates to allocated information technology costs) in inventory. For a like-for-like comparison of the performance 2017 and onwards, the value of inventory on hand at January 1, 2017, has been restated; and
- some taxes and levies on revenue or receipts, reported previously as Taxes, are considered now respectively as Marketing, general, and administration expenses, in order to better align with the function of the expenditure.

2017 comparatives have been restated (see Note 22– presented in column “Other”).

(d) Changes in Accounting Standards

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

IFRS 9 – Financial Instruments

This standard addresses the accounting principles for the financial reporting of financial assets and financial liabilities, including classification, measurement, impairment, derecognition and hedge accounting.

The 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, investments in debt instruments whose cash flows are solely payments of principal and interest (“SPPI”) were designated either at the amortized cost or at fair value through Other Comprehensive Income depending on the objectives of the business model. The existing investments in equity instruments at the date of the initial application were generally designated at fair value through Other Comprehensive Income by election. This election had no significant net impact on the total Company’s equity.

The impact of the new impairment model has been reviewed. This analysis required the identification of the expected credit losses associated with the counterparties and, considering that the majority of the Company’s financial assets are trade receivables, integrates statistical data reflecting the actual

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past experience of incurred loss due to default. No additional impairment has been recognized on January 1, 2018.

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

This standard was mandatory for the accounting period beginning on January 1, 2018 and was applied retrospectively as at January 1, 2018, but with no restatement of comparative information for prior years. Consequently, the Company recognized any difference between the carrying amount of financial instruments under IAS 39 and the carrying amount under IFRS 9 in the opening retained earnings (or other equity components) as at January 1, 2018.

Changes to hedge accounting policies have been applied prospectively. All hedging relationships designated under IAS 39 at December 31, 2017 met the criteria for hedge accounting under IFRS 9 at January 1, 2018 and are therefore regarded as continuing hedging relationships. The changes on the fair value hierarchy of financial instruments as at January 1, 2018 are presented in Note 11. The new accounting policies are also set out in Note 5.

The total adjustment (net of taxes) to the opening equity as at January 1, 2018 was not material.

IFRS 15 – Revenue from Contracts 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 undertook a review of the main types of commercial arrangements used with customers under this model and has concluded that the application of IFRS 15 had the main following effects:

- i) As a consequence of the change in revenue recognition from transfer of risks and rewards to transfer of control, a small proportion of sales (less than 0.5% of annual sales) is recognized on average one day later under the new standard;
- ii) Payments to customers currently treated as distribution costs have been reclassified as deductions from sales under the new standard; and
- iii) The timing of accruals for certain amounts payable to customers was reviewed and as a result the current liability for these amounts at the beginning of 2017 was increased.

This standard was mandatory for the accounting period beginning on January 1, 2018 and has been applied with retrospective impact, utilizing the practical expedient to not restate contracts that begin and end within the same annual reporting period. 2017 comparatives have been restated (see Note 22).

IFRS 16 – Leases

This standard replaces 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

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leases and therefore resulted in an increase of property, plant and equipment and total financial debt at January 1, 2017.

This standard is mandatory for the accounting period beginning on January 1, 2019 but the Company early adopted it on January 1, 2018 under the full retrospective approach, utilizing the practical expedient to not reassess whether a contract contains a lease. The new accounting policies are set out in Note 6. 2017 comparatives have been restated (see Note 22).

IFRIC 23 – Uncertainty over Income Tax Treatments

IFRIC 23 specifies how to reflect uncertainty in accounting for income taxes. IFRIC 23 is mandatory for the accounting period beginning on January 1, 2019 but the Company early adopted it with effect from January 1, 2018. There was no impact on the measurement of taxes as a consequence of this adoption. The uncertain tax liabilities formerly included under non-current Other accrued liabilities have been reclassified to Current income tax liabilities. 2017 comparatives have been restated (see Note 22).

In addition, a number of other existing standards have been modified on miscellaneous points with effect from January 1, 2018. Such changes include Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2), Annual Improvements to IFRSs 2014-2016 Cycle (Amendments to IFRS 1 and IAS 28), and IFRIC 22 Foreign Currency Transactions and Advance Consideration. None of these other amendments had a material effect on the Company's consolidated financial statements.

Changes in IFRS that may affect the Company after December 31, 2018

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

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Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

(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, 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 Group Zone Americas 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, Gerber Life Insurance (divested at the end of 2018), and Nestlé Health Science form part of the Nestlé Group Other businesses segment.

2017 comparatives have been adjusted following the change of business structure.

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 include depreciation of property, plant and equipment (including right of use assets under leases) 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

**NESTLÉ HOLDINGS, INC.
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(Dollars in thousands)

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 (including right of use assets under leases), intangible assets and goodwill, including those arising from business combinations. Since January 1, 2018 and the introduction of IFRS 16, capital expenditures representing the investment in property, plant, and equipment only are not disclosed anymore.

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

Revenue

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

Revenue is measured as the amount of consideration which the Company expects to receive, based on the list price applicable to a given distribution channel after deduction of returns, sales taxes, pricing allowances, other trade discounts and couponing and price promotions to consumers. The level of discounts, allowances and promotional rebates is recognized as a deduction from revenue at the time that the related sales are recognized or when the rebate is offered to the customer (or consumer if applicable). They are estimated using judgments based on historical experience and the specific terms of the agreements with the customers. Payments made to customers for commercial services received are expensed. The Company has a range of credit terms that are typically short term, in line with market practice and without any financing component. Sales returns are generally not allowed, except in limited cases mainly in the Infant Nutrition business. Historical experience is used to estimate such returns at the time of sale. No asset is recognized for products to be recoverable from these returns, as they are not anticipated to be resold.

Trade assets (mainly coffee machines and freezers) may be sold or leased separately to customers. Arrangements where the Company transfers substantially all the risks and rewards incidental to ownership to the customer are treated as finance lease arrangements. Operating lease revenue for trade asset rentals is recognized on a straight-line basis over the lease term. Other revenue is primarily sales-based royalties and license fees from third parties which have been earned during the period.

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Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(Dollars in thousands)

Revenue and Results

2018	Brands ^(a)	PetCare	Nutrition ^(a)	Other ^(a)	Total
Sales	\$ 9,948,534	7,849,879	1,072,792	3,552,740	22,423,945
Underlying Trading operating profit ^(b)	995,911	964,165	29,230	393,438	2,382,744
Trading operating profit ^(c)	955,702	885,692	(40,325)	359,784	2,160,853
Net other trading expenses ^(d)	(40,232)	(78,238)	(69,555)	(33,866)	(221,891)
<i>Of which impairment of property, plant and equipment</i>	<i>(13,160)</i>	<i>(414)</i>	<i>(50,951)</i>	<i>(9,721)</i>	<i>(74,246)</i>
<i>Of which restructuring costs</i>	<i>(31,523)</i>	<i>(53,972)</i>	<i>(10,510)</i>	<i>(21,220)</i>	<i>(117,225)</i>
Depreciation and amortization	(319,572)	(247,058)	(60,690)	(139,504)	(766,824)
2017 ^(e)	Brands ^(a)	PetCare	Nutrition ^{(a)(f)}	Other ^{(a)(f)}	Total
Sales	\$ 9,801,211	7,619,417	1,129,326	3,337,072	21,887,026
Underlying Trading operating profit ^(b)	1,301,494	1,480,247	57,482	396,796	3,236,019
Trading operating profit ^(c)	1,195,464	1,446,718	49,962	323,581	3,015,725
Net other trading expenses ^(d)	(106,030)	(33,522)	(7,520)	(73,223)	(220,295)
<i>Of which impairment of property, plant and equipment</i>	<i>(35,429)</i>	<i>(5,427)</i>	<i>1,500</i>	<i>238</i>	<i>(39,118)</i>
<i>Of which restructuring costs</i>	<i>(56,188)</i>	<i>(28,515)</i>	<i>(4,652)</i>	<i>(59,885)</i>	<i>(149,240)</i>
Depreciation and amortization	(319,304)	(219,152)	(54,610)	(187,726)	(780,792)

^(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, Gerber Life Insurance, 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.

^(e) 2017 figures have been restated to include modifications as described in Note 1 Accounting policies and related impacts as described in Note 22.

^(f) 2017 adjusted following change of business structure, effective as from January 1, 2018, mainly the movement of Gerber Life Insurance Company to 'Other' segment.

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(Dollars in thousands)

Invested Capital and Other Information

2018	Brands ^(a)	PetCare	Nutrition ^(a)	Other ^(a)	Total
Invested capital	\$ 1,831,255	2,154,607	539,050	728,711	5,253,623
Goodwill and intangible assets	10,217,322	8,742,579	784,685	506,315	20,250,901
<i>Impairment of goodwill</i>	-	-	(260,000)	-	(260,000)
Capital additions	5,778,987	465,339	52,092	277,501	6,573,919
2017 ^(e)	Brands ^(a)	PetCare	Nutrition ^{(a)(f)}	Other ^{(a)(f)}	Total
Invested capital	\$ 2,627,427	2,408,470	582,887	2,180,869	7,799,653
Goodwill and intangible assets	4,936,624	8,746,016	2,127,509	1,705,955	17,516,104
<i>Impairment of goodwill</i>	-	-	(421,921)	(513,420)	(935,341)
Capital additions	676,271	400,443	108,589	354,305	1,539,608

^(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, Gerber Life Insurance, and Nestlé Health Science, which do not meet the criteria for separate disclosure.

