Good Food, Good Life

NESTLÉ FINANCE INTERNATIONAL LTD.

(Société Anonyme)

Annual Financial Report

Management Report

and

Financial Statements

1 January – 31 December 2017

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

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

Contents

Nestlé Finance International Ltd.

Nestlé Finance International Ltd. ("NFI" or the "Company") presents its annual financial report for the financial year ended 31 December 2017. NFI is a public limited company (*société anonyme*) organised under the laws of Luxembourg and is a wholly-owned subsidiary of Nestlé S.A. which is the holding company of the Nestlé group of companies (the "Nestlé Group" or the "Group"). NFI, which was formerly a public limited company (*société anonyme*) organised under the laws of France formed on 18 March 1930, changed its domicile, and moved its registered office from France to Luxembourg on 29 February 2008. On 1 June 2013, NFI moved its seat from 69, rue de Merl L-2146 Luxembourg to 7, rue Nicolas Bové L-1253 Luxembourg, Grand Duchy of Luxembourg. NFI is established for an unlimited duration. The Nestlé Group manufactures and sells food and beverages, as well as products related to the nutrition, health and wellness industries. Its products, distributed throughout the world, include: soluble coffee, chocolate and malt-based drinks, water, dairy products, infant nutrition, healthcare nutrition, ice cream, frozen and chilled food, culinary aids, chocolate and confectionary, as well as products for pet care and pharmaceutical products.

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

1. Management Report

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

As at 31 December 2017, a total equivalent of EUR 7 515 million of loans and advances granted to Nestlé Group companies was outstanding, compared to EUR 9 342 million as at 31 December 2016. These were financed mainly through the issuance of bonds, commercial paper and loans and advances received from Nestlé Group companies. Other assets and liabilities comprise mainly derivatives, cash and cash equivalents (consisting of, for example, cash balances, deposits at banks and other short term investments with original maturities of three months or less) and short term investments. The aforementioned transactions are further detailed in the notes to the financial statements of NFI for the financial year ended 31 December 2017.

Total assets decreased at the end of the financial year ended 31 December 2017 (EUR 7 710 million) as compared to the financial year ended 31 December 2016 (EUR 9 789 million). The decrease in total assets (by EUR 2 079 million) results mainly from a decrease in loans and advances granted to Nestlé Group companies (by EUR 1 827 million), by a decrease in derivative assets (by EUR 138 million), a decrease in loans and advances to third parties (by EUR 100 million) and a decrease in cash and cash equivalents (by EUR 13 million). Debt securities (bonds and commercial paper) outstanding at 31 December 2017 (EUR 6 738 million) decreased by EUR 526 million as compared to 31 December 2016 (EUR 7 264 million) mainly as a result of a decrease in the issuance of commercial paper which was partially offset by an increase in the issuance of bonds. Loans and advances received from Nestlé Group companies outstanding at 31 December 2017 (EUR 759 million) decreased by EUR 1 688 million as compared to 31 December 2016 (EUR 2 447 million).

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

Financing operations reported a net profit of EUR 4.5 million for the financial year ended 31 December 2017 compared to a net profit of EUR 4 million for the financial year ended 31 December 2016.

Net profit before tax for the financial year ended 31 December 2017 was EUR 11.0 million, compared to EUR 12.7 million for the financial year ended 31 December 2016. The movement was due to an decrease in net interest income (of EUR 29.1 million) and a decrease in net fee and commission (of EUR 8.9 million) arising from fluctuations of foreign exchange borne by a related party partially offset by a decrease in other operating expense (of EUR 36.5 million) resulting from foreign exchange losses on non-EUR denominated instruments.

NFI's net operating cash outflow was EUR 154.9 million for the financial year ended 31 December 2017 compared to net operating cash inflow of EUR 26.7 million for the financial year ended 31 December 2016.

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

(B) Risks and Uncertainties

NFI is exposed to certain risks and uncertainties: banking credit risk, credit risk, market risk (including currency fluctuations and interest rate movements), liquidity risk and risk of an increase in cost of capital, treasury operations and other risks that could have a material adverse impact on its financial condition and operating results. The detailed discussion of these risks and uncertainties and NFI's objectives, policies and processes for managing these risks and uncertainties are disclosed in the notes to the financial statements of NFI for the year ended 31 December 2017, in particular Note 10.

(C) Other items

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

(D) Corporate governance status

Overall control environment

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

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

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

Structure of Capital

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

Instruments traded on a regulated market

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

Control activities

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

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

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

Information and communication

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

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

Monitoring

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

Subsequent events

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

Future developments

It is expected that NFI's business activities will remain unchanged in 2018. NFI will primarily continue to provide financing to members of the Nestlé Group.

