

Financial Statements 2017



**Consolidated Financial Statements
of the Nestlé Group 2017**

**151st Financial Statements
of Nestlé S.A.**

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Principal exchange rates

CHF per

		2017	2016	2017	2016
		Year ending rates		Weighted average annual rates	
1 US Dollar	USD	0.977	1.023	0.984	0.985
1 Euro	EUR	1.168	1.075	1.113	1.090
100 Chinese Yuan Renminbi	CNY	15.001	14.715	14.593	14.838
100 Brazilian Reais	BRL	29.531	31.383	30.796	28.583
100 Philippine Pesos	PHP	1.957	2.064	1.953	2.075
1 Pound Sterling	GBP	1.316	1.255	1.271	1.331
100 Mexican Pesos	MXN	4.957	4.938	5.212	5.279
1 Canadian Dollar	CAD	0.778	0.758	0.759	0.745
100 Japanese Yen	JPY	0.867	0.874	0.878	0.907
1 Australian Dollar	AUD	0.761	0.738	0.754	0.733
100 Russian Rubles	RUB	1.694	1.685	1.688	1.485

Consolidated income statement for the year ended 31 December 2017

In millions of CHF

	Notes	2017	2016
Sales	3	89 791	89 469
Other revenue		330	317
Cost of goods sold		(44 923)	(44 199)
Distribution expenses		(8 205)	(8 059)
Marketing and administration expenses		(20 540)	(21 485)
Research and development costs		(1 724)	(1 736)
Other trading income	4	111	99
Other trading expenses	4	(1 607)	(713)
Trading operating profit	3	13 233	13 693
Other operating income	4	379	354
Other operating expenses	4	(3 500)	(884)
Operating profit		10 112	13 163
Financial income	5	152	121
Financial expense	5	(771)	(758)
Profit before taxes, associates and joint ventures		9 493	12 526
Taxes	13	(2 779)	(4 413)
Income from associates and joint ventures	14	824	770
Profit for the year		7 538	8 883
of which attributable to non-controlling interests		355	352
of which attributable to shareholders of the parent (Net profit)		7 183	8 531
As percentages of sales			
Trading operating profit		14.7%	15.3%
Profit for the year attributable to shareholders of the parent (Net profit)		8.0%	9.5%
Earnings per share (in CHF)			
Basic earnings per share	15	2.32	2.76
Diluted earnings per share	15	2.32	2.75

Consolidated statement of comprehensive income for the year ended 31 December 2017

In millions of CHF

	Notes	2017	2016
Profit for the year recognised in the income statement		7 538	8 883
Currency retranslations, net of taxes	17	(558)	1 033
Fair value adjustments on available-for-sale financial instruments, net of taxes	17	(10)	16
Fair value adjustments on cash flow hedges, net of taxes	17	(55)	(1)
Share of other comprehensive income of associates and joint ventures	14/17	(240)	(154)
Items that are or may be reclassified subsequently to the income statement		(863)	894
Remeasurement of defined benefit plans, net of taxes	10/17	1 063	(143)
Share of other comprehensive income of associates and joint ventures	14/17	52	(10)
Items that will never be reclassified to the income statement		1 115	(153)
Other comprehensive income for the year	17	252	741
Total comprehensive income for the year		7 790	9 624
of which attributable to non-controlling interests		328	343
of which attributable to shareholders of the parent		7 462	9 281

Consolidated balance sheet as at 31 December 2017

before appropriations

In millions of CHF	Notes	2017	2016
Assets			
Current assets			
Cash and cash equivalents	12/16	7 938	7 990
Short-term investments	12	655	1 306
Inventories	6	9 061	8 401
Trade and other receivables	7/12	12 422	12 411
Prepayments and accrued income		607	573
Derivative assets	12	231	550
Current income tax assets		919	786
Assets held for sale	2	357	25
Total current assets		32 190	32 042
Non-current assets			
Property, plant and equipment	8	27 775	27 554
Goodwill	9	29 748	33 007
Intangible assets	9	20 615	20 397
Investments in associates and joint ventures	14	11 628	10 709
Financial assets	12	6 003	5 719
Employee benefits assets	10	392	310
Current income tax assets		62	114
Deferred tax assets	13	1 967	2 049
Total non-current assets		98 190	99 859
Total assets		130 380	131 901

In millions of CHF			
	Notes	2017	2016
Liabilities and equity			
Current liabilities			
Financial debt	12	10 536	12 118
Trade and other payables	7/12	18 872	18 629
Accruals and deferred income		4 094	3 855
Provisions	11	863	620
Derivative liabilities	12	507	1 068
Current income tax liabilities		1 170	1 221
Liabilities directly associated with assets held for sale	2	12	6
Total current liabilities		36 054	37 517
Non-current liabilities			
Financial debt	12	15 932	11 091
Employee benefits liabilities	10	7 111	8 420
Provisions	11	2 445	2 640
Deferred tax liabilities	13	3 559	3 865
Other payables	12	2 502	2 387
Total non-current liabilities		31 549	28 403
Total liabilities		67 603	65 920
Equity	17		
Share capital		311	311
Treasury shares		(4 537)	(990)
Translation reserve		(19 433)	(18 799)
Other reserves		989	1 198
Retained earnings		84 174	82 870
Total equity attributable to shareholders of the parent		61 504	64 590
Non-controlling interests		1 273	1 391
Total equity		62 777	65 981
Total liabilities and equity		130 380	131 901

Consolidated cash flow statement for the year ended 31 December 2017

In millions of CHF			2017	2016
	Notes			
Operating activities				
Operating profit	16		10 112	13 163
Depreciation and amortisation	16		3 227	3 132
Impairment			3 557	640
Net result on disposal of businesses	4		132	—
Other non-cash items of income and expense			(185)	35
Cash flow before changes in operating assets and liabilities			16 843	16 970
Decrease/(increase) in working capital	16		(243)	1 801
Variation of other operating assets and liabilities	16		393	54
Cash generated from operations			16 993	18 825
Financing activities				
Net cash flows from treasury activities	16		(423)	(327)
Taxes paid			(3 666)	(3 435)
Dividends and interest from associates and joint ventures	14		582	519
Operating cash flow			13 486	15 582
Investing activities				
Capital expenditure	8		(3 934)	(4 010)
Expenditure on intangible assets	9		(769)	(682)
Acquisition of businesses	2		(696)	(585)
Disposal of businesses	2		140	271
Investments (net of divestments) in associates and joint ventures	14		(140)	(748)
Inflows/(outflows) from treasury investments			593	(335)
Other investing activities			(134)	(34)
Investing cash flow			(4 940)	(6 123)
Financing activities				
Dividend paid to shareholders of the parent	17		(7 126)	(6 937)
Dividends paid to non-controlling interests			(342)	(432)
Acquisition (net of disposal) of non-controlling interests	2		(526)	(1 208)
Purchase (net of sale) of treasury shares ^(a)			(3 295)	760
Inflows from bonds and other non-current financial debt	12		6 406	1 695
Outflows from bonds and other non-current financial debt	12		(2 489)	(1 430)
Inflows/(outflows) from current financial debt			(1 009)	1 368
Financing cash flow			(8 381)	(6 184)
Currency retranslations			(217)	(169)
Increase/(decrease) in cash and cash equivalents			(52)	3 106
Cash and cash equivalents at beginning of year			7 990	4 884
Cash and cash equivalents at end of year			7 938	7 990

(a) In 2017, mostly relates to the Share Buy-Back Programme launched in 2017.

Consolidated statement of changes in equity for the year ended 31 December 2017

In millions of CHF

	Share capital	Treasury shares	Translation reserve	Other reserves	Retained earnings	Total equity attributable to shareholders of the parent	Non-controlling interests	Total equity
Equity as at 31 December 2015	319	(7 489)	(19 851)	1 345	88 014	62 338	1 648	63 986
Profit for the year	–	–	–	–	8 531	8 531	352	8 883
Other comprehensive income for the year	–	–	1 052	(148)	(154)	750	(9)	741
Total comprehensive income for the year	–	–	1 052	(148)	8 377	9 281	343	9 624
Dividends	–	–	–	–	(6 937)	(6 937)	(432)	(7 369)
Movement of treasury shares	–	803	–	–	(27)	776	–	776
Equity compensation plans	–	207	–	–	(27)	180	–	180
Changes in non-controlling interests ^(a)	–	–	–	–	(991)	(991)	(168)	(1 159)
Reduction in share capital ^(b)	(8)	5 489	–	–	(5 481)	–	–	–
Total transactions with owners	(8)	6 499	–	–	(13 463)	(6 972)	(600)	(7 572)
Other movements	–	–	–	1	(58)	(57)	–	(57)
Equity as at 31 December 2016	311	(990)	(18 799)	1 198	82 870	64 590	1 391	65 981
Profit for the year	–	–	–	–	7 183	7 183	355	7 538
Other comprehensive income for the year	–	–	(634)	(209)	1 122	279	(27)	252
Total comprehensive income for the year	–	–	(634)	(209)	8 305	7 462	328	7 790
Dividends	–	–	–	–	(7 126)	(7 126)	(342)	(7 468)
Movement of treasury shares	–	(3 719)	–	–	113	(3 606)	–	(3 606)
Equity compensation plans	–	172	–	–	(11)	161	–	161
Changes in non-controlling interests ^(a)	–	–	–	–	93	93	(104)	(11)
Total transactions with owners	–	(3 547)	–	–	(6 931)	(10 478)	(446)	(10 924)
Other movements	–	–	–	–	(70)	(70)	–	(70)
Equity as at 31 December 2017	311	(4 537)	(19 433)	989	84 174	61 504	1 273	62 777

(a) Movements reported under retained earnings include the impact of the acquisitions (see Note 2.5) as well as put options for acquisitions of non-controlling interests.

(b) Reduction in share capital, see Note 17.1.

1. Accounting policies

Accounting convention and accounting standards

The Consolidated Financial Statements comply with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with Swiss law.