^(e) 2017 figures have been restated to include modifications as described in Note 1 Accounting policies and related impacts as described in Note 22.

^(f) 2017 adjusted following change of business structure, effective as from January 1, 2018, mainly the movement of Gerber Life Insurance Company to 'Other' segment.

Reconciliation of total segment profit before taxes, associates and joint ventures:

	2018	2017 ^(e)
Trading operating profit	\$ 2,160,853	3,015,725
Unallocated items	(4,805)	(1,298)
Total trading operating profit	2,156,048	3,014,427
Net other operating expenses	(1,677,200)	(921,122)
Operating profit	478,848	2,093,305
Net financial expenses	(212,399)	(185,405)
Profit before taxes, associates and joint ventures	\$ 266,449	1,907,900

^(e) 2017 figures have been restated to include modifications as described in Note 1 Accounting policies and related impacts as described in Note 22.

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(Dollars in thousands)

Reconciliation from invested capital to total assets:

	<u>2018</u>	<u>2017^(e)</u>
Invested capital	\$ 5,253,623	7,799,653
Liabilities included in invested capital	4,807,237	5,866,184
Subtotal	<u>10,060,860</u>	<u>13,665,837</u>
Intangible assets and goodwill	20,250,901	17,516,104
Other assets	18,351,526	12,264,956
Total assets	<u>\$ 48,663,287</u>	<u>43,446,897</u>

^(e) 2017 figures have been restated to include modifications as described in Note 1 Accounting policies and related impacts as described in Note 22.

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, 2018 and 2017, respectively.

(3) Trade and Other Receivables, net

Recognition and measurement

Trade and other receivables are recognized initially at their transaction price and subsequently measured at amortized cost less loss allowances.

Expected credit losses

The Company applies the IFRS 9 simplified approach to measuring expected credit losses ("ECLs") for trade receivables at an amount equal to lifetime ECLs. The ECLs on trade receivables are calculated based on actual credit loss experience over the preceding three to five years on the total balance of non-credit impaired trade receivables. The Company's credit loss experience has shown that the aging of receivable balances is primarily due to negotiations about variable consideration.

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

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

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

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	2018			2017*		
	Gross carrying amount	Expected credit loss allowance	Total	Gross carrying amount	Expected credit loss allowance	Total
Trade and other receivables (not credit impaired)	\$ 16,610,138	(4,085)	16,606,053	12,007,481	(6,038)	12,001,443
Credit impaired trade and other receivables	820	(218)	602	605	(456)	149
	\$ 16,610,958	(4,303)	16,606,655	12,008,086	(6,494)	12,001,592

* 2017 figures have been restated to include modifications as described in Note 1 Accounting policies and related impacts as described in Note 22.

The Company's largest trade customer represents 2% and 3% of trade and other receivables, net, at December 31, 2018 and 2017, respectively.

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

	2018	2017*
By type:		
Trade, less allowances of \$4,303 and \$6,494, respectively	\$ 1,751,737	1,553,217
Due from Nestlé S.A. controlled companies	14,773,639	10,235,434
Due from associated companies	3,241	2,600
Other	78,038	210,341
Trade and other receivables, net	\$ 16,606,655	12,001,592

* 2017 figures have been restated to include modifications as described in Note 1 Accounting policies and related impacts as described in Note 22.

(4) Inventories, net

Raw materials are valued at the lower of purchase cost calculated using the FIFO (first-in, first-out) method and net realizable value. Work in progress, sundry supplies and finished goods are valued at the lower of their weighted average cost 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.

	2018	2017*
Raw materials and work in progress	\$ 530,233	492,354
Finished goods	1,186,320	1,277,220
Allowance for write-down to net realizable value	(30,606)	(26,874)
Inventories, net	\$ 1,685,947	1,742,700

* 2017 figures have been restated to include modifications as described in Note 1 Accounting policies and related impacts as described in Note 22.

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(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 at 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 at regular intervals and at least on a quarterly basis to ensure that an economic relationship exists between the hedged item and hedging instrument.

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

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

Fair Value Hedges

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

Changes in fair values of hedging instruments designated as fair value hedges and the adjustments for the risks being hedged in the carrying amounts of the underlying transactions are recognized in the 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 is recognized in other comprehensive income or loss, while any ineffective part is recognized immediately in the consolidated income statement. Ineffectiveness for hedges of foreign currency and commodity price risk may result from changes in the timing of the forecast transactions than was originally foreseen. When the hedged item results in the

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recognition of a non-financial asset or liability, the gains or losses previously recognized in other comprehensive income are included in the measurement of the cost of the asset or the liability. Otherwise, the gains or losses previously recognized in other comprehensive income are recognized in the consolidated income statement at the same time as the hedge 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.

	2018		Contractual or notional amounts
	Fair value assets	Fair value liabilities	
Fair value hedges:			
Foreign currency and interest rate risk on net financial debt	\$ —	134,831	542,648
Cash flow hedges:			
Currency risk on future purchases or sales	633	2,357	82,114
Foreign currency and interest rate risk on net financial debt	16,764	133,635	4,228,399
Commodity price risk on future purchases	9,067	21,661	483,681
Undesignated derivatives	—	506	
Total derivatives	26,464	292,990	5,336,842
Conditional offsets ^(*)			
Derivative assets and liabilities	(5,163)	(5,163)	
Balance after conditional offsets	\$ 21,301	287,827	

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

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	2017		Contractual or notional amounts
	Fair value assets	Fair value liabilities	
Fair value hedges:			
Foreign currency and interest rate risk on net financial debt	\$ 59,927	136,089	1,057,539
Cash flow hedges:			
Currency risk on future purchases or sales	1,097	1,143	92,858
Foreign currency and interest rate risk on net financial debt	55,575	182,165	4,734,693
Commodity price risk on future purchases	5,336	28,647	565,229
Undesignated derivatives	1,323	1,118	
Total derivatives	123,258	349,162	6,450,319
Conditional offsets ^(*)			
Derivative assets and liabilities	(111,070)	(111,070)	
Balance after conditional offsets	\$ 12,188	238,092	

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

Impact on the consolidated income statement for fair value hedges:

	2018	2017
Hedged items	\$ 47,208	(84,363)
Hedging instruments	(45,898)	81,799
Net gain/(loss)	\$ 1,310	(2,564)

The ineffective portion of gains/(losses) of cash flow hedges recorded during the years ended December 31, 2018 and 2017 in net financial expenses in the consolidated income statement was \$1,929 and \$459, respectively.

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(6) Property, Plant and Equipment, net

Property, plant and equipment comprises owned and leased assets.

	2018	2017
Property, plant and equipment - owned	\$ 5,452,320	5,293,510
Right-of-use assets - leased	748,600	643,643
	6,200,920	5,937,153

Owned Assets

Owned property, plant and equipment are shown in the consolidated balance sheet at their historical cost. Depreciation is assessed 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. Government grants are recognized as deferred income, which is released to the consolidated income statement over the useful life of the related assets.

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	<u>Land and buildings</u>	<u>Plant and machinery</u>	<u>Tools, furniture, and sundry</u>	<u>Vehicles</u>	<u>Information technology equipment</u>	<u>Total</u>
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	36,711	805,840
Disposals	(15,490)	(88,009)	(42,442)	(42,155)	(27,174)	(215,270)
Reclassifications/other	(157,906)	73,603	38,477	(17,129)	5,326	(57,629)
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
At December 31, 2017 ^(*)	<u>3,613,165</u>	<u>5,904,429</u>	<u>836,013</u>	<u>203,645</u>	<u>442,803</u>	<u>11,000,055</u>
Accumulated Depreciation and Impairments:						
At January 1, 2017 ^(*)	(1,167,100)	(3,542,890)	(567,287)	(193,124)	(291,504)	(5,761,905)
Depreciation	(103,104)	(329,391)	(73,173)	(21,397)	(54,484)	(581,549)
Disposals	11,616	80,377	40,397	31,891	26,542	190,823
Reclassifications/other	16,490	16,025	(20,305)	7,769	6,453	26,432
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
At December 31, 2017 ^(*)	<u>(1,176,644)</u>	<u>(3,450,747)</u>	<u>(602,269)</u>	<u>(169,770)</u>	<u>(307,115)</u>	<u>(5,706,545)</u>
Net at December 31, 2017 ^(*)	<u><u>\$ 2,436,521</u></u>	<u><u>2,453,682</u></u>	<u><u>233,744</u></u>	<u><u>33,875</u></u>	<u><u>135,688</u></u>	<u><u>5,293,510</u></u>
Gross value:						
At January 1, 2018	\$ 3,613,165	5,904,429	836,013	203,645	442,803	11,000,055
Capital expenditure ^(**)	446,689	282,930	74,808	10,324	36,292	851,043
Disposals	(150,314)	(32,003)	(17,441)	(43,945)	(55,251)	(298,954)
Reclassifications/other	(1,238)	—	—	—	—	(1,238)
Business acquisitions	—	—	3,742	—	—	3,742
Business divestitures	—	—	(3,530)	—	(8,455)	(11,985)
At December 31, 2018	<u>3,908,302</u>	<u>6,155,356</u>	<u>893,592</u>	<u>170,024</u>	<u>415,389</u>	<u>11,542,663</u>
Accumulated Depreciation and Impairments:						
At January 1, 2018	(1,176,644)	(3,450,747)	(602,269)	(169,770)	(307,115)	(5,706,545)
Depreciation	(107,937)	(319,862)	(72,239)	(13,482)	(50,121)	(563,641)
Disposals	9,622	102,656	30,212	35,533	53,858	231,881
Reclassifications/other	5,229	(164)	1,653	2,088	—	8,806
Impairment of assets (note 17)	—	(55,104)	(6,437)	(6,800)	(105)	(68,446)
Business divestitures	—	—	2,757	—	4,845	7,602
At December 31, 2018	<u>(1,269,730)</u>	<u>(3,723,221)</u>	<u>(646,323)</u>	<u>(152,431)</u>	<u>(298,638)</u>	<u>(6,090,343)</u>
Net at December 31, 2018	<u><u>\$ 2,638,572</u></u>	<u><u>2,432,135</u></u>	<u><u>247,269</u></u>	<u><u>17,593</u></u>	<u><u>116,751</u></u>	<u><u>5,452,320</u></u>

^(*) 2017 figures have been restated to include modifications as described in Note 1 Accounting policies and related impacts as described in Note 22.