KPMG

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Nestlé Finance International Ltd, Société Anonyme ("NFI", the "Company"), which comprise the balance sheet as at 31 December 2017, the income statement, statements of other comprehensive income, changes in equity and of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the EU Regulation N° 537/2014, the Law of 23 July 2016 and ISAs are further described in the « Responsibilities of "Réviseur d'Entreprises agréé" for the audit of the financial statements » section of our report. We are also independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

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Why the matter was considered to be one of the most significant in our audit of the financial statements of the current period	How the matter was addressed in our audit
The Company has opted to apply hedge accounting in accordance with IAS 39. The complexity surrounding the accounting and presentation treatment per IAS 39 and IFRS 7 and the strict rules in applying hedge accounting increases the risk of error. NFI designates and documents certain derivatives as hedging instruments against changes in fair values of recognised assets and liabilities (fair value hedges) and highly probable forecast transactions (cash flow hedges). The Directors need to assess the effectiveness of such hedges at inception and verify at regular intervals and at least on a quarterly basis, using prospective and retrospective testing.	Our audit procedures over the complex accounting included, but were not limited to: • examining the Company's hedging documentation for each hedging relationship type to assess whether the application is in line with the standards outlined in IAS 39; • for a sample of open hedge relationships at year end, examining the hedge effectiveness testing (performed by the TMS) to assess whether the retrospective and prospective testing has been performed, and falls within the acceptable range in order to apply hedge accounting; • during the implementation of the TMS, testing all accounting templates by our own Treasury and IT specialists to assess whether the accounting entries generated were appropriate; during the audited period, using our own IT and Treasury specialists to identify all changes to the Treasury accounting templates and reviewing the appropriateness of these changes (if any).

Other information

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

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

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

Responsibilities of the Board of Directors for the financial statements

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

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

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

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on other legal and regulatory requirements

We have been appointed as "Réviseur d'Entreprises agréé" by the General Meeting of the Shareholders on 29 June 2010 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is eight years.

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

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

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

The following other services, in addition to the statutory audit, were provided to NFI: other assurance services with fees of EUR 19,065.

Luxembourg, 28 March 2018

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

Jean-Manuel Séris

3. Financial Statements for the year ended 31 December 2017

Nestlé Finance International Ltd. (“NFI”)

(Société Anonyme)

Financial Statements

(Audited)

1 January – 31 December 2017

Balance sheet as at 31 December 2017

In thousands of Euro	Notes	31 December 2017	31 December 2016
Assets			
Current assets			
Cash and cash equivalents	(4)	165 596	178 648
Derivative assets	(3/4)	29 156	167 511
Loans and advances to Nestlé Group companies	(4)	5 572 008	7 149 165
Loans and advances to third parties	(4)	-	100 000
Other assets	(4/5)	537	1 050
Total current assets		**5 767 297**	**7 596 374**
Non-current assets			
Loans and advances to Nestlé Group companies	(4)	1 942 519	2 192 409
Property, plant and equipment		5	13
Total non-current assets		**1 942 524**	**2 192 422**
Total assets		**7 709 821**	**9 788 796**
Liabilities			
Current liabilities			
Bank overdrafts	(4)	93 160	-
Derivative liabilities	(3/4)	5 559	13 538
Loans and advances from Nestlé Group companies	(4)	758 773	2 446 668
Debt securities issued	(4/7)	946 189	3 427 683
Current tax liabilities	(4)	3 844	6 902
Other liabilities	(4/5)	30 983	31 037
Total current liabilities		**1 838 508**	**5 925 828**
Non-current liabilities			
Debt securities issued	(4/7)	5 791 607	3 836 228
Total non-current liabilities		**5 791 607**	**3 836 228**
Total liabilities		**7 630 115**	**9 762 056**
Equity			
Share capital	(6)	440	440
Share premium	(6)	52 000	2 000
Hedging reserve	(6)	12	1 604
Available-for-sale reserve		-	1
Legal reserve	(6)	44	44
Other reserve	(6)	2 962	3 081
Retained earnings		24 248	19 570
Total equity attributable to shareholders of the company		**79 706**	**26 740**
Total liabilities and equity		**7 709 821**	**9 788 796**

The accompanying notes form an integral part of the financial statements

Income statement for the year ended 31 December 2017

In thousands of Euro	Notes	Year 2017	Year 2016
Interest income		164 662	201 323
Interest expense		-45 729	-53 206
Net interest income	(2)	118 933	148 117
Fee and commission income		50 834	60 035
Fee and commission expense		-27 682	-27 985
Net fee and commission income from Nestlé Group companies	(2)	23 152	32 050
Other operating expense	(2)	-129 762	-166 297
Operating profit		**12 323**	**13 870**
Administration expense		-1 337	-1 219
Profit before tax		**10 986**	**12 651**
Taxes	(2)	-6 427	-8 640
Profit for the year attributable to shareholders of the company		**4 559**	**4 011**