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

The Consolidated Financial Statements 2017 were approved for issue by the Board of Directors on 14 February 2018 and are subject to approval by the Annual General Meeting on 12 April 2018.

Accounting policies

Accounting policies are included in the relevant notes to the Consolidated Financial Statements and are presented as text highlighted with a grey background. The accounting policies below are applied throughout the financial statements.

Key accounting judgements, estimates and assumptions

The preparation of the Consolidated Financial Statements requires Group Management to exercise judgement 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 affect mainly provisions and contingencies (see Note 11), goodwill and intangible assets with indefinite useful life impairment tests (see Note 9), employee benefits (see Note 10), allowance for doubtful receivables (see Note 7) and taxes (see Note 13).

Foreign currencies

The functional currency of the Group's entities is the currency of their primary economic environment.

In individual companies, 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.

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

Differences arising from the retranslation of opening net assets of foreign operations, together with differences arising from the translation of the net results for the year of foreign operations, are recognised in other comprehensive income.

The balance sheet and net results of subsidiaries operating in hyperinflationary economies are restated for the changes in the general purchasing power of the local currency, using official indices at the balance sheet date, before translation into Swiss Francs and, as a result, are stated in terms of the measuring unit current at the balance sheet date.

When there is a change of control in a foreign operation, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on disposal.

Valuation methods, presentation and definitions

Revenue

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

Other revenue is primarily 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 recognised when the Group receives the risks and rewards of ownership of the goods or when it receives the services. Additional details of specific expenses are provided in the respective notes.

Changes in presentation – analyses by segment

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

Changes in accounting standards

A number of standards have been modified on miscellaneous points with effect from 1 January 2017. Such changes include Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12), Disclosure Initiative (Amendments to IAS 7), and Annual Improvements 2014–2016 (specifically the amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of the Standard).

None of these amendments had a material effect on the Group's Financial Statements.

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

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

The Group 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 the objectives of the business model. The existing investments in equity

instruments at the date of the initial application will generally be designated at fair value through Other Comprehensive Income by election. This election should generate a reclassification between equity components, with no net impact on the total Group's equity.

There is no expected impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the Group does not have any such liabilities.

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

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

Changes in accounting policies resulting from IFRS 9 will be applied retrospectively as at 1 January 2018, but with no restatement of comparative information for prior years. Consequently, the Group will recognise 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) of the accounting period including the date of initial application.

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

IFRS 15 – Revenue from Contract with Customers

This standard combines, enhances and replaces specific guidance on recognising revenue with a single standard.

It defines a new five-step model to recognise revenue from customer contracts. The Group has undertaken a review of the main types of commercial arrangements used with customers under this model and has tentatively concluded that the application of IFRS 15 will not have a material impact on the consolidated results or financial position. The effects identified so far are as follows:

- i) a small proportion of sales (less than 0.5% of annual sales) is expected to be recognised on average 2 days later under the new standard, but the impact at the end of the period is compensated by a similar effect at the start of the year leading to a net nil impact at Group level;

- ii) an estimated amount of CHF 0.2 billion in payments to customers currently treated as distribution costs would be reclassified as deductions from sales under the new standard.

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

IFRS 16 – Leases

This standard will replace IAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases.

The main effect on the Group is that IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for almost all leases and will therefore result in an increase of total property, plant and equipment and total financial debt of approximately CHF 3 billion. All things being equal, under the new standard Trading operating profit would increase by approximately CHF 0.1 billion due to the replacement of the operating lease expense with amortisation of the lease assets. This increase would be partially or entirely offset by higher interest expense resulting in an insignificant impact on net profit. The Group is currently finalising the precise impact of this new standard.

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

Improvements and other amendments to IFRS/IAS

A number of standards have been modified on miscellaneous points. These include Measuring an Associate or Joint Venture at Fair Value and Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28 Investments in Associates and Joint Ventures), Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2), Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4), Foreign Currency Transactions and Advance Consideration (IFRIC Interpretation 22), as well as the Annual Improvements to IFRS Standards 2015–2017 Cycle.

None of these amendments are expected to have a material effect on the Group's Financial Statements.

In June 2017, the IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty

in accounting for income taxes. The current assessment of the Group is that the measurement of taxes will not be impacted. The uncertain tax liabilities of circa CHF 1.3 billion included under provisions in non-current liabilities will be reclassified on the face of the balance sheet to current and deferred taxes as deemed appropriate.

2. Scope of consolidation, acquisitions and disposals of businesses, assets held for sale and acquisitions of non-controlling interests

Scope of consolidation

The Consolidated Financial Statements comprise those of Nestlé S.A. and of its subsidiaries (the Group).

Companies which the Group controls are fully consolidated from the date at which the Group obtains control. The Group controls a company when it is exposed to, or has rights to, variable returns from its involvement with the company and has the ability to affect those returns through its power over the company. Though the Group generally holds a majority of voting rights in the companies which are controlled, this applies irrespective of the percentage of interest in the share capital if control is obtained through agreements with other shareholders.

The list of the principal subsidiaries is provided in the section Companies of the Nestlé Group, joint arrangements and associates.

Business combinations

Where not all of the equity of a subsidiary is acquired the non-controlling interests are recognised 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 Group remeasures its previously held equity interest at fair value and recognises a gain or a loss to the income statement.

2.1 Modification of the scope of consolidation

Acquisitions

In 2017, among others, the acquisitions included:

- Blue Bottle Coffee, USA, high-end speciality coffee roaster and retailer (Powdered and Liquid Beverages), 68%, November.

None of the acquisitions of 2017 were significant.

In 2016, among others, the acquisitions included:

- Proactiv business from Guthy-Renker, worldwide, acne treatment (Nutrition and Health Science), 75%, May.

None of the acquisitions of 2016 were significant.

Disposals

In 2017, none of the disposals of the year were significant.

In 2016, the following significant disposal was made:

- Ice cream business in Europe, Egypt, the Philippines, Brazil and Argentina, frozen food business in Europe but excluding pizza and retail frozen food in Italy as well as chilled dairy business in the Philippines (Milk products and Ice Cream as well as Prepared dishes and cooking aids), 100%, end of September.

This disposal related to the creation of the joint venture Froneri (see Note 14.3).

None of the other disposals of the year were significant.

2.2 Acquisitions of businesses

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

In millions of CHF		
	2017	2016
Property, plant and equipment	54	8
Intangible assets ^(a)	326	560
Inventories and other assets	72	64
Financial debt	(20)	—
Employee benefits, deferred taxes and provisions	(110)	—
Other liabilities	(41)	(43)
Fair value of identifiable net assets	281	589

(a) Mainly trademarks and trade names.

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

The goodwill arising on acquisitions and the cash outflow are:

In millions of CHF		
	2017	2016
Fair value of consideration transferred	729	682
Non-controlling interests ^(a)	49	100
Subtotal	778	782
Fair value of identifiable net assets	(281)	(589)
Goodwill	497	193

(a) Non-controlling interests have been measured based on their proportionate interest in the recognised amounts of net assets of the entities acquired.

In millions of CHF		
	2017	2016
Fair value of consideration transferred	729	682
Cash and cash equivalents acquired	(18)	(13)
Consideration payable	(78)	(96)
Payment of consideration payable on prior years acquisitions and other	63	12
Cash outflow on acquisitions	696	585

The consideration transferred consists of payments made in cash with some consideration remaining payable.

Acquisition-related costs

Acquisition-related costs have been recognised under other operating expenses in the income statement (see Note 4.2) for an amount of CHF 27 million (2016: CHF 17 million).

Acquisition after 31 December 2017

On 5 December 2017, the Group announced that it has agreed to acquire Atrium Innovations, a global leader in nutritional health products for USD 2.3 billion in cash. It will enhance the Nestlé Health Science's Consumer Care portfolio with value-added solutions such as probiotics, plant-based protein nutrition, meal replacements and an extensive multivitamin line. It represents annual sales of about USD 700 million made in the US, Canada and Europe. The transaction is expected to close in the first quarter of 2018 following the completion of customary approvals and closing conditions.

2.3 Disposals of businesses

During the year, there were no significant disposals of businesses.

In 2016, assets and liabilities disposed of were mainly composed of assets held for sale (primarily fixed assets, goodwill and inventories) and liabilities held for sale (primarily pension liabilities and accounts payables) related to the formation of the joint venture Froneri (see Note 14.3). The major part of those assets and liabilities were presented in Zone EMENA, with minor portions in the Zone AOA, Zone AMS and Other businesses reportable segments.

In 2016, the loss on disposals (see Note 4.2) was mainly composed of the disposal of businesses related to the creation of the joint venture Froneri and of other non-significant disposals. With regards of Froneri, the net loss on disposal amounted to CHF 90 million. It included the result of recycling in the income statement of the cumulative translation losses in other comprehensive income of CHF 385 million as well as some costs related to the creation of this joint venture.

In 2016, the profit on disposals (see Note 4.2) was mainly composed of a remeasurement of a disposal group held for sale at end of 2015 following its reclassification during the year as non-current assets as a result of a decision not to sell the business following identification of new business opportunities for expansion.

In 2017 and 2016, cash inflow on disposals of businesses relates to several non-significant disposals. With regards to the disposal of the ice cream and frozen food business in 2016, a non-cash consideration of CHF 1243 million was received from Froneri in the form of equity and shareholder loans.

2.4 Assets held for sale

Assets held for sale and disposal groups

Non-current assets held for sale and disposal groups are presented separately in the current section of the balance sheet when the following criteria are met: the Group is committed to selling the asset or disposal group, an active plan of sale has commenced, and the sale is expected to be completed within 12 months. Immediately before the initial classification of the assets and disposal groups as held for sale, the carrying amounts of the assets (or all the assets and liabilities in the disposal groups) are measured in accordance with the 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 amortised or depreciated.