^(**) Including borrowing costs.

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At December 31, 2018 and 2017, property, plant and equipment included \$252,039 and \$83,447, respectively, of assets under construction. There were \$179,048 and \$85,392 in commitments for future capital expenditures as of December 31, 2018 and 2017, 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 by closing or selling production facilities.

Leases – Company as a lessee

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

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

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

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

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

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Description of lease activities

Real estate leases

The Company leases land and buildings for its office and warehouse space and retail stores. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leases are typically made for a fixed period of 5-15 years and may include extension options which provide operational flexibility. If the Company exercised all extension options not currently included in the lease liability, the additional payment would amount to \$358,503 at December 31, 2018.

Vehicles leases

The Company leases trucks for distribution in specific businesses and cars for management and sales functions. The average contract duration is six years for trucks and three years for cars.

Other leases

The Company also leases machinery and equipment and tools, furniture and other equipment that combined are insignificant to the total leased asset portfolio.

Right-of-use assets

	<u>Land and Buildings</u>	<u>Vehicles</u>	<u>Other</u>	<u>Total</u>
Net Carrying Amount				
December 31, 2018	\$ 558,467	152,488	37,645	748,600
December 31, 2017*	489,599	130,814	23,230	643,643
Depreciation Expense for the year ended				
December 31, 2018	73,736	39,957	18,948	132,641
December 31, 2017*	59,134	17,927	12,795	89,856
Impairment for the year ended				
December 31, 2018	1,307	—	—	1,307
December 31, 2017*	25,000	—	—	25,000

Additions to right-of-use assets during 2018 were \$292,561 (2017*: \$315,755)

Other lease disclosures

A maturity analysis of lease liabilities is shown in Note 12.

The Company incurred interest expense on lease liabilities of \$13,552 (2017*: \$14,706). The expense relating to short-term leases and variable leases payments not included in the measurement of lease liabilities is not significant. The total cash outflow for leases amounted to \$205,143 (2017*: \$318,591).

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

(*) 2017 figures have been restated to include modifications as described in Note 1 Accounting policies and related impacts as described in Note 22.

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(7) Employee Benefits

Employee Remuneration

The Company's salaries of \$2,689 million (2017: \$2,837 million) and welfare expenses of \$865 million (2017: \$877 million) represent a total of \$3,554 million (2017: \$3,714 million). In addition, certain Company employees are eligible to long-term incentives in the form of equity compensation plans, for which the cost amounts to \$65 million (2017: \$69 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 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.

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

In the United States, 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. This plan was closed to new entrants at the end of 2015. In 2018, the Company elected to contribute in advance the anticipated contributions of the years 2019-2021 in addition to 2018 for a total amount of \$233 million.

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 characteristics of pensions.

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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.

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

Plan amendments and restructuring events

During 2018 and 2017, there were individually non-significant plan amendments and restructuring events which have been recognized as past service cost.

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.

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

	2018			2017		
	Defined benefit retirement plans	Post- employment medical benefits	Total	Defined benefit retirement plans	Post- employment medical benefits	Total
Present value of funded obligations \$	3,722,182	—	3,722,182	4,196,745	—	4,196,745
Fair value of plan assets	(4,062,813)	—	(4,062,813)	(4,435,319)	—	(4,435,319)
Excess of assets over funded obligations	(340,631)	—	(340,631)	(238,574)	—	(238,574)
Present value of unfunded obligations	450,388	551,900	1,002,288	488,208	610,967	1,099,175
Net Defined Benefit Liabilities	\$ 109,757	551,900	661,657	249,634	610,967	860,601
Liabilities from cash-settled share-based transactions			\$ 115,195			\$ 96,386
Liabilities from non-current deferred compensation and other			557,751			610,364
Net Liabilities			\$ 1,334,603			\$ 1,567,351
Reflected in the consolidated balance sheet as follows:						
Employee benefit assets			\$ (340,631)			\$ (238,574)
Employee benefit liabilities			1,675,234			1,805,925
Net Liabilities			\$ 1,334,603			\$ 1,567,351

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

	2018			2017		
	Defined benefit retirement plans	Post-employment medical benefits	Total	Defined benefit retirement plans	Post-employment medical benefits	Total
At January 1	\$ 4,684,953	610,967	5,295,920	4,460,754	602,631	5,063,385
<i>of which funded defined benefit plans</i>	4,196,745	—	4,196,745	3,955,842	—	3,955,842
<i>of which unfunded defined benefit plans</i>	488,208	610,967	1,099,175	504,912	602,631	1,107,543
Service cost	180,413	13,188	193,601	169,858	18,362	188,220
<i>of which current service cost</i>	178,643	16,181	194,824	165,525	18,362	183,887
<i>of which past service cost</i>	1,770	(2,993)	(1,223)	4,333	—	4,333
Interest expense	157,095	20,498	177,593	168,150	21,556	189,706
Actuarial (gains)/losses	(358,058)	(62,625)	(420,683)	275,875	(3,554)	272,321
Benefits paid on funded defined benefit plans	(441,967)	—	(441,967)	(320,608)	—	(320,608)
Benefits paid on unfunded defined benefit plans	(49,866)	(30,128)	(79,994)	(69,076)	(28,028)	(97,104)
At December 31	\$ 4,172,570	551,900	4,724,470	4,684,953	610,967	5,295,920
<i>of which funded defined benefit plans</i>	\$ 3,722,182	—	3,722,182	4,196,745	—	4,196,745
<i>of which unfunded defined benefit plans</i>	450,388	551,900	1,002,288	488,208	610,967	1,099,175

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

	2018			2017		
	Defined benefit retirement plans	Post-employment medical benefits	Total	Defined benefit retirement plans	Post-employment medical benefits	Total
At January 1	\$ 4,435,319	—	4,435,319	4,155,361	—	4,155,361
Interest income	154,019	—	154,019	162,120	—	162,120
Actual return on plan assets, excluding interest income	(317,905)	—	(317,905)	362,783	—	362,783
Employer contributions	283,213	—	283,213	144,739	—	144,739
Benefits paid on funded defined benefit plans	(491,833)	—	(491,833)	(389,684)	—	(389,684)
At December 31	\$ 4,062,813	—	4,062,813	4,435,319	—	4,435,319

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

	2018	2017
December 31:		
Equities	15.90%	16.54%
Debts	64.69	55.27
<i>of which government debts</i>	33.52	29.94
<i>of which corporate debts</i>	31.17	25.33
Alternative investments	19.41	28.19
Total	100.00%	100.00%

Equities and government debts represent 49% and 46% of the plan assets in 2018 and 2017, respectively. Almost all of them are quoted in an active market. Corporate debts, real estate, hedge funds and private equities represent 51% and 54% of the plan assets in 2018 and 2017, respectively. Almost all of them are not quoted in an active market.

Expenses recognized in the consolidated income statement are as follows:

	2018			2017		
	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	\$ 173,697	12,843	186,540	163,216	17,658	180,874
Net Interest expense	5,115	19,859	24,974	8,433	20,889	29,322
Administration expenses	10,348	—	10,348	9,480	—	9,480
Defined benefit expenses	189,160	32,702	221,862	181,129	38,547	219,676
Defined contribution expenses			93,122			98,529
Total expenses			314,984			318,205

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

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

	2018			2017		
	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	\$ (317,905)	—	(317,905)	362,783	—	362,783
Experience adjustments on plan liabilities	(41,334)	8,117	(33,217)	5,958	18,330	24,288
Change in demographic assumptions on plan liabilities	—	14,576	14,576	—	—	—
Change in financial assumptions on plan liabilities	399,663	39,932	439,595	(281,833)	(14,776)	(296,609)
Transfer from/(to) unrecognized assets and other	—	—	—	21,336	—	21,336
Remeasurement of defined benefit plans	\$ 40,424	62,625	103,049	108,244	3,554	111,798

	2018	2017
Principal financial actuarial assumptions:		
Discount rates	4.25%	3.50%
Expected rates of salary increases	3.00%	3.00%
Medical cost trend rates	5.0% – 6.75%	5.0% – 7.00%

Life expectancy as reflected in the following table is based upon the RP-2014 mortality table for 2018 and 2017.

Mortality table	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)	
	2018	2017	2018	2017
	RP-2014	20.9	20.9	23.0

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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.