The accompanying notes form an integral part of the financial statements

Other comprehensive income for the year ended 31 December 2017

In thousands of Euro	Year 2017	Year 2016
Profit for the year recognised in the income statement	**4 559**	**4 011**
Fair value adjustments on available-for-sale financial instruments:		
Unrealised results	-1	-2
Fair value adjustments on cash flow hedges:		
Recognised in hedging reserve	-1 592	585
Items that are or may be reclassified subsequently to the income statement	-1 593	583
Other comprehensive income for the year	**-1 593**	**583**
Total comprehensive income for the year	**2 966**	**4 594**
of which attributable to shareholders of the company	2 966	4 594

Statement of changes in equity for the year ended 31 December 2017

In thousands of Euro	Share capital	Share premium	Hedging reserve	Available-for-sale reserve	Legal reserve	Other reserve	Retained earnings	Total equity attributable to shareholders of the company
Equity as at 31 December 2015	**440**	**2 000**	**1 019**	**3**	**44**	**2 543**	**16 097**	**22 146**
Gains and losses								
Profit for the year	-	-	-	-	-	-	4 011	4 011
Fair value adjustments on available-for-sale instruments	-	-	-	-2	-	-	-	-2
Fair value adjustments on cash flow hedges	-	-	585	-	-	-	-	585
Total comprehensive income for the year	**-**	**-**	**585**	**-2**	**-**	**-**	**4 011**	**4 594**
Transfer to reserves								
Transfer to net wealth tax reserves	-	-	-	-	-	538	-538	-
Total transfer to other reserve	-	-	-	-	-	**538**	**-538**	**-**
Equity as at 31 December 2016	**440**	**2 000**	**1 604**	**1**	**44**	**3 081**	**19 570**	**26 740**
Gains and losses								
Profit for the year	-	-	-	-	-	-	4 559	4 559
Fair value adjustments on available-for-sale instruments	-	-	-	-1	-	-	-	-1
Fair value adjustments on cash flow hedges	-	-	-1 592	-	-	-	-	-1 592
Total comprehensive income for the year	**-**	**-**	**-1 592**	**-1**	**-**	**-**	**4 559**	**2 966**
Trasactions with the owner of the NFI	**-**	**50 000**	**-**	**-**	**-**	**-**	**-**	**50 000**
Increase of share premium	-	50 000	-	-	-	-	-	50 000
Transfer to reserves								
Net transfers from net wealth tax reserves	-	-	-	-	-	-119	119	-
Total transfer to other reserve	**-**	**-**	**-**	**-**	**-**	**-119**	**119**	**-**
Equity as at 31 December 2017	**440**	**52 000**	**12**	**-**	**44**	**2 962**	**24 248**	**79 706**

The accompanying notes form an integral part of the financial statements

Cash flow statement for the year ended 31 December 2017

In thousands of Euro	Notes	Year 2017	Year 2016
Cash flows from operating activities:			
Profit before taxation for the year		10 986	12 651
Adjustments for:			
Depreciation		9	9
Foreign exchange loss for bank accounts, loans and debt securities		-422 409	386 207
Fair value of debt securities		-12 547	33 439
Interest income	(2)	-164 662	-201 323
Interest expense	(2)	45 729	53 206
Change in short term investments including those recognised directly in equity		-1	-2
Change in derivative assets including those recognised directly in equity		136 763	-121 429
Change in other assets excluding prepaid and accrued income	(5)	461	-154
Change in other receivables			
Change in derivative liabilities	(4)	-7 979	-4 901
Change in other liabilities excluding accrual and deferred income	(5)	-1 005	-50 315
Net loans and advances to Nestlé Group companies excluding intra group interest receivable	(8)	1 643 257	1 014 297
Net loans and advances from Nestlé Group companies excluding intra group interest payable	(8)	-1 633 125	-1 648 298
Net loans and advances to third parties		100 000	-
Bonds issued	(7)	1 979 748	-
Commercial paper issued	(7)	29 851 068	23 822 447
Bonds repaid	(7)	-88 453	-500 000
Commercial paper repaid	(7)	-31 765 235	-22 965 165
Interest received net of withholding tax		181 165	226 374
Interest paid		-3 949	-28 118
Income taxes paid		-4 749	-2 260
Net cash inflow / (outflow) from operating activities		**-154 928**	**26 665**
Cash flow from financing activities:		**50 000**	**-**
Increase in share premium		50 000	-
Effects of the exchange rate changes on cash		**-1 284**	**-862**
Net increase / (decrease) in cash and cash equivalents		**-106 212**	**25 803**
Net cash and cash equivalents at beginning of year		178 648	152 845
Net cash and cash equivalents at end of year *	(4)	**72 436**	**178 648**

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

The accompanying notes form an integral part of the financial statements

Notes

1. Accounting policies

Basis of preparation

These financial statements for the year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union as well as with the laws and regulations in force in the Grand Duchy of Luxembourg.