As of 31 December 2017, assets held for sale are mainly composed of the US confectionery business. A sale agreement has been signed on 16 January 2018, and completion of the transaction and the loss of control is expected before the end of the first quarter of 2018. The assets reclassified (primarily fixed assets and inventory) are part of the Zone AMS operating segment. The related cumulative translation loss in other comprehensive income has been estimated at CHF 30 million and will be recognised at the date the control is lost. The estimated gain on the transaction amounts to about CHF 2 billion.

2.5 Acquisitions of non-controlling interests

Acquisitions and disposals of non-controlling interests

The Group treats transactions with non-controlling interests that do not result in loss of control as transactions with equity holders in their capacity as equity holders. For purchases of shares from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. The same principle is applied to disposals of shares to non-controlling interests.

During the year, the Group increased its ownership interests in certain subsidiaries. In 2017 the most significant one was in China. The consideration paid to non-controlling interests in cash amounted to CHF 526 million and the decrease of non-controlling interests amounted to CHF 152 million. Part of the consideration was recorded as a liability in previous years for CHF 518 million. During the year 2017, the equity attributable to shareholders of the parent was positively impacted by CHF 144 million.

In 2016 the most significant ones were in Israel and China. The consideration paid to non-controlling interests in cash amounted to CHF 1208 million and the decrease of non-controlling interests amounted to CHF 267 million. Part of the consideration had been recorded as a liability in previous years for CHF 311 million. The equity attributable to shareholders of the parent was negatively impacted by CHF 630 million.

3. Analyses by segment

Nestlé is organised into three geographic zones and several globally managed businesses. The Company manufactures and distributes food and beverage products in the following categories: powdered and liquid beverages, water, milk products and ice cream, prepared dishes and cooking aids, confectionery and petcare. Nestlé also manufactures and distributes nutritional science products through its globally managed business Nestlé Health Science and science-based solutions that contribute to the health of skin, hair and nails through Nestlé Skin Health. The Group has factories in 85 countries and sales in 189 countries and employs around 323 000 people.

Segment reporting

Operating segments reflect the Group's management structure and the way financial information is regularly reviewed by the Group's chief operating decision maker (CODM), which is defined as the Executive Board.

The CODM considers the business from both a geographic and product perspective, through three geographic Zones and several Globally Managed Businesses (GMB). Zones and GMB that meet the quantitative threshold of 10% of total sales or trading operating profit for all operating segments, are presented on a stand-alone basis as reportable segments. Even though it does not meet the reporting threshold, Nestlé Waters is reported separately for consistency with long-standing practice of the Group. Therefore, the Group's reportable operating segments are:

- Zone Europe, Middle East and North Africa (EMENA);
- Zone Americas (AMS);
- Zone Asia, Oceania and sub-Saharan Africa (AOA);
- Nestlé Waters;
- Nestlé Nutrition.

Other business activities and operating segments, including GMB that do not meet the threshold, like Nespresso, Nestlé Health Science and Nestlé Skin Health, are combined and presented in Other businesses. Following a change of business structure, effective as from 1 January 2017, Nestlé Professional has been managed as a Regionally Managed Business instead of a Globally Managed Business and consequently reported as part of Zone EMENA, Zone AMS and Zone AOA. 2016 comparatives have been restated.

As some operating segments represent geographic Zones, information by product is also disclosed. The seven product groups that are disclosed represent the highest categories of products that are followed internally.

Segment results (Trading operating profit) represent the contribution of the different segments to central overheads, unallocated research and development costs and the trading operating profit of the Group. Specific corporate expenses as well as specific research and development costs 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 Group Management to monitor the Group.

Depreciation and amortisation includes depreciation of property, plant and equipment and amortisation 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 Group discloses the invested capital, goodwill and intangible assets by segment and by product on a voluntary basis.

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

Goodwill and intangible assets are not included in invested capital since the amounts recognised 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 Group undertook significant acquisitions. Nevertheless, an allocation of goodwill and intangible assets by segment and product 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, while the figures by product represent the annual average, as this provides a better indication of the level of invested capital.

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

Unallocated items represent items whose allocation to a segment or product would be arbitrary. They mainly comprise:

- corporate expenses and related assets/liabilities;
- research and development costs and related assets/liabilities; and
- some goodwill and intangible assets.

3.1 Operating segments

Revenue and results

In millions of CHF

							2017
	Sales ^(a)	Underlying Trading operating profit ^(b)	Trading operating profit	Net other trading income/(expenses) ^(c)	of which impairment of property, plant and equipment	of which restructuring costs	Depreciation and amortisation
Zone EMENA	16 535	2 990	2 768	(222)	(67)	(110)	(531)
Zone AMS	28 479	5 791	5 459	(332)	(32)	(172)	(781)
Zone AOA	16 224	3 265	3 123	(142)	(89)	(21)	(514)
Nestlé Waters	7 955	1 012	948	(64)	(30)	(21)	(337)
Nestlé Nutrition	10 361	2 384	2 282	(102)	(25)	(34)	(383)
Other businesses ^(d)	10 237	1 625	1 174	(451)	(116)	(286)	(492)
Unallocated items ^(e)	—	(2 338)	(2 521)	(183)	(7)	(29)	(189)
Total	89 791	14 729	13 233	(1 496)	(366)	(673)	(3 227)

In millions of CHF

							2016 *
	Sales ^(a)	Underlying Trading operating profit ^(b)	Trading operating profit	Net other trading income/(expenses) ^(c)	of which impairment of property, plant and equipment	of which restructuring costs	Depreciation and amortisation
Zone EMENA	17 428	3 020	2 888	(132)	(33)	(107)	(501)
Zone AMS	28 130	5 537	5 356	(181)	(20)	(112)	(777)
Zone AOA	15 904	3 171	3 085	(86)	(58)	(15)	(525)
Nestlé Waters	7 926	990	946	(44)	(20)	(7)	(335)
Nestlé Nutrition	10 326	2 389	2 342	(47)	(13)	(13)	(356)
Other businesses ^(d)	9 755	1 503	1 407	(96)	(8)	(45)	(483)
Unallocated items ^(e)	—	(2 303)	(2 331)	(28)	(5)	(1)	(155)
Total	89 469	14 307	13 693	(614)	(157)	(300)	(3 132)

* 2016 comparatives have been restated following the change of business structure, effective as from 1 January 2017, for Nestlé Professional (NP) from a Globally Managed to a Regionally Managed Business.

(a) Inter-segment sales are not significant.

(b) Trading operating profit before Net other trading income/(expenses).

(c) Included in Trading operating profit.

(d) Mainly Nespresso, Nestlé Health Science and Nestlé Skin Health.

(e) Refer to the Segment reporting accounting policies above for the definition of unallocated items.

3. Analyses by segment

Invested capital and other information

In millions of CHF

					2017	
	Invested capital	Goodwill and intangible assets	Impairment of goodwill and non-commercialised intangible assets	Impairment of intangible assets	Capital additions	of which capital expenditure
Zone EMENA	5 762	1 815	—	(30)	786	725
Zone AMS	8 001	8 018	—	—	1 430	1 200
Zone AOA	3 848	3 133	(227)	—	554	539
Nestlé Waters	2 714	1 475	(3)	(2)	594	545
Nestlé Nutrition	5 496	15 290	—	—	542	331
Other businesses ^(a)	2 143	10 572	(2 809)	(2)	1 260	421
Unallocated items ^(b) and inter-segment eliminations	1 462	10 060	—	(118)	413	173
Total	29 426	50 363	(3 039)	(152)	5 579	3 934

In millions of CHF

					2016 *	
	Invested capital	Goodwill and intangible assets	Impairment of goodwill and non-commercialised intangible assets	Impairment of intangible assets	Capital additions	of which capital expenditure
Zone EMENA	4 787	1 682	(2)	—	826	791
Zone AMS	7 973	8 210	(67)	—	1 148	1 083
Zone AOA	4 125	3 324	(365)	—	602	574
Nestlé Waters	2 481	1 534	(5)	(14)	556	496
Nestlé Nutrition	5 554	15 506	—	—	558	414
Other businesses ^(a)	2 276	12 878	—	(3)	1 449	451
Unallocated items ^(b) and inter-segment eliminations	1 544	10 270	—	(27)	323	201
Total	28 740	53 404	(439)	(44)	5 462	4 010

* 2016 comparatives have been restated following the change of business structure, effective as from 1 January 2017, for Nestlé Professional (NP) from a Globally Managed to a Regionally Managed Business.

(a) Mainly Nespresso, Nestlé Health Science and Nestlé Skin Health.

(b) Refer to the Segment reporting accounting policies above for the definition of unallocated items.

3.2 Products

Revenue and results

In millions of CHF

				2017		
	Sales	Underlying Trading operating profit ^(a)	Trading operating profit	Net other trading income/(expenses) ^(b)	of which impairment of property, plant and equipment	of which restructuring costs
Powdered and Liquid Beverages	20 408	4 461	4 302	(159)	(50)	(56)
Water	7 455	968	905	(63)	(30)	(20)
Milk products and Ice cream	13 447	2 509	2 326	(183)	(65)	(77)
Nutrition and Health Science	15 257	2 961	2 425	(536)	(133)	(319)
Prepared dishes and cooking aids	11 957	2 103	1 933	(170)	(37)	(77)
Confectionery	8 805	1 387	1 237	(150)	(35)	(55)
PetCare	12 462	2 678	2 626	(52)	(9)	(40)
Unallocated items ^(c)	—	(2 338)	(2 521)	(183)	(7)	(29)
Total	89 791	14 729	13 233	(1 496)	(366)	(673)

In millions of CHF

				2016 *		
	Sales	Underlying Trading operating profit ^(a)	Trading operating profit	Net other trading income/(expenses) ^(b)	of which impairment of property, plant and equipment	of which restructuring costs
Powdered and Liquid Beverages	19 792	4 270	4 129	(141)	(54)	(68)
Water	7 414	950	906	(44)	(20)	(8)
Milk products and Ice cream	14 331	2 759	2 649	(110)	(30)	(60)
Nutrition and Health Science	15 038	2 900	2 775	(125)	(18)	(44)
Prepared dishes and cooking aids	12 148	1 940	1 838	(102)	(9)	(81)
Confectionery	8 679	1 237	1 192	(45)	(13)	(32)
PetCare	12 067	2 554	2 535	(19)	(8)	(6)
Unallocated items ^(c)	—	(2 303)	(2 331)	(28)	(5)	(1)
Total	89 469	14 307	13 693	(614)	(157)	(300)

* 2016 comparatives have been restated following the change of business structure, effective as from 1 January 2017, for Nestlé Professional (NP) from a Globally Managed to a Regionally Managed Business.