	<u>2018</u>	<u>2017</u>
As reported	\$ 4,724,470	5,295,920
Discount rates		
Increase of 50 basis points	4,470,683	4,986,328
Decrease of 50 basis points	4,997,889	5,638,038
Expected rates of salary increases		
Increase of 50 basis points	4,761,609	5,339,183
Decrease of 50 basis points	4,687,825	5,253,250
Medical cost trend rates		
Increase of 50 basis points	4,724,681	5,295,943
Decrease of 50 basis points	4,712,101	5,284,252
Mortality assumption		
Setting forward the tables by 1 year	4,633,624	5,193,754
Setting back the tables by 1 year	4,802,214	5,385,452

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, 2018, the weighted-average duration of the defined benefit obligation was 11.6 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. The Beverage Partners North America partnership was dissolved as of January 1, 2018.

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

	Ownership interest		Net book value	
	2018	2017	2018	2017
Freshly, Inc.	20%	20%	\$ 33,950	38,181
Williams Inland Distributors, LLC	45	45	\$ 4,874	4,529
Beverage Partners North America	—	50	—	7,356
Total investments in joint ventures and associated companies			\$ 38,824	50,066

(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:

	2018	2017*
Employee benefits	\$ 376,626	401,777
Inventories, receivables, payables, accruals, and provisions	199,113	153,411
Financial instruments	—	2,367
Net operating losses	4,029	7,355
Others	1,098	5,892
Total deferred tax assets	\$ 580,866	570,802

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

	2018	2017*
Tangible fixed assets	\$ 522,296	524,806
Goodwill and other intangible assets	695,441	880,139
Financial instruments	6,152	9,307
Others	—	116,727
Total deferred tax liabilities	\$ 1,223,889	1,530,979

* 2017 figures have been restated to include modifications as described in Note 1 Accounting policies and related impacts as described in Note 22.

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At December 31, 2018 and 2017, 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, all of which expire in more than five years, total \$5,819 and \$21,690 as of December 31, 2018 and 2017, respectively. 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 19). 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, rights to carry on an activity (e.g. exclusive rights to sell products or to perform a supply activity). 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 8 years; and other finite intangible 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 reviewed annually. Amortization of finite life intangible assets starts when they are available for use and is allocated to the appropriate headings of expenses by function in the consolidated income statement.

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	Goodwill	Total Intangible Assets
Gross Value:		
At January 1, 2017	\$ 20,941,554	2,189,338
<i>of which indefinite useful life</i>	—	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
<i>of which indefinite useful life</i>	—	188,202
Accumulated Amortization and Impairments:		
At January 1, 2017	(3,843,813)	(1,001,179)
<i>of which indefinite useful life</i>	—	—
Amortization	—	(109,387)
Impairments (Note 17)	(935,341)	—
Disposals	—	51,916
Reclassified as held for sale	20,579	661
At December 31, 2017	(4,758,575)	(1,057,989)
<i>of which indefinite useful life</i>	—	—
Net at December 31, 2017	\$ 16,167,268	1,348,836
<i>of which indefinite useful life</i>	—	188,202
Gross Value:		
At January 1, 2018	\$ 20,925,843	2,406,825
<i>of which indefinite useful life</i>	—	188,202
Expenditure	—	174,238
Disposals	—	(134,693)
Acquisition of businesses ^(a)	987,514	4,380,200
Disposal of businesses	(1,755,817)	(1,174,533)
At December 31, 2018	20,157,540	5,652,037
<i>of which indefinite useful life</i>	—	4,275,500
Accumulated Amortization and Impairments:		
At January 1, 2018	(4,758,575)	(1,057,989)
<i>of which indefinite useful life</i>	—	—
Amortization	—	(70,542)
Impairments (Note 17)	(260,000)	(8,288)
Disposals	—	67,042
Disposal of businesses	513,421	16,255
At December 31, 2018	(4,505,154)	(1,053,522)
<i>of which indefinite useful life</i>	—	—
Net at December 31, 2018	\$ 15,652,386	4,598,515
<i>of which indefinite useful life</i>	—	4,275,500

^(a) Acquisitions are primarily related to the licensed Starbucks business in 2018 (Note 19).

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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 during the year

The 2018 Goodwill 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 acquisition of Gerber Products Company. In 2017, the Infant Nutrition CGU also included Gerber Life Insurance Company, which was divested at the end of December 2018. Following the reorganization of the Nutrition business, the goodwill associated with the Gerber Life Insurance Company has been reallocated to the ‘Others’ operating segment (see Note 2). While Infant Nutrition continues to be a clear leader and innovator in the US baby food category, sales and market share decreased during the year. Formula sales were adversely impacted by changes in government-sponsored contracts. 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 \$260,000 (\$2017: \$421,921) has been recognized under the heading of Net other operating expenses in the consolidated income statement. The 2018 carrying amount of the Infant Nutrition CGU now amounts to \$765,481, which includes \$760,981 of goodwill and \$4,500 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% (2017: 8.2%) was used in this calculation. There was no impairment of the carrying amounts of the other assets of the CGU.

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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 two CGUs have been considered as significant with regard to the total goodwill for which detailed results are presented: Pet Care and Direct Store Delivery System (DSD) for Frozen Pizza and Ice Cream. Nestlé Starbucks Coffee US is considered significant with regard to total intangible assets with indefinite useful life.

		Goodwill	
		2018	2017
PetCare	\$	8,815,865	8,813,712
DSD for Frozen Pizza and Ice Cream		2,694,169	2,694,169
Subtotal		11,510,034	11,507,881
Other CGU's		4,142,352	4,659,387
Total	\$	15,652,386	16,167,268
		Intangible assets with indefinite useful life	
		2018	2017
Nestlé Starbucks Coffee US		4,271,000	—
Subtotal		4,271,000	—
Other CGU's		4,500	188,202
Total		4,275,500	188,202

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

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

	2018				
	Period of Cash Flow Projections	Annual Sales Growth	Annual Margin Evolution	Terminal Growth Rate	Pre-Tax Discount Rate
PetCare	5 years	0.8% to 2.0%	Declining	2.0%	8.2%
DSD for Frozen Pizza and Ice Cre	5 years	-1.9% to -1.7%	Improvement	1.7%	8.4%
Nestlé Starbucks Coffee US	5 years	3.6% to 4.5%	Stable	2.5%	8.0%

	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%
DSD for Frozen Pizza and Ice Cre	5 years	-2.0% to -1.9%	Improvement	1.8%	8.7%

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

Management believes that no reasonably possible change in any of the above key assumptions would cause the CGU's recoverable amount to fall below the carrying value of the CGUs except for:

- The CGU DSD for Frozen Pizza and Ice Cream for which the following changes in the material assumptions lead to a situation where the value in use equals the carrying amount.

DSD Frozen Pizza and Ice Cream Sensitivity Analysis

	Sensitivity
Sales growth (CAGR)	Decrease by 546 basis points
Margin improvement	Decrease by 48 basis points
Terminal growth rate	Decrease by 176 basis points
Pre-tax discount rate	Increase by 180 basis points

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(11) Financial Instruments

Financial Assets – Classes and Categories

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

- measured at amortized cost;
- measured at fair value through Other comprehensive income (abbreviated as FVOCI); and
- measured at fair value through the consolidated income statement (abbreviated as FVTPL, fair value through profit or loss).

For an equity investment that is not held for trading, the Company may irrevocably elect to classify it as measured at FVOCI. This election is made at initial recognition on an investment by investment basis.

Financial Assets – Recognition and derecognition

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

Financial Assets – Measurement

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

Bonds are held in a separate portfolio governed and executed as a prudently managed broad base of quality securities. The two principal objectives of the portfolio are to maximize investment income and provide financial stability, subject to limited risk tolerance, and to obtain relatively favorable risk adjusted investment returns to achieve long-term growth of surplus. The Company considers that these securities are held within a business model whose objective is achieved both by collecting contractual cash flows and by selling securities. The contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These assets have therefore been classified as financial assets at FVOCI.

Equity securities represent investments that the Company intends to hold for the long term for strategic purposes. The Company generally designated these investments at the date of initial recognition as measure at FVOCI. The accumulated fair value reserve related to these investments is never reclassified to profit or loss.

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

Financial Assets – Impairment

The Company assesses whether its financial assets carried at amortized cost and FVOCI are impaired on the basis of ECLs. The analysis requires the identification of significant increases in the credit risk of the counterparties. Considering that the majority of the Company's financial assets are trade receivables, the analysis also integrates statistical data reflecting the past experience of losses incurred due to default. See Note 3 for impairments related to trade receivables.

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

The Company considers a debt security to have low credit risk when its credit rating is "investment grade" i.e. equivalent to BBB- or higher per Standard & Poor's Corporation's rating scale. To assess whether there is a significant increase in credit risk since initial recognition, the Company considers available reasonable and supportive information such as changes in the credit rating of the counterparty. If there is a significant increase in credit risk the loss allowance is measured at an amount equal to lifetime expected loss.

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

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

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

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

Financial Liabilities at Amortized Cost

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

Subsequent to initial measurement, financial liabilities are recognized at amortized cost. The difference between the initial carrying amount of the financial liabilities and their redemption value is recognized in the consolidated income statement over the contractual terms using the effective interest rate method. This

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category includes the following classes of financial liabilities: trade and other payables, commercial paper, bonds, lease liabilities, and other financial liabilities.

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

Financial liabilities are 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.