The financial statements have been prepared on an accrual basis and under the historical cost convention, unless stated otherwise.

The balance sheet has been prepared in order of liquidity.

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

The financial statements were authorised for issuance by the Board of Directors on 21 March 2018.

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

Key accounting judgments, estimates and assumptions

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

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

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

Foreign currencies

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

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at year-end rates. Any resulting exchange differences are taken to the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

Segmental information

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

Valuation methods, presentations and definitions

Operating income

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

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

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

Taxes

NFI is subject to Luxembourg tax laws and regulations.

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

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

Financial instruments

Financial assets

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

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

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

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

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

Loans and receivables

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

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

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

Financial instruments at fair value through income statement

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

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

Available-for-sale financial assets

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

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

Impairments are recognised in the income statement when incurred.

Interest from available-for-sale assets is recognised in the income statement in the period in which it is earned.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and other short-term highly liquid investments with maturities of three months or less from the acquisition date.

Financial liabilities at amortised cost

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

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

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

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

Derivative financial instruments

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

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

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

Hedge accounting

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

Fair value hedges

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

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

Cash flow hedges

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

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

If the forecast transaction is no longer expected to occur, the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

Fair values

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

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

ii) Level 2 - the fair value of financial instruments that are not traded in an active market is determined by using valuation techniques using observable market data. Such valuation techniques include discounted cash flows, standard valuation models based on market parameters, dealer quotes for similar instruments and use of comparable arm's length transactions. For example, fair value of currency forwards and swaps, interest rate swaps and interest rate and currency swaps are determined by discounting estimated future cash flows using a risk-free interest rate.

iii) Level 3 - the fair value of financial instruments that are measured on the basis of entity specific valuations using inputs that are not based on observable market data (unobservable inputs). When the fair value of unquoted instruments cannot be measured with sufficient reliability, NFI carries such instruments at cost less impairment, if applicable.

Prepayments and accrued income

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

Accruals and deferred income

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

Impairments

At each balance sheet date, NFI assesses whether its financial assets not classified as at fair value through profit or loss are to be impaired. Impairment losses are recognised in the income statement where there is objective evidence of impairment, such as where the issuer is in bankruptcy, default or other significant financial difficulty. Impairment losses are reversed when the reversal can be objectively related to an event occurring after the recognition of the impairment loss. For debt instruments measured at amortised cost or fair value, the reversal is recognised in the income statement.

Dividends

In accordance with Luxembourg law and NFI's Articles of Incorporation, dividends are treated as an appropriation of profit in the financial year in which they are ratified at the Annual General Meeting and subsequently paid. At the meeting of the Board of Directors of NFI held on 29 November 2017, the Board did not propose any dividend payment to NFI's shareholder.

Events occurring after the balance sheet date

The values of assets and liabilities at the balance sheet date are adjusted if there is evidence that subsequent adjusting events warrant a modification of these values. These adjustments are made up to the date of approval of these financial statements by NFI's Board of Directors. Other non-adjusting events are disclosed in the Notes to the financial statements of NFI for the year ended 31 December 2017.

Property, plant and equipment

Recognition and Measurement

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

Depreciation

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

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

Nestlé S.A. consolidation

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

Changes in accounting standards

A number of accounting standards have been modified on miscellaneous points with effect from 1 January 2017. Such changes include Recognition of Deferred tax Assets for Unrealised Losses (Amendements to IAS 12), Disclosure Initiative (Amendments to IAS 7) and Annual Improvements to IFRS 2014-2016. None of these amendments had a material effect on NFI's financial statements.

Changes in accounting standards that may affect NFI after 31 December 2017

The following new accounting standards, interpretations and amendments to existing accounting standards have been published and are mandatory for NFI's accounting period beginning on 1 January 2018 (subject to being adopted within the European Union), unless otherwise stated. NFI has not early adopted them.