- (a) Trading operating profit before Net other trading income/(expenses).
 (b) Included in Trading operating profit.
 (c) Refer to the Segment reporting accounting policies above for the definition of unallocated items.

3. Analyses by segment

Invested capital and other information

In millions of CHF

		2017		
	Invested capital	Goodwill and intangible assets	Impairment of goodwill and non-commercialised intangible assets	Impairment of intangible assets
Powdered and Liquid Beverages	5 544	831	(3)	—
Water	2 590	1 502	(3)	(2)
Milk products and Ice cream	3 491	3 073	(137)	(1)
Nutrition and Health Science	7 073	27 191	(2 806)	(2)
Prepared dishes and cooking aids	3 105	5 590	—	(26)
Confectionery	3 026	1 749	(90)	(3)
PetCare	3 940	10 095	—	—
Unallocated items ^(a) and intra-group eliminations	1 584	1 900	—	(118)
Total	30 353	51 931	(3 039)	(152)

In millions of CHF

		2016 *		
	Invested capital	Goodwill and intangible assets	Impairment of goodwill and non-commercialised intangible assets	Impairment of intangible assets
Powdered and Liquid Beverages	5 610	578	—	—
Water	2 408	1 496	(5)	(14)
Milk products and Ice cream	4 166	3 478	(402)	—
Nutrition and Health Science	7 168	27 560	—	(3)
Prepared dishes and cooking aids	3 308	5 571	—	—
Confectionery	2 902	1 787	(32)	—
PetCare	3 602	10 038	—	—
Unallocated items ^(a) and intra-group eliminations	1 432	2 084	—	(27)
Total	30 596	52 592	(439)	(44)

* 2016 comparatives have been restated following the change of business structure, effective as from 1 January 2017, for Nestlé Professional (NP) from a Globally Managed to a Regionally Managed Business.

(a) Refer to the Segment reporting accounting policies above for the definition of unallocated items.

3.3a Reconciliation from Underlying Trading operating profit to profit before taxes, associates and joint ventures

In millions of CHF

	2017	2016
Underlying Trading operating profit ^(a)	14 729	14 307
Net other trading income/(expenses)	(1 496)	(614)
Trading operating profit	13 233	13 693
Impairment of goodwill and non-commercialised intangible assets	(3 039)	(439)
Net other operating income/(expenses) excluding impairment of goodwill and non-commercialised intangible assets	(82)	(91)
Operating profit	10 112	13 163
Net financial income/(expense)	(619)	(637)
Profit before taxes, associates and joint ventures	9 493	12 526

(a) Trading operating profit before Net other trading income/(expenses).

3.3b Reconciliation from invested capital to total assets

In millions of CHF

	2017	2016
Invested capital as per Note 3.1	29 426	28 740
Liabilities included in invested capital	24 154	23 301
Subtotal	53 580	52 041
Intangible assets and goodwill as per Note 3.1	50 363	53 404
Other assets	26 437	26 456
Total assets	130 380	131 901

3.4 Customers

There is no single customer amounting to 10% or more of Group's revenues.

3.5 Geography

Sales and non-current assets in Switzerland and countries which individually represent at least 10% of the Group sales or 10% of the Group non-current assets are disclosed separately.

The analysis of sales is stated by customer location.

Non-current assets relate to property, plant and equipment, intangible assets and goodwill. Property, plant and equipment and intangible assets are attributed to the country of their legal owner. Goodwill is attributed to the countries of the subsidiaries where the related acquired business is operated.

In millions of CHF

	2017		2016	
	Sales	Non-current assets	Sales	Non-current assets
USA	26 678	25 932	26 704	27 436
Greater China Region	6 578	7 418	6 536	8 408
Switzerland	1 262	15 693	1 475	14 475
Rest of the world	55 273	29 095	54 754	30 639
Total	89 791	78 138	89 469	80 958

4. Net other trading and operating income/(expenses)

Other trading income/(expenses)

These comprise restructuring costs, impairment of property, plant and equipment and intangible assets (other than goodwill and non-commercialised intangible assets), litigations and onerous contracts, result on 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 reorganisation of a business or function. It does not include dismissal indemnities paid for normal attrition, poor performance, professional misconduct, etc.

Other operating income/(expenses)

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

4.1 Net other trading income/(expenses)

In millions of CHF

	Notes	2017	2016
Other trading income		111	99
Restructuring costs		(673)	(300)
Impairment of property, plant and equipment and intangible assets ^(a)	8/9	(518)	(201)
Litigations and onerous contracts ^(b)		(328)	(155)
Miscellaneous trading expenses		(88)	(57)
Other trading expenses		(1 607)	(713)
Total net other trading income/(expenses)		(1 496)	(614)

(a) Excluding non-commercialised intangible assets.

(b) Mainly relates to numerous separate legal cases (for example labour, civil and tax litigations) and several separate onerous contracts.

4. Net other trading and operating income/(expenses)

4.2 Net other operating income/(expenses)

In millions of CHF

	Notes	2017	2016
Profit on disposal of businesses	2	60	203
Miscellaneous operating income		319	151
Other operating income		379	354
Loss on disposal of businesses	2	(192)	(203)
Impairment of goodwill and non-commercialised intangible assets	9	(3 039)	(439)
Miscellaneous operating expenses		(269)	(242)
Other operating expenses		(3 500)	(884)
Total net other operating income/(expenses)		(3 121)	(530)

5. Net financial income/(expense)

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

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

In millions of CHF

	Notes	2017	2016
Interest income		122	99
Interest expense		(535)	(543)
Net financing cost of net financial debt		(413)	(444)
Interest income on defined benefit plans		30	22
Interest expense on defined benefit plans		(231)	(210)
Net interest income/(expense) on defined benefit plans	10	(201)	(188)
Other		(5)	(5)
Net financial income/(expense)		(619)	(637)

6. Inventories

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

In millions of CHF

	2017	2016
Raw materials, work in progress and sundry supplies	3 864	3 619
Finished goods	5 415	5 008
Allowance for write-down to net realisable value	(218)	(226)
	9 061	8 401

Inventories amounting to CHF 289 million (2016: CHF 271 million) are pledged as security for financial liabilities.

7. Trade and other receivables/payables

7.1 Trade and other receivables by type

In millions of CHF

	2017	2016
Trade receivables	10 199	10 023
Other receivables	2 223	2 388
	12 422	12 411

The five major customers represent 12% (2016: 12%) of trade and other receivables, none of them individually exceeding 7% (2016: 7%).

7.2 Past due and allowance for doubtful receivables

Allowances for doubtful receivables represent the Group's estimates of losses that could arise from the failure or inability of customers to make payments when due (except if due to commercial disputes, for example over pricing or promotions). These estimates are based on the ageing of customers' balances, specific credit circumstances and the Group's historical bad receivables experience.

7. Trade and other receivables/payables

In millions of CHF

	2017	2016
Not past due	10 965	11 086
Past due 1–30 days	851	812
Past due 31–60 days	245	178
Past due 61–90 days	108	105
Past due 91–120 days	87	59
Past due more than 120 days	514	522
Allowance for doubtful receivables	(348)	(351)
	12 422	12 411

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

7.3 Trade and other payables by type

In millions of CHF

	2017	2016
Due within one year		
Trade payables	12 899	12 284
Social security and sundry taxes and levies	2 281	2 032
Other payables	3 692	4 313
	18 872	18 629

8. Property, plant and equipment

Property, plant and equipment are shown on the balance sheet at their historical cost.

Depreciation is provided on components that have homogenous useful lives by using the straight-line method so as to depreciate the initial cost down to the residual value over the estimated useful lives. The residual values are 30% on head offices and nil for all other asset types.

The useful lives are as follows:

Buildings	20 – 40 years
Machinery and equipment	10 – 25 years
Tools, furniture, information technology and sundry equipment	3 – 15 years
Vehicles	3 – 10 years

Land is not depreciated.

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 technical obsolescence.

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

Borrowing costs incurred during the course of construction are capitalised if the assets under construction are significant and if their construction requires a substantial period to complete (typically more than one year). The capitalisation rate is determined on the basis of the short-term borrowing rate for the period of construction. Premiums capitalised for leasehold land or buildings are amortised over the length of the lease. Government grants are recognised as deferred income which is released to the income statement over the useful life of the related assets. Grants that are not related to assets are credited to the income statement when they are received, if there is reasonable assurance that the terms of the grant will be met.