Financial Assets and Liabilities by Class and by Category:

	2018	2017*
By class:		
Cash and cash equivalents ^(a)	\$ 368,045	45,903
Trade and other receivables, net	16,606,655	12,001,592
Derivative assets (Note 5)	26,464	123,258
Bonds and debt funds	1,431,878	3,509,735
Equity and equity funds	328,929	386,386
Investments in life insurance company general accounts	576,854	555,625
Loans to Affiliates	64,072	30,408
Policy loans	—	162,427
Other financial assets ^(b)	121,170	108,686
Total financial assets	19,524,067	16,924,020
Trade and other payables	3,101,547	2,059,730
Financial liabilities – current	6,064,089	6,102,845
Derivative liabilities (Note 5)	292,990	349,162
Financial liabilities – non-current	16,389,379	9,320,911
Total financial liabilities	25,848,005	17,832,648
Net financial position	\$ (6,323,938)	(908,628)

^(a) Includes bank balance of \$368,045 (2017: \$45,903) and time deposits of \$0 (2017: \$0).

^(b) Includes short-term investments.

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	2018	2017*
By category:		
At amortized cost:		
Loans and receivables (including cash and cash equivalents) ^(c)	\$ 17,123,281	12,161,215
At fair value to the income statement:		
Derivative assets (Note 5)	26,464	123,258
Financial assets	2,374,322	511,269
Available-for-sale assets (including short-term investments) ^(d)	-	4,128,278
Total financial assets	19,524,067	16,924,020
Liabilities at amortized cost ^(c)	25,555,015	17,483,486
Derivative liabilities at fair value to the income statement (Note 5)	292,990	349,162
Total financial liabilities	25,848,005	17,832,648
Net financial position	\$ (6,323,938)	(908,628)
<i>of which at fair value</i>	2,107,796	4,320,356

^(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 assets primarily represent debt and equity securities totaling \$3,461,772 at 2017.

^(*) 2017 figures have been restated to include modifications as described in Note 1 Accounting policies and related impacts as described in Note 22.

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:

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

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	2018	2017
Fair value hierarchy of financial instruments:		
Derivative assets	\$ 8,064	41,390
Bonds and debt funds	1,184,092	182,025
Equity and equity funds	10,036	9,349
Other financial assets	20,433	2,300
Derivative liabilities	(20,308)	(16,847)
	1,202,317	218,217
Prices quoted in active markets (Level 1)		
Time deposits	—	1,042
Derivative assets	18,400	81,868
Bonds and debt funds	244,461	3,321,339
Equity and equity funds	224,188	281,441
Investments in life insurance company general accounts	576,854	555,625
Other financial assets	12,500	18,303
Derivative liabilities	(272,682)	(332,315)
	803,721	3,927,303
Valuation techniques based on observable market data (Level 2)		
	101,758	174,836
Valuation techniques based on unobservable input (Level 3)		
	2,107,796	4,320,356
Total financial instruments at fair value	\$ 2,107,796	4,320,356

There have been no significant transfers between the different hierarchy levels in 2018.

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Changes in liabilities arising from financing activities

	<u>2018</u>	<u>2017*</u>
At January 1	\$ (15,742,010)	(13,109,673)
Currency retranslations and exchange differences	176,381	(242,102)
Changes in fair values	12,191	12,697
Imputed Interest on financial debt	(207,984)	(60,336)
(Inflows)/Outflows on interest derivatives	(50,921)	588,975
Inflows from bonds and other non-current financial debt	(8,673,800)	(4,935,485)
Outflows from bonds and other on-current financial debt	1,533,453	1,855,275
Outflows from current financial debt	<u>230,756</u>	<u>148,639</u>
At December 31	<u>(22,721,934)</u>	<u>(15,742,010)</u>
of which current financial debt	(6,064,089)	(6,102,845)
of which non-current financial debt	(16,389,379)	(9,320,911)
of which derivatives hedging financial debt	(268,466)	(318,254)

* 2017 figures have been restated to include modifications as described in Note 1 Accounting policies and related impacts as described in Note 22.

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Bonds

	<u>Comments</u>	<u>Coupon</u>	<u>Effective interest rate</u>	<u>Year of issue/ maturity</u>	<u>2018</u>	<u>2017</u>
CHF 250,000	(b)	2.63	2.66	2007-2018	\$ —	257,027
USD 500,000		1.25	1.32	2012-2018	—	499,987
AUD 175,000	(b)	3.75	3.84	2013-2018	—	136,488
USD 400,000		1.38	1.50	2013-2018	—	399,716
AUD 200,000	(a)	3.88	4.08	2013-2018	—	155,644
AUD 300,000	(a)	4.13	4.33	2013-2018	—	233,316
AUD 100,000	(b)	4.13	4.34	2013-2018	—	79,185
USD 500,000		2.00	2.17	2013-2019	499,195	498,359
USD 500,000		2.25	2.41	2013-2019	499,844	499,043
USD 400,000		2.00	2.06	2014-2019	399,823	399,592
AUD 250,000	(b)	4.25	4.43	2014-2020	179,008	201,038
NOK 1,000,000	(b)	2.75	2.85	2014-2020	116,359	124,593
USD 650,000		2.13	2.27	2014-2020	649,007	648,069
AUD 175,000	(b)	3.63	3.77	2014-2020	126,794	140,933
GBP 400,000	(a)	1.75	1.82	2015-2020	508,524	537,564
GBP 100,000	(b)	1.75	1.68	2016-2020	128,690	137,872
USD 550,000		1.88	2.03	2016-2021	548,224	547,437
USD 600,000		1.38	1.52	2016-2021	597,782	596,931
GBP 500,000	(a)	1.00	1.17	2017-2021	633,965	669,692
USD 650,000		2.38	2.50	2017-2022	647,687	646,966
USD 300,000		2.25	2.35	2017-2022	299,035	298,762
USD 800,000		2.38	2.55	2017-2022	794,821	793,567
EUR 850,000	(a)	0.88	0.92	2017-2025	969,599	1,012,835
CHF 550,000	(a)	0.25	0.24	2017-2027	558,517	563,851
CHF 150,000	(a)	0.55	0.54	2017-2032	152,305	153,750
USD 1,000,000		3.10	3.17	2018-2021	998,290	—
USD 600,000	(c)	3.13	3.28	2018-2023	596,404	—
USD 1,500,000	(c)	3.35	3.41	2018-2023	1,496,179	—
USD 900,000	(c)	3.50	3.59	2018-2025	895,200	—
USD 1,250,000	(c)	3.63	3.72	2018-2028	1,240,444	—
USD 1,250,000	(c)	3.90	4.01	2018-2038	1,230,560	—
USD 2,100,000	(c)	4.00	4.11	2018-2048	2,059,380	—
Other bonds issued by Nestlé Purina PetCare Company:						
USD 63,210		9.30	6.46	1991-2021	67,116	68,622
USD 78,963		8.63	6.46	1992-2022	83,833	85,198
USD 43,927		8.13	6.47	1993-2023	46,489	47,023
USD 51,164		7.88	6.45	1995-2025	54,671	55,098
Other Bonds					1,814	1,823
Total carrying amount ^(d)					\$ 17,079,559	10,489,981
<i>of which due within one year</i>					<i>1,398,862</i>	<i>1,761,363</i>
<i>of which due after one year</i>					<i>15,680,696</i>	<i>8,728,617</i>
Fair value ^(d) of bonds, based on prices quoted (level 2)					17,115,420	10,570,170

Several bonds are hedged by currency and/or interest derivatives. The fair value of these derivatives is shown under derivative assets of \$16,764 (2017: \$115,502) and under derivative liabilities of \$251,502 (2017: \$271,421).

- (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) Sold in the United States only to qualified institutional buyers and outside the United States to non-U.S. persons.
- (d) Carrying amount and fair value of bonds exclude accrued interest.

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(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 monitored by an independent Middle Office, which verifies the compliance of the strategies and/or operations with the approved guidelines and decisions taken by the ALMC.

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.

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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

Financial assets include 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.

	2018	2017
Investment grade (A- and above)	\$ 2,410,642	3,137,203
Investment grade (BBB+, BBB and BBB-)	29,891	1,156,434
Non-investment grade (BB+ and below)	28,273	169,363
Not rated ^(*)	365,083	413,385
Total financial assets (excluding receivables and inter-group loans)	\$ 2,833,889	4,876,385

^(*) 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.

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2018						
	1st year	2nd year	3rd to 5th year	After the 5th year	Contractual amount	Carrying amount
Trade and other payables	\$ 3,101,547	—	—	—	3,101,547	3,101,547
Commercial paper	4,451,153	—	—	—	4,451,153	4,438,186
Bonds	1,876,245	2,149,004	7,863,726	10,392,977	22,281,952	17,079,559
Lease liabilities	129,666	126,052	311,672	368,002	935,392	815,915
Other financial debt	111,908	—	—	—	111,908	111,908
Other financial liabilities	—	—	—	7,900	7,900	7,900
Total financial debt	6,568,972	2,275,056	8,175,398	10,768,879	27,788,305	22,453,468
Financial liabilities (excluding derivatives)	9,670,519	2,275,056	8,175,398	10,768,879	30,889,852	25,555,015
Non-currency derivative assets	9,067	—	—	—	9,067	9,067
Non-currency derivative liabilities	(31,878)	(5,591)	(2,260)	—	(39,729)	(39,067)
Gross amount receivable from currency derivatives	100,263	665,020	675,499	1,712,895	3,153,677	2,969,724
Gross amount payable from currency derivatives	(158,562)	(833,672)	(823,925)	(1,861,359)	(3,677,518)	(3,206,250)
Net derivatives	(81,110)	(174,243)	(150,686)	(148,464)	(554,503)	(266,526)
<i>of which derivatives under cash flow hedges</i>	\$ (78,084)	(154,444)	(150,686)	(148,129)	(531,343)	(131,187)
2017*						
	1st year	2nd year	3rd to 5th year	After the 5th year	Contractual amount	Carrying amount
Trade and other payables	\$ 2,059,730	—	—	—	2,059,730	2,059,730
Commercial paper	4,112,129	—	—	—	4,112,129	4,102,545
Bonds	1,968,578	1,569,509	5,790,735	1,884,457	11,213,279	10,489,981
Lease liabilities	99,415	133,668	261,379	246,059	740,521	663,661
Other financial debt	140,611	6,083	12,312	16,853	175,859	167,569
Total financial debt	6,320,733	1,709,260	6,064,426	2,147,369	16,241,788	15,423,756
Financial liabilities (excluding derivatives)	8,380,463	1,709,260	6,064,426	2,147,369	18,301,518	17,483,486
Non-currency derivative assets	6,430	—	—	—	6,430	6,430
Non-currency derivative liabilities	(51,312)	(16,336)	(10,379)	—	(78,027)	(76,598)
Gross amount receivable from currency derivatives	1,022,500	46,298	1,875,086	1,775,335	4,719,219	4,611,325
Gross amount payable from currency derivatives	(1,149,493)	(98,266)	(2,161,668)	(1,911,640)	(5,321,067)	(4,767,061)
Net derivatives	(171,875)	(68,304)	(296,961)	(136,305)	(673,445)	(225,904)
<i>of which derivatives under cash flow hedges</i>	\$ (180,222)	(69,405)	(199,443)	(136,305)	(585,375)	(149,947)