IFRS 9 – Financial Instruments
The standard addresses the accounting principles for the financial reporting of financial assets and financial liabilities, including classification, measurement, impairment, derecognition and hedge accounting. It will be mandatory for the accounting period beginning on 1 January 2018 (EU effective date). NFI has performed a review of the business model corresponding to the different portfolios of financial assets and of the characteristics of these financial assets. Consequently, debt instruments whose cash flows are solely payments of principal and interest ("SPPI") will be designated either at amortised cost or at fair value through other comprehensive income depending on the objectives of the business model. There is no expected impact on NFI's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and NFI does not have any such liabilities. Furthermore, NFI has updated the definition of the hedging relationship in line with the risk management activities and policies. Changes in accounting policies resulting from IFRS 9 will be applied retrospectively as at 1 January 2018, but with no restatement of the comparative information for the prior years. Consequently, NFI will recognise any difference between the carrying amount of the financial instruments under IAS 39 and the carrying amount under IFRS 9 in the opening retained earnings (or other equity components) of the accounting period including the date of the initial application. The total estimated adjustment (net of tax) to the opening equity at the date of the initial application is not material.

Improvements and other amendments to IFRS/IAS

A number of standards have been modified on miscellaneous points. These include Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendements to IFRS 4), Classification and Measurement of Share-based Payment Transactions (Amendements to IFRS 2), Foreign Currency Transactions and Advance Consideration (IFRIC Interpretation 22), as well as the Annual Improvements to IFRS Standards 2015-2017 Cycle. None of these amendments are expected to have a material effect on NFI's financial statements.

2. Operating income and taxes

Net interest income:

In thousands of Euro	Year 2017	Year 2016
Interest income from:		
Short term investments	189	346
Loans and advances to Nestlé Group companies	163 835	199 871
Loans and advances to third parties	638	1 106
Interest income	**164 662**	**201 323**
Interest expense from:		
Loans and advances from Nestlé Group companies	-4 722	-6 447
Debt securities issued	-41 007	-46 759
Interest expense	**-45 729**	**-53 206**
Net interest income	**118 933**	**148 117**

Net fees and commission income:

In thousands of Euro	Year 2017	Year 2016
Fee and commission income from Nestlé Group companies	50 834	60 035
Fee and commission expense to Nestlé Group companies	-27 682	-27 985
Net fee and commission income	**23 152**	**32 050**

Other operating expense:

In thousands of Euro	Year 2017	Year 2016
Net foreign exchange expense	-129 792	-166 297
Net gain in fair value through income statement	30	-
Other operating expense	**-129 762**	**-166 297**

Taxes:

In thousands of Euro	Year 2017	Year 2016
Corporate income tax	-1 692	-3 579
Withholding tax on interest received	-4 735	-5 061
Total current tax expense	**-6 427**	**-8 640**

In thousands of Euro	Year 2017	Year 2016
Profit for the year	4 559	4 011
Total tax expense	-6 427	-8 640
Profit before tax	**10 986**	**12 651**
Withholding tax on interest received	-4 735	-5 061
Profit before corporate income tax and after withholding tax	**6 251**	**7 590**
Tax using NFI's domestic tax rate 27,08% (2016: 29.22%)	-1 692	-2 218
Tax adjustment prior year	-	-1 361
Withholding tax on interest received	-4 735	-5 061
Total current tax expense	**-6 427**	**-8 640**

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

3. Derivative assets and liabilities

By type

In thousands of Euro	Contractual or notional amounts		Fair value assets		Fair value liabilities	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Fair value hedges						
Currency forwards and swaps	916 534	2 742 896	2 495	127 672	5 559	1 138
Interest rate swaps	825 763	841 965	26 661	36 982	-	-
Cash flow hedges						
Interest rate and currency swaps	-	85 858	-	-	-	12 400
Undesignated						
Currency forwards and swaps	-	145 344	-	2 857	-	-
Total	**1 742 297**	**3 816 063**	**29 156**	**167 511**	**5 559**	**13 538**
Conditional offsets *						
Derivative assets and liabilities			-1 960	-1 556	-1 960	-1 556
Balances after conditional offsets			**27 196**	**165 955**	**3 599**	**11 982**

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

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

Impact on the income statement of fair value hedges

In thousands of Euro	Year 2017	Year 2016
On hedged items	421 608	-299 045
On hedging instruments	-420 359	299 811

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

4. Financial instruments

Financial assets and liabilities

By class

In thousands of Euro	31 December 2017	31 December 2016
Cash and cash equivalents	165 596	178 648
Derivative assets	29 156	167 511
Loans and advances to Nestlé Group companies	7 514 527	9 341 574
Loans and advances to third parties (b)	-	100 000
Other financial assets (a)	537	1 050
Total financial assets	**7 709 816**	**9 788 783**
Bank overdrafts	93 160	-
Derivative liabilities	5 559	13 538
Loans and advances from Nestlé Group companies	758 773	2 446 668
Debt securities issued	6 737 796	7 263 911
Current tax liabilities	3 844	6 902
Other financial liabilities (a)	30 983	31 037
Total financial liabilities	**7 630 115**	**9 762 056**
Net financial position	**79 701**	**26 727**