8. Property, plant and equipment

In millions of CHF

	Land and buildings	Machinery and equipment	Tools, furniture and other equipment	Vehicles	Total
Gross value					
At 1 January 2017	17 380	30 166	7 653	731	55 930
Currency retranslations	(96)	(17)	106	(27)	(34)
Capital expenditure ^(a)	1 031	2 061	799	43	3 934
Disposals	(94)	(499)	(494)	(100)	(1 187)
Reclassification (to)/from held for sale	(215)	(568)	(47)	(17)	(847)
Modification of the scope of consolidation	42	(20)	1	—	23
At 31 December 2017	18 048	31 123	8 018	630	57 819
Accumulated depreciation and impairments					
At 1 January 2017	(5 727)	(16 708)	(5 472)	(469)	(28 376)
Currency retranslations	(44)	(51)	(23)	18	(100)
Depreciation	(480)	(1 584)	(724)	(65)	(2 853)
Impairments	(166)	(177)	(17)	(6)	(366)
Disposals	63	454	474	83	1 074
Reclassification to/(from) held for sale	109	400	35	11	555
Modification of the scope of consolidation	2	17	3	—	22
At 31 December 2017	(6 243)	(17 649)	(5 724)	(428)	(30 044)
Net at 31 December 2017	11 805	13 474	2 294	202	27 775
Gross value					
At 1 January 2016	16 359	28 554	7 254	732	52 899
Currency retranslations	50	200	109	6	365
Capital expenditure ^(a)	1 124	2 048	782	56	4 010
Disposals	(94)	(561)	(497)	(63)	(1 215)
Reclassification (to)/from held for sale	(39)	(58)	14	—	(83)
Modification of the scope of consolidation	(20)	(17)	(9)	—	(46)
At 31 December 2016	17 380	30 166	7 653	731	55 930
Accumulated depreciation and impairments					
At 1 January 2016	(5 263)	(15 468)	(5 144)	(448)	(26 323)
Currency retranslations	(58)	(139)	(44)	(2)	(243)
Depreciation	(462)	(1 551)	(709)	(73)	(2 795)
Impairments	(46)	(96)	(15)	—	(157)
Disposals	49	489	467	56	1 061
Reclassification to/(from) held for sale	46	48	(31)	(2)	61
Modification of the scope of consolidation	7	9	4	—	20
At 31 December 2016	(5 727)	(16 708)	(5 472)	(469)	(28 376)
Net at 31 December 2016	11 653	13 458	2 181	262	27 554

(a) Including borrowing costs.

8. Property, plant and equipment

At 31 December 2017, property, plant and equipment include CHF 938 million of assets under construction (2016: CHF 703 million). Net property, plant and equipment held under finance leases amount to CHF 109 million (2016: CHF 133 million). Net property, plant and equipment of CHF 291 million are pledged as security for financial liabilities (2016: CHF 301 million).

At 31 December 2017, the Group was committed to expenditure amounting to CHF 527 million (2016: CHF 645 million).

Impairment of property, plant and equipment

Reviews of the carrying amount of the Group's property, plant and equipment are performed when there is an indication of impairment. An indicator could be unfavourable development of a business under competitive pressures or severe economic slowdown in a given market as well as reorganisation 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 the risks specific to the country where the assets are located. The risks specific to the asset are included in the determination of the cash flows.

Impairment of property, plant and equipment arises mainly from the plans to optimise industrial manufacturing capacities by closing or selling inefficient production facilities (in 2017, mainly related to Nestlé Skin Health).

9. Goodwill and intangible assets

Goodwill

Goodwill is initially recognised during a business combination (see Note 2). 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 capitalised provided that there is an identifiable asset that will be useful in generating future benefits in terms of savings, economies of scale, etc. Payments made to third parties in order to in-license or acquire intellectual property rights, compounds and products are capitalised as non-commercialised intangible assets, as they are separately identifiable and are expected to generate future benefits. Non-commercialised intangible assets are not amortised, but tested for impairment (see Impairment of goodwill and intangible assets below). Any impairment charge is recorded in the consolidated income statement under Other operating expenses. They are reclassified as commercialised intangible assets once development is complete, usually when approval for sales has been granted by the relevant regulatory authority.

Indefinite life intangible assets mainly comprise certain brands, trademarks and intellectual property rights. They are not amortised 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 amortised over the shorter of their contractual or useful economic lives. They comprise mainly management information systems, patents and rights to carry on an activity (e.g. exclusive rights to sell products or to perform a supply activity). Finite life intangible assets are amortised on a straight-line basis assuming a zero residual value: management information systems over a period ranging from 3 to 5 years; 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. Amortisation of finite life intangible assets starts when they are available for use and is allocated to the appropriate headings of expenses by function in the income statement.

Research and development

Internal research costs are charged to the income statement in the year in which they are incurred. Development costs are only recognised as assets on the balance sheet if all the recognition criteria set by IAS 38 – Intangible Assets are met before the products are launched on the market. Development costs are generally charged to the income statement in the year in which they are incurred due to uncertainties inherent in the development of new products because the expected future economic benefits cannot be reliably determined. As long as the products have not reached the market place, there is no reliable evidence that positive future cash flows would be obtained.

Capitalised development costs are subsequently accounted for as described in the section Intangible assets above.

9. Goodwill and intangible assets

In millions of CHF

	Goodwill	Brands and intellectual property rights	Operating rights and others	Management information systems	Total intangible assets	of which internally generated
Gross value						
At 1 January 2017	36 654	17 447	2 848	4 486	24 781	4 049
of which indefinite useful life	–	16 200	33	–	16 233	–
Currency retranslations	(769)	(173)	(85)	9	(249)	18
Expenditure	–	86	214	469	769	384
Disposals	–	(9)	(49)	(5)	(63)	(2)
Reclassification (to)/from held for sale	–	–	–	(2)	(2)	(2)
Modification of the scope of consolidation ^(a)	487	209	36	1	246	–
At 31 December 2017	36 372	17 560	2 964	4 958	25 482	4 447
of which indefinite useful life	–	16 218	32	–	16 250	–
of which non-commercialised intangible assets	–	34	194	–	228	–
Accumulated amortisation and impairments						
At 1 January 2017	(3 647)	(315)	(465)	(3 604)	(4 384)	(3 307)
of which indefinite useful life	–	(20)	(10)	–	(30)	–
Currency retranslations	56	(3)	3	(15)	(15)	(19)
Amortisation	–	(88)	(132)	(154)	(374)	(120)
Impairments ^(b)	(3 033)	(37)	(1)	(120)	(158)	(118)
Disposals	–	8	49	4	61	2
Reclassification to/(from) held for sale	–	–	–	1	1	1
Modification of the scope of consolidation	–	–	2	–	2	–
At 31 December 2017	(6 624)	(435)	(544)	(3 888)	(4 867)	(3 561)
of which indefinite useful life	–	(52)	(10)	–	(62)	–
of which non-commercialised intangible assets	–	(6)	–	–	(6)	–
Net at 31 December 2017	29 748	17 125	2 420	1 070	20 615	886
of which indefinite useful life ^(c)	–	16 166	22	–	16 188	–
of which non-commercialised intangible assets	–	28	194	–	222	–

(a) Goodwill: acquisition of businesses amounts to CHF 497 million and disposal of businesses to CHF 10 million.

(b) Of which CHF 6 million of non-commercialised intangible assets.

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

9. Goodwill and intangible assets

In millions of CHF

	Goodwill	Brands and intellectual property rights	Operating rights and others	Management information systems	Total intangible assets	of which internally generated
Gross value						
At 1 January 2016	35 946	16 648	2 502	4 118	23 268	3 795
of which indefinite useful life	–	15 418	32	–	15 450	–
Currency retranslations	588	163	51	70	284	20
Expenditure	–	14	340	328	682	260
Disposals	–	–	(68)	(16)	(84)	(14)
Reclassification (to)/from held for sale	–	209	26	(12)	223	(11)
Modification of the scope of consolidation ^(a)	120	413	(3)	(2)	408	(1)
At 31 December 2016	36 654	17 447	2 848	4 486	24 781	4 049
of which indefinite useful life	–	16 200	33	–	16 233	–
of which non-commercialised intangible assets	–	20	159	–	179	–
Accumulated amortisation and impairments						
At 1 January 2016	(3 174)	(217)	(375)	(3 440)	(4 032)	(3 195)
of which indefinite useful life	–	(19)	–	–	(19)	–
Currency retranslations	(34)	3	(6)	(51)	(54)	(22)
Amortisation	–	(87)	(140)	(110)	(337)	(83)
Impairments	(439)	–	(10)	(34)	(44)	(32)
Disposals	–	–	63	16	79	13
Reclassification to/(from) held for sale	–	(14)	(4)	11	(7)	11
Modification of the scope of consolidation	–	–	7	4	11	1
At 31 December 2016	(3 647)	(315)	(465)	(3 604)	(4 384)	(3 307)
of which indefinite useful life	–	(20)	(10)	–	(30)	–
of which non-commercialised intangible assets	–	–	–	–	–	–
Net at 31 December 2016	33 007	17 132	2 383	882	20 397	742
of which indefinite useful life ^(b)	–	16 180	23	–	16 203	–
of which non-commercialised intangible assets	–	20	159	–	179	–

(a) Goodwill: acquisition of businesses amounts to CHF 193 million and disposal of businesses to CHF 73 million.

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

At 31 December 2017, the Group was committed to expenditure amounting to CHF 9 million (2016: CHF 10 million).

In addition to the above, the Group has entered into long-term agreements to in-license or acquire intellectual property or operating rights from some third parties or associates (related parties). If agreed objectives or performance targets are achieved, these agreements may require potential milestone payments and other payments by the Group, which may be capitalised as non-commercialised intangible assets (see accounting policy in Note 9 – Intangible assets).

As of 31 December 2017, the Group's committed payments (undiscounted and not risk-adjusted) and their estimated timing are:

In millions of CHF

	2017			2016		
	Unconditional commitments	Potential milestone payments	Total	Unconditional commitments	Potential milestone payments	Total
Within one year	2	85	87	—	41	41
In the second year	—	156	156	—	126	126
In the third and fourth year	—	284	284	—	268	268
Thereafter	—	1 198	1 198	—	1 290	1 290
Total	2	1 723	1 725	—	1 725	1 725
of which related parties	—	1 105	1 105	—	1 167	1 167

Impairment of goodwill and intangible assets (including non-commercialised intangible assets)

Goodwill and intangible assets with an indefinite life or not yet available for use 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 Group 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 Group 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. Finally, the CGU for impairment test of non-commercialised intangible assets is defined at the level of the intangible asset itself. 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 projected cash flows discounted at an appropriate pre-tax rate of return. Usually, the cash flows correspond to estimates made by Group 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 Group 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.

9.1 Impairment

9.1.1 Impairment charge during the year

The 2017 impairment charge mainly relates to the Nestlé Skin Health CGU and other various non-significant impairments of goodwill (predominantly in Zone AOA) and intangible assets (predominantly in Unallocated items).