* 2017 figures have been restated to include modifications as described in Note 1 Accounting policies and related impacts as described in Note 22.

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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 77% (2017*: 66%).

* 2017 figures have been restated to include modifications as described in Note 1 Accounting policies and related impacts as described in Note 22.

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.

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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 \$(65) and \$(142) for the years ended December 31, 2018 and 2017, 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

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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.

(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 in the judgment of Company management it is highly probable that 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.

	2018	2017
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.

(14) Accruals

Accruals 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:

	2018	2017*
Accrued payroll	\$ 419,451	434,833
Accrued trade spend and promotional expenses	579,010	543,361
Accrued life insurance policy reserves	—	247,413
Accrued interest	175,831	102,616
Accrued defined contribution expense	—	24,869
Other accrued expenses	433,902	411,113
Total accruals	\$ 1,608,194	1,764,205

(*) 2017 figures have been restated to include modifications as described in Note 1 Accounting policies and related impacts as described in Note 22.

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(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 balance sheet date.

Contingent Assets and Liabilities

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

Provisions

Provisions are as follows:

	<u>Restructuring</u>	<u>Environmental</u>	<u>Other</u>	<u>Total</u>
At December 31, 2017*	\$ 201,377	19,429	70,136	290,942
Provisions made in the year	127,869	3,205	36,661	167,735
Amounts used	(124,180)	(1,108)	(44,673)	(169,961)
Unused amounts reversed	(10,114)	—	(8,421)	(18,535)
Unwind of discount	—	919	125	1,044
At December 31, 2018	<u>\$ 194,952</u>	<u>22,445</u>	<u>53,828</u>	<u>271,225</u>
<i>of which expected to be settled within 12 months</i>	<i>\$ 168,117</i>	<i>1,988</i>	<i>21,875</i>	<i>191,980</i>

(*) 2017 figures have been restated to include modifications as described in Note 1 Accounting policies and related impacts as described in Note 22.

Restructuring

Restructuring provisions arise from a number of projects across the Company. 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).

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During 2018, the Company initiated and continued with a number of reorganizations within all of the operating segments to reduce structural costs and to optimize production. As part of these actions, net increases to restructuring provisions of \$117,755 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.

Other Provisions

In 2018, the Company recorded provisions concerning onerous contracts and litigation.

Contingencies

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.

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”.

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	Note	2018	2017*
Interest income	\$	426,133	181,282
Interest expense		(614,454)	(336,768)
Net financing cost of net debt		(188,321)	(155,486)
Interest income on defined benefit plans	7	14,347	13,082
Interest expense on defined benefit plans	7	(39,321)	(42,404)
Net interest expense on defined benefit plans		(24,974)	(29,322)
Other		896	(597)
Net financial expenses	\$	(212,399)	(185,405)

Interest expenses on amounts due to affiliated and associated companies and bonds and commercial paper guarantee fees to Nestlé S.A. amounted to \$(73,094) and \$(59,027) in 2018 and 2017*, respectively. Interest income on amounts due from affiliated and associated companies amounted to \$385,940 and \$179,359 in 2018 and 2017*, respectively.

* 2017 figures have been restated to include modifications as described in Note 1 Accounting policies and related impacts as described in Note 22.

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

Net Other Trading Income/(Expense)

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

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

	<u>2018</u>	<u>2017*</u>
Return on company-owned life insurance	\$ 27,943	82,262
Reversal of unused restructuring provisions	10,114	3,631
Franchise and royalty income	185	883
Miscellaneous trading income	235	99
Other trading income	<u>38,477</u>	<u>86,875</u>
Restructuring costs	(127,339)	(152,867)
Impairment of property, plant and equipment and intangible assets	(78,041)	(39,118)
Litigation and onerous contracts (**)	(37,362)	(44,757)
Result on deferred compensation	(18,548)	(61,481)
Miscellaneous trading expenses	(2,688)	(8,050)
Other trading expenses	<u>(263,978)</u>	<u>(306,273)</u>
Total net other trading expenses	<u>\$ (225,501)</u>	<u>(219,398)</u>

* 2017 figures have been restated to include modifications as described in Note 1 Accounting policies and related impacts as described in Note 22.

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

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

	<u>2018</u>	<u>2017*</u>
Gain on disposal of businesses (a)	\$ 853,353	—
Miscellaneous operating income	56,212	44,512
Other operating income	<u>909,565</u>	<u>44,512</u>
Loss/expenditures on disposal of business (a)	(2,222,157)	(8,015)
Impairment of goodwill (b)	(260,000)	(935,341)
Miscellaneous operating expenses	(104,608)	(22,278)
Other operating expenses	<u>(2,586,765)</u>	<u>(965,634)</u>
Total net other operating expenses	<u>\$ (1,677,200)</u>	<u>(921,122)</u>

(a) See acquisitions and disposals of businesses (Note 19).

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

* 2017 figures have been restated to include modifications as described in Note 1 Accounting policies and related impacts as described in Note 22.

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(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” reduced 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 are 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.

“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:

	2018	2017*
Current tax	\$ (1,009,958)	(801,826)
Deferred tax	314,221	390,195
Taxes related to other comprehensive income	26,318	265,742
Income tax (expense)	\$ (669,419)	(145,889)

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

	<u>2018</u>	<u>2017*</u>
Tangible fixed assets	\$ 162	261,992
Goodwill and other intangible assets	184,698	385,718
Employee benefits	(25,162)	(272,924)
Inventories, receivables, payables, accruals, and provisions	(9,921)	(51,626)
Financial instruments	788	(29,881)
Net operating losses	(3,326)	(5,215)
Other	166,982	102,131
Deferred tax (expense)	\$ <u>314,221</u>	<u>390,195</u>

Taxes recognized in other comprehensive income/(loss):

	<u>2018</u>	<u>2017*</u>
Tax effect relating to:		
Fair value adjustments on cash flow hedges	\$ (11,430)	(9,969)
Fair value of available-for-sale assets	—	(16,710)
Fair value changes on equity instruments	11,028	—
Defined benefit plan actuarial losses	(25,916)	(239,063)
Total taxes recognized	\$ <u>(26,318)</u>	<u>(265,742)</u>

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

	<u>2018</u>	<u>2017*</u>
Tax at theoretical rate	\$ (115,013)	(733,199)
Tax effect on non-deductible amortization and impairment of goodwill and other intangible assets	(393,524)	(360,221)
Permanent differences on company-owned life insurance policies	2,230	36,293
Tax effect of non-deductible or non-taxable items	(632)	81,182
Prior years' taxes	(160,401)	57,906
Transfers from unrecognized deferred tax assets	8,257	—
Change of tax rate	—	780,496
Other taxes	(10,336)	(8,346)
Income tax (expense)	\$ <u>(669,419)</u>	<u>(145,889)</u>

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(19) 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.

Modification of the Scope of Consolidation

Acquisitions

At the end of August 2018, the Company acquired the perpetual rights to market, sell and distribute certain Starbucks' consumer packaged goods and foodservice products in the United States ("Starbucks Alliance"), including roast and ground coffee, whole beans and instant and portioned coffee (Brands).

None of the other acquisitions in 2018 were significant.

In 2017, the acquisitions during the year included:

- Sweet Earth, Inc., plant-based foods manufacturer (Brands), 100%, (October)
- Chameleon Cold Brew, LLC, premium crafted coffee (Brands), 100%, (November)

Disposals

In 2018, the main disposals during the year were:

- U.S. Confectionery business, confectionery, (Brands), 100%, March.
- Gerber Life Insurance, insurance, (Other), 100%, December.

There were no disposals in 2017.

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Acquisitions of Businesses

The Starbucks Alliance transferred control over the existing businesses mainly in the United States. It excludes Ready-to-Drink products and all sales of any products within Starbucks coffee shops. Consumer and foodservice products include *Starbucks*, *Seattle's Best Coffee*, *Teavana*, *Starbucks VIA Instant*, *Torrefazione Italia* coffee and *Starbucks* branded *K-Cup* pods. Through the Starbucks Alliance, the Company and Starbucks will work closely together on the existing Starbucks range of roast and ground coffee, whole beans as well as instant and portioned coffee. This partnership with Starbucks significantly strengthens the Company's coffee portfolio in the United States premium roast and ground and portioned coffee business. This creates synergies that result in goodwill being recognized, which is expected to be deductible for tax purposes.