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

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

By category

In thousands of Euro	31 December 2017	31 December 2016
Loans and receivables at amortised cost:	7 515 127	9 483 521
Cash and cash equivalents (a)	63	40 897
Loans and receivables (a)	7 515 064	9 442 624
Available-for-Sale	165 533	137 751
Time deposits	165 533	137 751
Derivative assets (financial assets at fair value through income statement)	29 156	167 511
Total financial assets	**7 709 816**	**9 788 783**
Financial liabilities at amortised cost (b)	5 765 184	6 263 741
Loans and payables (a)	886 760	2 484 607
Financial liabilities at fair value * (b)	972 612	1 000 170
Derivative liabilities	5 559	13 538
Total financial liabilities	**7 630 115**	**9 762 056**
Net Financial Position	**79 701**	**26 727**

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

(b) Fair values are disclosed in Note 7.

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

Cash and cash equivalents at the end of the year

In thousands of Euro	31 December 2017	31 December 2016
Cash at bank	63	40 897
Time deposits	165 533	137 751
Bank overdrafts	-93 160	-
Total cash and cash equivalents	**72 436**	**178 648**

Fair value hierarchy of financial instruments

In thousands of Euro	31 December 2017	31 December 2016
Short term deposits *	165 533	137 751
Derivative assets	29 156	167 511
Derivative liabilities	-5 559	-13 538
Valuation techniques based on observable market data (Level 2)	**189 130**	**291 724**
Total financial instruments at fair value	**189 130**	**291 724**

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

There have been no significant transfers between the different hierarchy levels in 2017. There were no financial instruments within the category Level 3 (valuation techniques based on unobservable input) and Level 1 (prices quoted in active markets). The fair values of the bonds, which are included in these financial statements for disclosure purposes only, are Level 1. See Note 7.

Contractual maturities of financial liabilities and derivatives

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

	In thousands of Euro	three months or less	fourth to twelfth month	in the second year	in the third to fifth year	beyond the fifth year	Contractual amount *	Carrying amount
2016	Loans and advances from Nestlé Group companies	474 845	1 971 823	-	-	-	2 446 668	2 446 668
	Commercial paper	2 869 911	475 361	-	-	-	3 345 272	3 341 879
	Bonds	89 829	57 258	57 258	2 150 522	1 860 353	4 215 220	3 922 032
	Debt securities issued	2 959 740	532 619	57 258	2 150 522	1 860 353	7 560 492	7 263 911
	Bank overdrafts, tax and other liabilities	31 037	6 902	-	-	-	37 939	37 939
	Gross amount receivable from currency derivatives	2 532 907	445 111	-	-	-	2 978 018	2 973 917
	Gross amount payable from currency derivatives	-2 431 803	- 424 246	-	-	-	- 2 856 049	- 2 856 927
	Non currency derivative	-	9 137	8 013	15 762	4 936	37 848	36 983
	Net derivatives	101 104	30 002	8 013	15 762	4 936	159 817	153 973

* Future cash flows arising from interest on these loans for Loans and advances from Nestlé Group companies are not included. In 2017, interest rates on these loans range from Euribor or Libor 1 month to 6 months with a margin from 18 to 1342bps (2016: 8 to 1439bps).

5. Other assets and liabilities

In thousands of Euro	31 December 2017	31 December 2016
Other financial assets:		
Other receivables	537	1 000
Prepaid and accrued income	-	50
Total other assets	**537**	**1 050**
Other financial liabilities:		
Intra Nestlé Group other payables	6 479	7 161
Other payables	1 322	1 645
Accruals and deferred income	23 182	22 231
Total other liabilities	**30 983**	**31 037**

6. Share capital, share premium and other reserves:

	31 December 2017	31 December 2016
Number of shares of nominal value EUR 2 each	220 000	220 000
In thousands of Euro	440	440

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

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

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

At the Annual General meeting of NFI held on 28 April 2016, NFI decided to deduct from retained earnings EUR 107.6 thousand (related to 2016 net wealth tax) from the corporate income tax, resulting in an allocation to a net wealth tax reserve 2016 of EUR 538 thousand.

At the Annual General meeting of NFI held on 18 April 2017, NFI decided to deduct from retained earnings EUR 108.6 thousand (related to 2017 net wealth tax) from the corporate income tax, resulting in an allocation to a net wealth tax reserve 2017 of EUR 543 thousand, to re-allocate the net wealth tax reserves 2008-2011 of EUR 668 thousand from other reserve to retained earnings and to allocate EUR 6 thousand as net wealth tax reserve 2016 (and added to the EUR 538 thousand net wealth tax reserve 2016, to total EUR 544 thousand net wealth tax reserve 2016) from retained earnings to other reserve. As at 31 December 2017 the net wealth tax reserve is EUR 2 962 thousand (2016: EUR 3 081 thousand) of which EUR 0 thousand (2016: EUR 584 thousand) is distributable to the shareholder.