The Nestlé Skin Health CGU is composed mainly of goodwill and intangible assets. These have arisen mainly from the acquisitions in 2014 of the remaining 50% stake in Galderma and of the commercialisation rights in the United States and Canada from Valeant Pharmaceuticals International.

The annual impairment test for the Nestlé Skin Health CGU was concluded during year-end closing. This test was based on financial projections prepared after a complete strategy review done by Nestlé Skin Health's new management. The review looked at the maturity and competitive environment of the worldwide skincare market and the mixed results of recent new products launches, brand or geographic expansion. The analysis drove substantial changes in Nestlé Skin Health's portfolio and focus leading to significant restructuring activities initiated in late 2017. These translated to revised forecasted sales and margins, and a reduction of the period of cash flows projection to 5 years.

As a result, a goodwill impairment charge of CHF 2799 million has been recognised under the heading Other operating expenses in the income statement. The 2017 carrying amount of the Nestlé Skin Health CGU now amounts to CHF 7569 million, which includes CHF 332 million of goodwill and CHF 4621 million of intangible assets with indefinite useful life.

The recoverable amount of the CGU has been determined based on a value-in-use calculation (see Note 9.1.2). A discount rate of 8.7% (2016: 6.7%), impacted in 2017 by the increase of the risk free rates and the weight of the different cash flows of the CGU, was used in this calculation.

There was no significant impairment of the carrying amounts of other assets of the CGU. The goodwill is included in the Other businesses segment disclosed in Note 3.1.

In 2016, there were various impairments of goodwill (predominantly in Zone AOA) and intangible assets (predominantly in Unallocated items). None of them were individually significant.

9.1.2 Annual impairment tests

Impairment reviews have been conducted for more than 200 items of goodwill and intangible assets with indefinite useful lives, allocated to more than 50 Cash Generating Units (CGU).

9. Goodwill and intangible assets

The following five CGUs have been considered as significant either with regard to the total goodwill or to the total intangible assets with indefinite useful life for which detailed results are presented hereafter: Wyeth Infant Nutrition, PetCare Zone AMS, Nestlé Skin Health, DSD for Frozen Pizza and Ice Cream – USA and Nestlé Infant Nutrition.

In millions of CHF

	2017			2016		
	Goodwill	Intangible assets with indefinite useful life	Total	Goodwill	Intangible assets with indefinite useful life	Total
Wyeth Infant Nutrition	4 567	4 508	9 075	4 624	4 544	9 168
PetCare Zone AMS	7 812	379	8 191	8 180	397	8 577
Nestlé Skin Health ^(a)	332	4 621	4 953	3 182	4 653	7 835
DSD for Frozen Pizza and Ice Cream – USA	2 485	1 749	4 234	2 602	1 831	4 433
Nestlé Infant Nutrition	3 673	1 299	4 972	3 851	1 359	5 210
Subtotal	18 869	12 556	31 425	22 439	12 784	35 223
as % of total carrying amount	63%	78%	68%	68%	79%	72%
Other CGUs	10 879	3 632	14 511	10 568	3 419	13 987
Total	29 748	16 188	45 936	33 007	16 203	49 210

(a) After impairment (see Note 9.1.1).

For each CGUs, except for Nestlé Skin Health (see Note 9.1.1), the recoverable amount is higher than its carrying amount. The recoverable amount has been determined based upon a value-in-use calculation. Cash flows have been projected over the next 5 years. They have been extrapolated using a steady or declining terminal growth rate and discounted at a pre-tax weighted average rate.

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

2017					
	Period of cash flow projections	Annual sales growth	Annual margin evolution	Terminal growth rate	Pre-tax discount rate
Wyeth Infant Nutrition	5 years	-1% to 6%	Stable	3.2%	8.0%
PetCare Zone AMS	5 years	2% to 4%	Declining	2.0%	9.0%
Nestlé Skin Health	5 years	4% to 7%	Improvement	2.3%	8.7%
DSD for Frozen Pizza and Ice Cream – USA	5 years	-1% to 0%	Improvement	1.8%	8.7%
Nestlé Infant Nutrition	5 years	1% to 4%	Improvement	3.5%	11.6%

2016					
	Period of cash flow projections	Annual sales growth	Annual margin evolution	Terminal growth rate	Pre-tax discount rate
Wyeth Infant Nutrition	5 years	0% to 7%	Improvement	3.2%	7.2%
PetCare Zone AMS	5 years	3% to 5%	Stable	2.0%	7.7%
Nestlé Skin Health	10 years	12% to 19%	Improvement	1.9%	6.7%
DSD for Frozen Pizza and Ice Cream – USA	5 years	1%	Improvement	1.5%	7.7%
Nestlé Infant Nutrition	5 years	2% to 4%	Improvement	3.7%	11.1%

- The pre-tax discount rates have been computed based on external sources of information.
- The cash flows for the first five years were based upon financial plans approved by Group Management which are consistent with the 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 Nestlé Skin Health for which any negative change would lead to further impairment, and
- the CGU DSD for Frozen Pizza and Ice Cream – USA for which the following changes in the material assumptions lead to a situation where the value in use equals the carrying amount:

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

10. Employee benefits

10.1 Employee remuneration

The Group's salaries of CHF 12 350 million (2016: CHF 12 427 million) and welfare expenses of CHF 4221 million (2016: CHF 4290 million) represent a total of CHF 16 571 million (2016: CHF 16 717 million). In addition, certain Group employees are eligible to long-term incentives in the form of equity compensation plans, for which the cost amounts to CHF 247 million (2016: CHF 227 million). Employee remuneration is allocated to the appropriate headings of expenses by function.

10.2 Post-employment benefits

The liabilities of the Group arising from defined benefit obligations, and the related current service cost, are determined using the projected unit credit method. Actuarial advice is provided both by external consultants and by actuaries employed by the Group. The actuarial assumptions used to calculate the defined benefit obligations vary according to the economic conditions of the country in which the plan is located. Such plans are either externally funded (in the form of 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 recognised as a liability or an asset on the balance sheet.

Pension cost charged to the income statement consists of service cost (current and past service cost, gains and losses arising from curtailment and 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.

Some benefits are also provided by defined contribution plans. Contributions to such plans are charged to the income statement as incurred.

Certain disclosures are presented by geographic area. The three regions disclosed are Europe, Middle East and North Africa (EMENA), Americas (AMS) and Asia, Oceania and sub-Saharan Africa (AOA). Each region includes the corresponding Zones as well as the portion of the GMB activity in that region.

Pensions and retirement benefits

Apart from legally required social security arrangements, the majority of Group employees are eligible for benefits through pension plans in case of retirement, death in service, disability and in case of resignation. Those plans are either defined contribution plans or defined benefit plans based on pensionable remuneration and length of service. All pension plans comply with local tax and legal restrictions in their respective country, including funding obligations.

The Group manages its pension plans by geographic area and the major plans, classified as defined benefit plans under IAS 19, are located in EMENA (Switzerland, United Kingdom and Germany) and in AMS (USA). In accordance with applicable legal frameworks, these plans have Boards of Trustees or General Assemblies which are generally independent from the Group and are responsible for the management and governance of the plans.

In Switzerland, Nestlé's pension plan is a cash balance plan where contributions are expressed as a percentage of the pensionable salary. The pension plan guarantees the amount accrued on the members' savings accounts, as well as a minimum interest on those savings accounts. At retirement date, the savings accounts are converted into pensions. However, members may opt to receive a part of the pension as a lump sum. Increases of pensions in payment are granted on a discretionary basis by the Board of Trustees, subject to the financial situation of the plan. To be noted that there is also a defined benefit plan that has been closed to new entrants in 2013 and whose members below age 55 have been transferred to the cash balance plan. This heritage plan is a hybrid between a cash balance plan and a plan based on a final pensionable salary. Finally, the Group has committed to make additional contributions up to a maximum of CHF 440 million, in order to mitigate the impact of changes in mortality and decrease in conversion rates.

In the United Kingdom, Nestlé's pension plan is an arrangement combining a defined benefit career average section with salary revaluation plus a defined contribution section. It should be noted that the defined benefit section was closed to new entrants during 2016. In the defined benefit section members accrue a pension defined on the average of their salaries during their career at Nestlé since 2010. The salaries are automatically revalued according to inflation subject to caps. Pensions earned before 2010 are also revalued according to inflation subject to a cap and similarly, pensions in payment are mandatorily adjusted, as well. At retirement, there is a lump sum option. Up to 31 July 2017, members employed before 1 July 2016 had the option to switch between the defined benefit section and the defined contribution section. Finally, the funding of the shortfall of the Nestlé UK Pension Fund (a related party) is defined on the basis of a triennial independent actuarial valuation in accordance with local regulations. In accordance with the last valuation, an amount of GBP 89 million has been paid by Nestlé UK Ltd during the year in accordance with the agreed schedule of contributions. The undiscounted future payments after 31 December 2017 related to the shortfall amount to GBP 493 million (GBP 172 million between 2018 to 2019, GBP 172 million between 2020 to 2021 and GBP 149 million in 2022).

Nestlé's pension plan in Germany is a cash balance plan, where members benefit from a guarantee on their savings accounts. Contributions to the plan are expressed as a percentage of the pensionable salary. Increases to pensions in payment are granted in accordance with legal requirements. There is also a heritage plan, based on final pensionable salary, which has been closed to new entrants in 2006.

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

Post-employment medical benefits and other employee benefits

Subsidiaries, principally in AMS, maintain medical benefit plans, classified as defined benefit plans under IAS 19, which cover eligible retired employees. The obligations for other employee benefits consist mainly of end of service indemnities, which do not have the character of pensions.

Risks related to defined benefit plans

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

- mortality risk: the assumptions adopted by the Group 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 minimise 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 minimise the risks, the structure of the portfolios is reviewed and asset-liability matching analyses are performed on a regular basis.