Sales and profit for the year of the Starbucks Alliance business included in the Consolidated Financial Statements for the year ended December 31, 2018 amount respectively to \$774,500 and \$144,407. The Company's total sales and loss for the year would have amounted to \$23,679,429 and \$(106,781) respectively if the acquisition had been effective January 1, 2018.

Also during 2018, a small acquisition and adjustments to the provisional balances from the 2017 acquisitions of Sweet Earth, Inc. and Chameleon Cold Brew, LLC, resulted in an increase in goodwill of \$6,414.

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 sourced consciously and grown sustainably. The business includes one brand, *Chameleon Cold-Brew*, which is included in the Brands segment and will enhance the Company's coffee portfolio with its number one organic cold brew brand in the US, and one of the top three refrigerated cold brew brands in the United States.

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

	<u>Starbucks</u>	<u>Other</u> ^[b]	<u>2018</u>	<u>2017</u>
	<u>Alliance</u> ^[a]		<u>Total</u>	<u>Total</u>
Property, plant and equipment	\$ 3,742	-	3,742	\$ 10,360
Intangible assets	4,380,200	-	4,380,200	72,719
Inventories, prepaid inventories and other assets	180,000	-	180,000	11,689
Employee benefits, deferred taxes and provisions	-	-	-	(6,668)
Other liabilities	-	-	-	(7,689)
Fair value of identifiable net assets	\$ 4,563,942	-	4,563,942	\$ 80,411

The goodwill arising on acquisitions and the cash outflows were:

	<u>Starbucks</u>	<u>Other</u> ^[b]	<u>2018</u>	<u>2017</u>
	<u>Alliance</u> ^[a]		<u>Total</u>	<u>Total</u>
Fair value of consideration transferred	\$ 5,545,042	6,414	5,551,456	\$ 167,176
Fair value of identifiable net assets	(4,563,942)	-	(4,563,942)	(80,411)
Goodwill	\$ 981,100	6,414	987,514	\$ 86,765
Fair value of consideration transferred	\$ 5,545,042	6,414	5,551,456	\$ 167,176
Cash and cash equivalents acquired	-	-	-	-
Cash outflow on acquisitions	\$ 5,545,042	6,414	5,551,456	\$ 167,176

^[a] The valuation of the assets and liabilities acquired through the Starbucks Alliance is in process and the values are determined provisionally.

^[b] A small acquisition and adjustments to the provisional balances from the 2017 acquisitions of Sweet Earth, Inc. and Chameleon Cold Brew, LLC, resulted in an increase in goodwill of \$6,414.

Acquisition-related costs, which mostly relate to the Starbucks Alliance in 2018 and acquisitions of Chameleon Cold Brew, LLC, and Sweet Earth, Inc. in 2017, were recognized under net operating expenses in the consolidated income statement (Note 17) for an amount of \$7,802 in 2018 and \$8,931 in 2017.

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(a) Disposals of Businesses

In 2018, the loss on disposals of businesses is mainly composed of the disposal at the end of December 2018 of the Gerber Life Insurance business (part of the Other businesses segment) for (\$2,222,157). This is offset by the gain from the disposal at the end of March 2018 of the U.S. Confectionery business for \$798,266. The U.S. Confectionery business was classified as held for sale as of December 31, 2017.

In 2017, the expenditures on disposals of businesses \$8,015 (Note 17) are primarily due to the Confections disposal group.

		<u>Gerber Life Insurance</u>	<u>US Confectionery</u>	<u>Other</u>	<u>2018 Total</u>	<u>2017 Total</u>
Property, plant and equipment	\$	(8,588)	-	-	(8,588)	-
Goodwill and intangible assets		(2,400,674)	-	-	(2,400,674)	-
Inventories		-	(27,564)	-	(27,564)	-
Assets Held for sale		-	(390,016)	-	(390,016)	-
Other assets		(213,314)	(8,574)	-	(221,888)	-
Non-current financial assets		(3,486,748)	-	-	(3,486,748)	-
Financial liabilities		3,886	-	-	3,886	-
Other liabilities		2,500,526	-	-	2,500,526	-
Net assets disposed of	\$	<u>(3,604,912)</u>	<u>(426,154)</u>	<u>-</u>	<u>(4,031,066)</u>	<u>-</u>
Cumulative other comprehensive income items, net reclassified to income statement		(171,282)	-	-	(171,282)	-
Disposal costs		(2,162)	(75,580)	87	(77,655)	(8,015)
Consideration received	\$	1,556,199	1,300,000	55,000	2,911,199	-
(Loss)/profit on current year disposal		<u>(2,222,157)</u>	<u>798,266</u>	<u>55,087</u>	<u>(1,368,804)</u>	<u>(8,015)</u>

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(20) 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 Consolidated Financial Statements for the year ended December 31, 2018.

The Company was not aware of specific events or transactions occurring after December 31, 2018, and up to April 3, 2019 that would have a material impact on the presentation of the accompanying consolidated interim financial statements.

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

Maturities			
Issue date	Face value	Coupon	Maturity
9/12/2013	USD 500,000	2.25%	3/12/2019

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(21) Transactions with Related Parties

Royalties to affiliated company

The license agreements under which the Company and its subsidiaries are granted use of licensed brands and obtain technical assistance from the affiliated company were modified when renewed and/or amended with effect from 2018. The main effect of this modification is that the former fixed royalty rate was replaced with a variable royalty rate which could be lower or higher than the former rate, depending on the profitability of the Company.

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 is one non-executive director.

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

	<u>2018</u>	<u>2017</u>
Salaries and other short-term employee benefits	\$ 13,999	15,456
Share-based payments	12,615	11,448
Post-employment benefits	<u>1,310</u>	<u>1,255</u>
Total compensation	\$ <u>27,924</u>	<u>28,159</u>

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Loans with Related Parties

	<u>2018</u>	<u>2017</u>
Loans from Nestlé S.A.:		
At January 1	\$ —	850,052
Loan repayments	—	(850,052)
At December 31	\$ —	—
Loans to Nestlé S.A.:		
At January 1	\$ 198,790	198,790
Loan repayments	(198,790)	—
At December 31	\$ —	198,790
Loans to NIMCO US, Inc. (Parent):		
At January 1	\$ 8,432,307	4,592,220
Loans granted during year	3,663,960	3,840,087
Loan repayments	—	—
At December 31	\$ 12,096,267	8,432,307
Loans from affiliates:		
At January 1	\$ 25,945	11,404
Loans received during year	—	14,541
Loan repayments	(25,945)	—
At December 31	\$ —	25,945
Loans to affiliates:		
At January 1	\$ 1,469,215	1,486,343
Loans granted during year	1,506,596	155,825
Loan repayments	(416,076)	(172,953)
At December 31	\$ 2,559,735	1,469,215

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

(22) Restatements of 2017 Comparatives

As described in Note 1 Accounting policies, comparative figures have been restated following the application of IFRS 15, IFRS 16, IFRIC 23 as well as some other changes in presentation and in accounting policies. Impacts on the consolidated income statement, consolidated statement of comprehensive income, consolidated cash flow statement, and consolidated balance sheet are presented thereafter.

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Consolidated Balance Sheet as at January 1, 2017

Assets	January 1, 2017 as originally published	IFRS 15	IFRS 16	Other	January 1, 2017 Restated
Current assets:					
Cash and cash equivalents	\$ 430,712	—	—	—	430,712
Short-term investments	42,475	—	—	—	42,475
Trade and other receivables, net	8,330,288	(93,749)	—	—	8,236,539
Inventories, net	1,591,315	68,118	—	—	1,659,433
Derivative assets	92,074	—	—	—	92,074
Prepayments	85,843	(180)	(2,124)	—	83,539
Total current assets	10,572,707	(25,811)	(2,124)	—	10,544,772
Non-current assets:					
Property, plant and equipment, net	5,329,648	—	418,256	—	5,747,904
Employee benefits assets	178,183	—	—	—	178,183
Investments in joint ventures and associated companies	8,621	—	—	—	8,621
Deferred tax assets	918,928	—	—	—	918,928
Financial assets	4,226,938	—	—	—	4,226,938
Goodwill	17,097,741	—	—	—	17,097,741
Intangible assets, net	1,188,159	—	—	—	1,188,159
Total non-current assets	28,948,218	—	418,256	—	29,366,474
Total assets	\$ 39,520,925	(25,811)	416,132	—	39,911,246
Liabilities and Equity					
Current liabilities:					
Trade and other payables	\$ 1,837,626	—	—	542	1,838,168
Financial liabilities	6,009,843	—	92,016	—	6,101,859
Provisions	115,012	—	—	—	115,012
Derivative liabilities	873,081	—	—	—	873,081
Current income tax liabilities	83,628	—	—	(542)	83,086
Accruals	1,538,798	181,021	—	—	1,719,819
Total current liabilities	10,457,988	181,021	92,016	—	10,731,025
Non-current liabilities:					
Financial liabilities	6,254,350	—	365,128	—	6,619,478
Employee benefits liabilities	1,785,210	—	—	—	1,785,210
Deferred tax liabilities	2,322,198	(55,049)	(7,543)	—	2,259,606
Provisions	98,640	—	—	—	98,640
Other accrued liabilities	2,223,484	—	—	—	2,223,484
Total non-current liabilities	12,683,882	(55,049)	357,585	—	12,986,418
Total liabilities	23,141,870	125,972	449,601	—	23,717,443
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	(1,010,767)	—	—	—	(1,010,767)
Accumulated earnings	11,765,425	(151,783)	(33,469)	—	11,580,173
Total equity	16,379,055	(151,783)	(33,469)	—	16,193,803
Total liabilities and equity	\$ 39,520,925	(25,811)	416,132	—	39,911,246