The movements in other reserve for the period ended 31 December 2017 were as follows:

In thousands of Euro	31 December 2017	31 December 2016
Opening Balance	3 081	2 543
Substraction / Addition	-119	538
Closing Balance	**2 962**	**3 081**

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

The hedging reserve for the financial year ended 31 December 2017 was as follows:

In thousands of Euro	31 December 2017	31 December 2016
Hedging reserves	12	1 604

The hedging reserve consists of the effective portion of the gains and losses on hedging instruments related to hedged transactions that have not yet occurred. At 31 December 2017, the reserve is positive of EUR 12 thousand (2016: EUR 1 604 thousand).

The amounts currently held in the hedging reserve will impact the income statement in 2018.

7. Debt securities:

Bonds

The outstanding amounts of bonds at 31 December 2017 and 31 December 2016 were as follows:

In thousands of Euro	Interest rates		Year of issue/maturity	Comments	31 December 2017	31 December 2016
Face value	Nominal	Effective				
EUR 850.000 1,75 percent	1,75%	1,89%	2012-2022		844 534	843 431
EUR 500.000 1,50 percent	1,50%	1,60%	2012-2019		499 190	498 676
EUR 500.000 1,25 percent	1,25%	1,29%	2013-2020		499 447	499 215
EUR 500.000 2,13 percent	2,13%	2,20%	2013-2021		498 632	498 280
EUR 500.000 0,75 percent	0,75%	0,89%	2014-2021		497 174	496 457
EUR 500.000 0,75 percent	0,75%	0,92%	2015-2023	(c)	502 038	506 275
EUR 500.000 0,38 percent	0,38%	0,54%	2017-2024		495 038	-
EUR 750.000 1,25 percent	1,25%	1,31%	2017-2029		744 424	-
EUR 750.000 1,75 percent	1,75%	1,82%	2017-2037		740 555	-
GBP 400.000 2,25 percent	2,25%	2,34%	2012-2023	(b)	470 575	493 895
AUD 125.000 4,63 percent	4,63%	4,86%	2012-2017	(a)	-	85 804
Total					**5 791 607**	**3 922 033**
of which due in twelve months					-	85 804
of which due in the second year					499 190	-
of which due between three to five years					2 339 787	1 992 628
of which due after five years					2 952 630	1 843 601

(a) Subject to an interest rate and currency swap that creates a liability at fixed rate in the currency of NFI
(b) Subject to an interest rate swap
(c) Out of which EUR 375 million is subject to an interest rate swap (2016: EUR 375 million)

The fair value of bonds, based on prices quoted in active markets, amounts to EUR 6 012 991 thousand (2016: EUR 4 143 088 thousand). These bonds are admitted to trading on the London Stock Exchange's regulated market.

Some bonds are hedged by currency and/or interest rate derivatives. The fair value of these derivatives is included within derivative assets for EUR 26 661 thousand (2016: EUR 36 982 thousand) and under derivative liabilities for EUR 0 thousand (2016: EUR 12 400 thousand).

Issue of bonds:

Three series of bonds were issued in 2017 for EUR 2 000 000 thousand (2016: nil).

Repayment of Bonds:

One series of bonds was repaid at maturity during the financial year ended 31 December 2017 for EUR 88 453 thousand (2016: EUR 500 000 thousand).

Commercial Paper

The outstanding amounts of commercial paper at 31 December 2017 were as follows:

In thousands of Euro	31 December 2017	31 December 2016
Commercial paper	**946 189**	**3 341 879**
of which due within twelve months	946 189	3 341 879

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

8. Transactions with related parties

Financing of the Nestlé Group companies

The principal business activity of NFI is the financing of companies directly or indirectly controlled by Nestlé S.A. This financing represents the majority of the transactions with related parties in quantity and in amounts.

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

The balances of transactions with related parties at the financial year ended 31 December 2017 are given below:

In thousands of Euro	31 December 2017	31 December 2016
Assets		
Derivatives assets to Nestlé Group companies	26 661	36 982
Loans and advances to Nestlé Group companies excluding accrued interest	7 487 721	9 293 580
Accrued interest on loans to Nestlé Group companies	26 806	47 994
Total	**7 541 188**	**9 378 556**
Liabilities		
Loans and advances from Nestlé Group companies excluding accrued interest	758 582	2 445 533
Accrued interest on loans from Nestlé Group companies	191	1 135
Others payables to Nestlé Group companies	6 479	7 161
Total	**765 252**	**2 453 829**
Net assets	**6 775 936**	**6 924 727**

Grant, receipt and repayments of loans for the financial year ended 31 December 2017 were as follows:

In thousands of Euro	Year 2017	Year 2016
Loans granted to Nestlé Group companies excluding accrued interest	13 903 229	24 053 810
Repayment of Loans by Nestlé Group companies excluding accrued interest	-15 546 486	-25 068 107
Net Loans and advances repaid by Nestlé Group companies	**-1 643 257**	**-1 014 297**
Loans received from Nestlé Group companies excluding accrued interest	188 850	865 903
Repayment of Loans to Nestlé Group companies excluding accrued interest	-1 821 975	-2 514 201
Net Loans and advances repaid to Nestlé Group companies	**-1 633 125**	**-1 648 298**

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

In thousands of Euro	31 December 2017	31 December 2016
Receivable from Nestlé S.A.	50 834	60 035
Payables to Nestlé S.A.	-6 149	-6 800

In thousands of Euro	31 December 2017	31 December 2016
Increase in share premium by Nestlé S.A.	50 000	-

In thousands of Euro	Year 2017	Year 2016
Other Financial Income from Nestlé S.A.	50 834	60 035
Other Financial expenses to Nestlé S.A.	-27 682	-27 985

9. Guarantees

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

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

10. Risk and uncertainties

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

Concentrations of Risk

The majority of NFI's assets represent receivables from other Nestlé Group companies. NFI has assessed the risk of default on the intra group loans and receivables as negligible.

Banking Credit

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

Credit Risk

Credit risk results from the risk of default of internal or external counterparties. The amount recognised in the balance sheet of NFI for financial assets is the maximum credit risk in the case that counterparties are unable to fulfil their contractual obligations. In the case of derivative financial instruments, NFI is also exposed to credit risk, which results from the non-performance of contractual agreements on the part of the counterparty. This credit risk is mitigated by entering into such contracts with parties of high credit standing (above BBB+).

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

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

Market risk

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

Currency Fluctuations

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

In thousands of Euro	31 December 2017				31 December 2016			
	EUR	USD	GBP	others	EUR	USD	GBP	others
Cash and cash equivalents	156 751	8 533		312	140 000	10 110	27 689	849
Derivative assets	-	2 495	26 661	-	-	36 982	127 672	2 857
Loans and advances to Nestlé Group companies	3 156 620	961 847	2 587 713	808 347	3 963 553	1 759 990	2 855 832	762 199
Loans and advances to third parties	-	-	-	-	100 000	-	-	-
Other financial assets	537	-	-	-	1 050	-	-	-
Total financial assets	**3 313 908**	**972 875**	**2 614 374**	**808 659**	**4 204 603**	**1 807 082**	**3 011 193**	**765 905**
Bank overdrafts	48 957	-	44 203	-		-	-	-
Derivative liabilities	-	4 699	860	-	-	1 138	-	12 400
Loans and advances from Nestlé Group companies	47 349	331 704	379 720	-	1 422 782	751 643	272 243	-
Debt securities issued	5 321 030	946 190	470 576	-	3 342 333	3 341 879	493 895	85 804
Current tax liabilities	3 844	-	-	-	6 902	-	-	-
Other financial liabilities	30 983	-	-	-	31 037	-	-	-
Total financial liabilities	**5 452 164**	**1 282 593**	**895 359**	**-**	**4 803 054**	**4 094 660**	**766 138**	**98 204**
Net financial position	**- 2 138 256**	**- 309 718**	**1 719 015**	**808 659**	**- 598 450**	**- 2 287 578**	**2 245 055**	**667 700**

Interest Rate Risk

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

Taking into account the impact of interest derivatives, the proportion of financial debt subject to fixed interest rates for a period longer than one year represents 75% (2016: 39%).

Value at Risk ("VaR")

Description of the method

The VaR is a single measure to assess market risk. The VaR estimates the size of losses given current positions and possible changes in financial markets. NFI uses simulation to calculate VaR based on the historic data for a 260 days period.

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

Objective of the method

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

VaR figures

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

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

In thousands of Euro	Year 2017	Year 2016
Foreign currency	-20 973	-24 539
Interest rate	-267	-776
Foreign currency and interest rate combined	-21 535	-25 167

Liquidity Risk

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

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

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

Risk of an increase in cost of capital

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

Treasury operations

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

11. Directors

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

12. Staff

In Luxembourg NFI employed on average one part-time employee and four full-time employees during 2017 (one part-time employee and two full-time employees during 2016). All of these employees provide treasury and accounting services.

13. Events after the balance sheet date

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

4. Responsibility Statement

Marina Vanderveken-Verhulst, Director, Saskia Deknock, Director, Jean-Marc Ueberecken, Director, Laurent Schummer, Director, Bruno Chazard, Director and Steve Flammang, Chief Accountant confirm that to the best of their knowledge:

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

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

28 March 2018