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

Plan amendments and restructuring events

Plans within the Group are regularly reviewed as to whether they are aligned with market practice in the local context. Should a review indicate that a plan needs to be changed, prior agreement with the local Board of Trustees or the General Assembly, the regulator and, if applicable, the members, is sought before implementing plan changes.

During the year, there were individually non-significant plan amendments and restructuring activities leading to curtailments. The related past service costs of CHF 94 million have been recognised in the income statement primarily under marketing and administration costs.

Asset-liability management and funding arrangement

Plan trustees or General Assemblies are responsible for determining the mix of asset classes and target allocations of the Nestlé's plans with the support of investment advisors. 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 Group'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 Group addresses the assessment and control process of the major investment pension risks. In order to protect the Group'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.

10.2a Reconciliation of assets and liabilities recognised in the balance sheet

In millions of CHF

	2017			2016		
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total
Present value of funded obligations	27 347	62	27 409	27 201	52	27 253
Fair value of plan assets	(24 656)	(35)	(24 691)	(23 013)	(24)	(23 037)
Excess of liabilities/(assets) over funded obligations	2 691	27	2 718	4 188	28	4 216
Present value of unfunded obligations	862	2 018	2 880	775	2 021	2 796
Unrecognised assets	23	—	23	43	—	43
Net defined benefit liabilities/(assets)	3 576	2 045	5 621	5 006	2 049	7 055
Other employee benefit liabilities			1 098			1 055
Net liabilities			6 719			8 110
Reflected in the balance sheet as follows:						
Employee benefit assets			(392)			(310)
Employee benefit liabilities			7 111			8 420
Net liabilities			6 719			8 110

10.2b Funding situation by geographic area of defined benefit plans

In millions of CHF

	2017				2016			
	EMENA	AMS	AOA	Total	EMENA	AMS	AOA	Total
Present value of funded obligations	20 425	5 247	1 737	27 409	20 055	5 285	1 913	27 253
Fair value of plan assets	(17 675)	(5 341)	(1 675)	(24 691)	(15 985)	(5 261)	(1 791)	(23 037)
Excess of liabilities/(assets) over funded obligations	2 750	(94)	62	2 718	4 070	24	122	4 216
Present value of unfunded obligations	472	2 082	326	2 880	421	2 099	276	2 796

10.2c Movement in the present value of defined benefit obligations

In millions of CHF

	2017			2016		
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total
At 1 January	27 976	2 073	30 049	27 110	1 784	28 894
of which funded defined benefit plans	27 201	52	27 253	26 411	52	26 463
of which unfunded defined benefit plans	775	2 021	2 796	699	1 732	2 431
Currency retranslations	415	(76)	339	(645)	133	(512)
Service cost	689	52	741	798	51	849
of which current service cost	778	57	835	800	54	854
of which past service cost	(89)	(5)	(94)	(2)	(3)	(5)
Interest expense	649	111	760	723	98	821
Actuarial (gains)/losses	144	56	200	1 723	140	1 863
Benefits paid on funded defined benefit plans	(1 484)	(5)	(1 489)	(1 108)	(5)	(1 113)
Benefits paid on unfunded defined benefit plans	(73)	(129)	(202)	(46)	(115)	(161)
Modification of the scope of consolidation	(1)	(2)	(3)	(2)	(1)	(3)
Reclassification to/(from) held for sale	—	—	—	29	(12)	17
Transfer from/(to) defined contribution plans	(106)	—	(106)	(606)	—	(606)
At 31 December	28 209	2 080	30 289	27 976	2 073	30 049
of which funded defined benefit plans	27 347	62	27 409	27 201	52	27 253
of which unfunded defined benefit plans	862	2 018	2 880	775	2 021	2 796

10.2d Movement in fair value of defined benefit plan assets

In millions of CHF

	2017			2016		
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total
At 1 January	(23 013)	(24)	(23 037)	(22 353)	(25)	(22 378)
Currency retranslations	(326)	(1)	(327)	566	(1)	565
Interest income	(560)	—	(560)	(633)	(1)	(634)
Actual return on plan assets, excluding interest income	(1 685)	(9)	(1 694)	(1 427)	2	(1 425)
Employees' contributions	(141)	—	(141)	(138)	—	(138)
Employer contributions	(547)	(6)	(553)	(733)	(4)	(737)
Benefits paid on funded defined benefit plans	1 484	5	1 489	1 108	5	1 113
Administration expenses	21	—	21	21	—	21
Modification of the scope of consolidation	5	—	5	2	—	2
Reclassification to/(from) held for sale	—	—	—	(32)	—	(32)
Transfer (from)/to defined contribution plans	106	—	106	606	—	606
At 31 December	(24 656)	(35)	(24 691)	(23 013)	(24)	(23 037)

The major categories of plan assets as a percentage of total plan assets of the Group's defined benefit plans are as follows:

	2017	2016
Equities	28%	29%
of which US equities	12%	13%
of which European equities	9%	8%
of which other equities	7%	8%
Debts	45%	43%
of which government debts	32%	30%
of which corporate debts	13%	13%
Real estate	11%	10%
Alternative investments	11%	14%
of which hedge funds	7%	9%
of which private equities	4%	4%
of which commodities	0%	1%
Cash/Deposits	5%	4%

Equity, government debts and commodities represent 60% (2016: 60%) of the plan assets. Almost all of them are quoted in an active market. Corporate debts, real estate, hedge funds and private equities represent 35% (2016: 36%) of the plan assets. Almost all of them are either not quoted or quoted in a market which is not active.

10. Employee benefits

The plan assets of funded defined benefit plans include property occupied by subsidiaries with a fair value of CHF 23 million (2016: CHF 26 million). Furthermore, funded defined benefit plans are invested in Nestlé S.A. (or related) shares to the extent of CHF 35 million (2016: CHF 39 million). The Group's investment management principles allow such investment only when the position in Nestlé S.A. (or related) shares is passive, i.e. in line with the weighting in the underlying benchmark.

The Group expects to contribute CHF 715 million to its funded defined benefit plans in 2018.

10.2e Expenses recognised in the income statement

In millions of CHF

	2017			2016		
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total
Service cost	689	52	741	798	51	849
Employees' contributions	(141)	—	(141)	(138)	—	(138)
Net interest (income)/expense	90	111	201	91	97	188
Administration expenses	21	—	21	21	—	21
Defined benefit expenses	659	163	822	772	148	920
Defined contribution expenses			335			325
Total			1 157			1 245

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

10.2f Remeasurement of defined benefit plans reported in other comprehensive income

In millions of CHF

	2017			2016		
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total
Actual return on plan assets, excluding interest income	1 685	9	1 694	1 427	(2)	1 425
Experience adjustments on plan liabilities	(81)	10	(71)	251	(45)	206
Change in demographic assumptions on plan liabilities	55	(1)	54	(224)	11	(213)
Change in financial assumptions on plan liabilities	(118)	(65)	(183)	(1 750)	(106)	(1 856)
Transfer from/(to) unrecognised assets and other	19	—	19	(13)	—	(13)
Remeasurement of defined benefit plans	1 560	(47)	1 513	(309)	(142)	(451)

10.2g Principal financial actuarial assumptions

The principal financial actuarial assumptions are presented by geographic area. Each item is a weighted average in relation to the relevant underlying component.

	2017				2016			
	EMENA	AMS	AOA	Total	EMENA	AMS	AOA	Total
Discount rates	1.5%	4.5%	4.4%	2.5%	1.5%	5.1%	4.4%	2.6%
Expected rates of salary increases	1.7%	2.7%	4.6%	2.3%	1.9%	2.8%	4.5%	2.4%
Expected rates of pension adjustments	1.3%	0.4%	1.6%	1.1%	1.3%	0.5%	1.7%	1.1%
Medical cost trend rates		5.3%		5.3%		5.5%		5.5%

10.2h Mortality tables and life expectancies by geographic area for Group's major defined benefit pension plans

Expressed in years

		2017	2016	2017	2016
Country	Mortality table	Life expectancy at age 65 for a male member currently aged 65		Life expectancy at age 65 for a female member currently aged 65	
EMENA					
Switzerland	LPP 2015	22.0	21.9	23.9	23.9
United Kingdom	S2NA	21.8	21.5	23.1	23.1
Germany	Heubeck Richttafeln 2005 G modifiziert	20.1	20.1	23.6	23.6
AMS					
USA	RP-2014	20.9	20.9	23.0	22.9

Life expectancy is reflected in the defined benefit obligations by using mortality tables of the country in which the plan is located. When those tables no longer reflect recent experience, they are adjusted by appropriate loadings.

10.2i Sensitivity analyses on present value of defined benefit obligations by geographic area

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

In millions of CHF

	2017				2016			
	EMENA	AMS	AOA	Total	EMENA	AMS	AOA	Total
As reported	20 897	7 329	2 063	30 289	20 476	7 384	2 189	30 049
Discount rates								
Increase of 50 basis points	19 308	6 901	1 966	28 175	18 878	6 994	2 092	27 964
Decrease of 50 basis points	22 724	7 815	2 172	32 711	22 319	7 808	2 299	32 426
Expected rates of salary increases								
Increase of 50 basis points	21 064	7 390	2 094	30 548	20 641	7 449	2 220	30 310
Decrease of 50 basis points	20 742	7 268	2 035	30 045	20 324	7 322	2 161	29 807
Expected rates of pension adjustments								
Increase of 50 basis points	22 074	7 384	2 124	31 582	21 634	7 442	2 250	31 326
Decrease of 50 basis points	20 264	7 291	2 044	29 599	19 869	7 321	2 171	29 361
Medical cost trend rates								
Increase of 50 basis points	20 898	7 381	2 065	30 344	20 476	7 434	2 191	30 101
Decrease of 50 basis points	20 896	7 281	2 061	30 238	20 475	7 340	2 187	30 002
Mortality assumption								
Setting forward the tables by 1 year	20 205	7 177	2 031	29 413	19 794	7 236	2 157	29 187
Setting back the tables by 1 year	21 600	7 479	2 095	31 174	21 168	7 532	2 220	30 920

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

10.2j Weighted average duration of defined benefit obligations by geographic area

Expressed in years

	2017				2016			
	EMENA	AMS	AOA	Total	EMENA	AMS	AOA	Total
At 31 December	19.6	17.2	12.8	18.7	17.0	11.6	10.3	15.2

11. Provisions and contingencies

Provisions

Provisions comprise liabilities of uncertain timing or amount that arise from restructuring plans, environmental, litigation and other risks. Provisions are recognised 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 arising from restructuring plans are recognised 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 Group Management's best estimate of the outcome 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 Group.