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Consolidated Balance Sheet as at December 31, 2017

Assets	December 31, 2017 as originally published	IFRS 15	IFRS 16	Other	December 31, 2017 Restated
Current assets:					
Cash and cash equivalents	\$ 45,903	—	—	—	45,903
Short-term investments	54,601	—	—	—	54,601
Trade and other receivables, net	12,095,341	(93,749)	—	—	12,001,592
Inventories, net	1,674,582	68,118	—	—	1,742,700
Derivative assets	123,258	—	—	—	123,258
Assets held for sale	390,016	—	—	—	390,016
Prepayments	79,766	(180)	(2,124)	—	77,462
Total current assets	14,463,467	(25,811)	(2,124)	—	14,435,532
Non-current assets:					
Property, plant and equipment, net	5,334,907	—	602,246	—	5,937,153
Employee benefits assets	238,574	—	—	—	238,574
Investments in joint ventures and associated companies	50,066	—	—	—	50,066
Deferred tax assets	570,802	—	—	—	570,802
Financial assets	4,698,666	—	—	—	4,698,666
Goodwill	16,167,268	—	—	—	16,167,268
Intangible assets, net	1,348,836	—	—	—	1,348,836
Total non-current assets	28,409,119	—	602,246	—	29,011,365
Total assets	\$ 42,872,586	(25,811)	600,122	—	43,446,897
Liabilities and Equity					
Current liabilities:					
Trade and other payables	\$ 2,058,669	—	—	1,061	2,059,730
Financial liabilities	6,003,430	—	99,415	—	6,102,845
Provisions	202,029	—	—	—	202,029
Derivative liabilities	349,162	—	—	—	349,162
Current income tax liabilities	25,245	—	—	329,618	354,863
Accruals	1,583,260	181,021	(76)	—	1,764,205
Total current liabilities	10,221,795	181,021	99,339	330,679	10,832,834
Non-current liabilities:					
Financial liabilities	8,756,665	—	564,246	—	9,320,911
Employee benefits liabilities	1,805,925	—	—	—	1,805,925
Deferred tax liabilities	1,593,303	(55,049)	(7,275)	—	1,530,979
Provisions	112,248	—	(23,335)	—	88,913
Other accrued liabilities	2,304,969	—	(268)	(330,679)	1,974,022
Total non-current liabilities	14,573,110	(55,049)	533,368	(330,679)	14,720,750
Total liabilities	24,794,905	125,972	632,707	—	25,553,584
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)	—	—	—	(1,074,886)
Accumulated earnings	13,528,170	(151,783)	(32,585)	—	13,343,802
Total equity	18,077,681	(151,783)	(32,585)	—	17,893,313
Total liabilities and equity	\$ 42,872,586	(25,811)	600,122	—	43,446,897

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Consolidated Income Statement for the year ended December 31, 2017

	January- December as originally published	IFRS 15	IFRS 16	Other	January- December 2017 Restated
Sales	\$ 21,975,415	(88,389)	—	—	21,887,026
Cost of goods sold	(11,988,149)	—	309	(56,256)	(12,044,096)
Distribution expenses	(2,035,228)	88,389	6,869	—	(1,939,970)
Marketing, general and administrative expenses	(3,531,336)	—	7,435	50,890	(3,473,011)
Royalties to affiliated company	(1,196,124)	—	—	—	(1,196,124)
Net other trading expenses	(219,398)	—	—	—	(219,398)
Trading operating profit	3,005,180	—	14,613	(5,366)	3,014,427
Net other operating expenses	(921,122)	—	—	—	(921,122)
Operating profit	2,084,058	—	14,613	(5,366)	2,093,305
Net financial expenses	(174,437)	—	(10,968)	—	(185,405)
Profit before taxes, associates, and joint ventures	1,909,621	—	3,645	(5,366)	1,907,900
Income tax expense	(148,494)	—	(2,761)	5,366	(145,889)
Profit from associates and joint ventures	1,618	—	—	—	1,618
Profit (loss) for the period	\$ 1,762,745	—	884	—	1,763,629

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Statement of Comprehensive Income for the year ended December 31, 2017

	December 31, 2017 as originally published	IFRS 15	IFRS 16	Other	December 31, 2017 Restated
Profit for the period recognized in the income statement	\$ 1,762,745	—	884	—	1,763,629
Fair value adjustments on available-for-sale financial instrument, net of taxes:	53,182	—	—	—	53,182
Fair value adjustments on cash flow hedges, net of taxes:	9,964	—	—	—	9,964
Items that are or may be reclassified subsequently to the income statement	63,146	—	—	—	63,146
Remeasurement of defined benefit plans, net of taxes:	(127,265)	—	—	—	(127,265)
Items that will never be reclassified to the income statement	(127,265)	—	—	—	(127,265)
Other comprehensive loss	(64,119)	—	—	—	(64,119)
Total comprehensive income	\$ 1,698,626	—	884	—	1,699,510

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Consolidated Cash Flow Statement for the year ended December 31, 2017

	December 31, 2017 as originally published	IFRS 15	IFRS 16	Other	December 31, 2017 Restated
Cash flows from operating activities:					
Net (loss) income	\$ 1,762,745	—	884	—	1,763,629
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation of property, plant, and equipment	579,904	—	91,501	—	671,405
Loss on sales of property, plant and equipment	10,979	—	—	—	10,979
Impairment of property, plant and equipment	14,118	—	25,000	—	39,118
Amortization of intangible assets	109,387	—	—	—	109,387
Impairment of goodwill	935,341	—	—	—	935,341
Impairment of intangibles	—	—	—	—	—
Loss on disposal of assets held for sale and other	8,015	—	—	—	8,015
Increase in cash surrender value of Company-owned life insurance policies	(75,307)	—	—	—	(75,307)
Increase (decrease) in provisions	100,625	—	(23,335)	—	77,290
Increase (decrease) in deferred income taxes	(387,434)	—	(2,761)	—	(390,195)
Taxes on other comprehensive income	(265,742)	—	—	—	(265,742)
Change in working capital (excluding effects from acquisitions and divestitures):					
Trade and other receivables, net	(658,893)	—	—	—	(658,893)
Inventories, net	(141,653)	—	—	—	(141,653)
Prepayments and other current assets	938	—	—	—	938
Trade and other payables and liabilities	940,548	—	2,417	—	942,965
(Decrease) increase in working capital	140,940	—	2,417	—	143,357
Share from investments in associates and joint ventures	(1,618)	—	—	—	(1,618)
Dividends from associates and joint ventures	173	—	—	—	173
Non-monetary movements on financial assets and liabilities	(99,913)	—	—	—	(99,913)
Movements of trading derivatives	3,252	—	—	—	3,252
Movements of operating derivatives	6,620	—	—	—	6,620
Other employee benefits, net	78,518	—	—	—	78,518
Total adjustments	1,157,858	—	92,822	—	1,250,680
Operating cash flow	2,920,603	—	93,706	—	3,014,309
Cash flows from investing activities:					
Capital expenditures	(805,840)	—	—	—	(805,840)
Proceeds from sale of property, plant and equipment	14,703	—	—	—	14,703
Acquisition of businesses	(167,176)	—	—	—	(167,176)
Expenditure on intangible assets	(199,390)	—	—	—	(199,390)
Investments (net of divestments) in associates and joint ventures	(48,015)	—	—	—	(48,015)
(Outflows) from treasury investments	(223,137)	—	—	—	(223,137)
Other investing activities	643	—	—	—	643
Investing cash flow	(1,428,212)	—	—	—	(1,428,212)

**NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017

(Dollars in thousands)

Consolidated Cash Flow Statement for the year ended December 31, 2017 (Continued)

	December 31, 2017 as originally published	IFRS 15	IFRS 16	Other	December 31, 2017 Restated
Cash flows from financing activities:					
Net borrowings of commercial paper	888,234	—	—	—	888,234
Net repayment of line of credit facilities	3,900	—	—	—	3,900
Bonds issued	4,100,765	—	—	—	4,100,765
Bonds repaid	(1,872,822)	—	—	—	(1,872,822)
Capital contribution by parent company	0	—	—	—	—
Cash movement on derivatives hedging bond principal, net	(317,359)	—	—	—	(317,359)
Loans to/(from) affiliates issued, net	31,669	—	—	—	31,669
Loans to parents issued, net	(4,690,140)	—	—	—	(4,690,140)
Other changes in financial liabilities	(21,447)	—	(93,706)	—	(115,153)
Financing cash flow	(1,877,200)	—	(93,706)	—	(1,970,906)
(Decrease) in cash and cash equivalents	(384,809)	—	—	—	(384,809)
Cash and cash equivalents at beginning of the year	430,712	—	—	—	430,712
Cash and cash equivalents at end of the period	\$ 45,903	—	—	—	\$ 45,903
Supplemental information:					
Cash paid for:					
Interest	\$ 87,039	—	14,706	—	101,745
Taxes	931,477	—	—	—	931,477