11.1 Provisions

In millions of CHF

	Restructuring	Environmental	Legal and tax	Other	Total
At 1 January 2017	583	27	2 118	532	3 260
Currency retranslations	19	(1)	(35)	5	(12)
Provisions made during the year ^(a)	619	2	404	173	1 198
Amounts used	(234)	(2)	(246)	(101)	(583)
Reversal of unused amounts	(58)	(1)	(408)	(105)	(572)
Modification of the scope of consolidation	—	—	18	(1)	17
At 31 December 2017	929	25	1 851	503	3 308
of which expected to be settled within 12 months					863
At 1 January 2016	459	21	2 087	598	3 165
Currency retranslations	4	1	72	10	87
Provisions made during the year ^(a)	284	10	422	179	895
Amounts used	(120)	(1)	(287)	(56)	(464)
Reversal of unused amounts	(56)	(4)	(174)	(161)	(395)
Reclassification (to)/from held for sale	12	—	(2)	1	11
Modification of the scope of consolidation	—	—	—	(39)	(39)
At 31 December 2016	583	27	2 118	532	3 260
of which expected to be settled within 12 months					620

(a) Including discounting of provisions.

Restructuring

Restructuring provisions arise from a number of projects across the Group. These include plans to optimise production, sales and administration structures, mainly in the geographies EMENA (in 2017, mainly related to Nestlé Skin Health) and AMS (in 2017, mainly in USA). Restructuring provisions are expected to result in future cash outflows when implementing the plans (usually over the following two to three years).

Legal and tax

Legal provisions have been set up to cover legal and administrative proceedings that arise in the ordinary course of the business. Tax provisions include tax disputes and income tax uncertainties. It covers numerous separate cases whose detailed disclosure could be detrimental to the Group interests. The Group does not believe that any of these cases will have a material adverse impact on its financial position. The timing of outflows is uncertain as it depends upon the outcome of the cases. Group Management does not believe it is possible to make assumptions on the evolution of the cases beyond the balance sheet date.

Other

Other provisions are mainly constituted by onerous contracts and various damage claims having occurred during the year but not covered by insurance companies. Onerous contracts result from unfavourable leases, breach of contracts or supply agreements above market prices in which the unavoidable costs of meeting the obligations under the contracts exceed the economic benefits expected to be received or for which no benefits are expected to be received.

11.2 Contingencies

The Group is exposed to contingent liabilities amounting to a maximum potential payment of CHF 2024 million (2016: CHF 1893 million) representing potential litigations of CHF 1979 million (2016: CHF 1874 million) and other items of CHF 45 million (2016: CHF 19 million). Potential litigations relate mainly to labour, civil and tax litigations in Latin America.

Contingent assets for litigation claims in favour of the Group amount to a maximum potential recoverable amount of CHF 461 million (2016: CHF 201 million), mainly in Latin America.

12. 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 remeasurement 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 financial assets as these transactions are generally under contracts whose terms require delivery within the time frame established by regulation or convention in the market place (regular-way purchase or sale).

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

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

Classes and categories of financial instruments

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

Loans and receivables

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

Subsequent to initial measurement, loans and receivables are carried at amortised cost using the effective interest rate method less appropriate allowances for doubtful receivables (see Note 7.2).

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 (refer to hedge accounting, see Note 12.2d).

Available-for-sale assets

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

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

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

Financial liabilities at amortised cost

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

Subsequent to initial measurement, financial liabilities are recognised at amortised cost. 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: trade and other payables; commercial paper; bonds and other 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 partly) when either the Group is discharged from its obligation, they expire, are cancelled or replaced by a new liability with substantially modified terms.

12.1 Financial assets and liabilities

12.1a By class and by category

In millions of CHF

	2017				2016			
Classes	Loans, receivables and liabilities at amortised cost ^(a)	At fair value to income statement	Available for sale	Total categories	Loans, receivables and liabilities at amortised cost ^(a)	At fair value to income statement	Available for sale	Total categories
Cash at bank and in hand	2 202	—	—	2 202	3 341	—	—	3 341
Commercial paper	—	—	4 600	4 600	—	—	3 677	3 677
Time deposits	—	—	1 331	1 331	—	—	1 318	1 318
Bonds and debt funds	—	396	3 778	4 174	—	379	3 433	3 812
Equity and equity funds	—	428	114	542	—	386	215	601
Other financial assets	723	29	995	1 747	1 235	44	987	2 266
Liquid assets ^(b) and non-current financial assets	2 925	853	10 818	14 596	4 576	809	9 630	15 015
Trade and other receivables	12 422	—	—	12 422	12 411	—	—	12 411
Derivative assets ^(c)	—	231	—	231	—	550	—	550
Total financial assets	15 347	1 084	10 818	27 249	16 987	1 359	9 630	27 976
Trade and other payables	(21 374)	—	—	(21 374)	(21 016)	—	—	(21 016)
Financial debt	(26 468)	—	—	(26 468)	(23 209)	—	—	(23 209)
Derivative liabilities ^(c)	—	(507)	—	(507)	—	(1 068)	—	(1 068)
Total financial liabilities	(47 842)	(507)	—	(48 349)	(44 225)	(1 068)	—	(45 293)
Net financial position	(32 495)	577	10 818	(21 100)	(27 238)	291	9 630	(17 317)
of which at fair value	—	577	10 818	11 395	—	291	9 630	9 921

(a) Carrying amount of these instruments is a reasonable approximation of their fair value. For bonds included in financial debt, see Note 12.1d.

(b) Liquid assets are composed of cash and cash equivalents and short-term investments.

(c) Include derivatives held in hedge relationships and those that are undesignated (categorised as held-for-trading), see Note 12.2d.

12.1b Fair value hierarchy of financial instruments

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

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

In millions of CHF

	2017	2016
Derivative assets	11	63
Bonds and debt funds	735	649
Equity and equity funds	227	297
Other financial assets	42	21
Derivative liabilities	(65)	(100)
Prices quoted in active markets (Level 1)	950	930
Commercial paper	4 600	3 677
Time deposits	1 331	1 318
Derivative assets	220	487
Bonds and debt funds	3 417	3 142
Equity and equity funds	278	265
Other financial assets	783	829
Derivative liabilities	(442)	(968)
Valuation techniques based on observable market data (Level 2)	10 187	8 750
Valuation techniques based on unobservable input (Level 3)	258	241
Total financial instruments at fair value	11 395	9 921

There have been no significant transfers between the different hierarchy levels in 2017 and in 2016.

12.1c Changes in liabilities arising from financing activities

In millions of CHF

	2017	2016
At 1 January	(23 850)	(21 923)
Currency retranslations and exchange differences	125	(315)
Changes in fair values	86	64
Changes arising from acquisition and disposal of businesses	(19)	2
Inflows/(outflows) on interest derivatives	(71)	(45)
Inflows from bonds and other non-current financial debt	(6 406)	(1 695)
Outflows from bonds and other non-current financial debt	2 489	1 430
Inflows/(outflows) from current financial debt	1 009	(1 368)
At 31 December	(26 637)	(23 850)
of which current financial debt	(10 536)	(12 118)
of which non-current financial debt	(15 932)	(11 091)
of which derivatives hedging financial debt	(169)	(641)

12.1d Bonds

In millions of CHF

Issuer		Face value in millions	Coupon	Effective interest rate	Year of issue/ maturity	Comments	2017	2016
Nestlé Holdings, Inc., USA	AUD	200	4.00%	4.11%	2012–2017		—	148
	NOK	1 000	2.25%	2.31%	2012–2017		—	118
	NOK	3 000	2.50%	2.66%	2012–2017		—	354
	USD	900	1.38%	1.46%	2012–2017		—	920
	GBP	250	1.63%	1.71%	2013–2017		—	312
	CHF	250	2.63%	2.66%	2007–2018	(a)	251	259
	USD	500	1.25%	1.32%	2012–2018		488	511
	AUD	175	3.75%	3.84%	2013–2018	(a)	133	131
	AUD	200	3.88%	4.08%	2013–2018	(b)	152	147
	AUD	400	4.13%	4.33%	2013–2018	(c)	305	296
	USD	400	1.38%	1.50%	2013–2018		390	408
	USD	500	2.00%	2.17%	2013–2019		487	509
	USD	500	2.25%	2.41%	2013–2019		487	510
	USD	400	2.00%	2.06%	2014–2019		390	408
	USD	650	2.13%	2.27%	2014–2020		633	662
	AUD	250	4.25%	4.43%	2014–2020	(a)	196	192
	AUD	175	3.63%	3.77%	2014–2020	(a)	138	134
	NOK	1 000	2.75%	2.85%	2014–2020	(a)	122	122
	GBP	500	1.75%	1.79%	2015–2020	(d)	660	630
	USD	550	1.88%	2.03%	2016–2021		535	559
	USD	600	1.38%	1.52%	2016–2021		583	610
	GBP	500	1.00%	1.17%	2017–2021	(b)	654	—
	USD	800	2.38%	2.55%	2017–2022		775	—
USD	650	2.38%	2.50%	2017–2022		632	—	
USD	300	2.25%	2.35%	2017–2022		292	—	
EUR	850	0.88%	0.92%	2017–2025	(b)	989	—	
CHF	550	0.25%	0.24%	2017–2027	(b)	551	—	
CHF	150	0.55%	0.54%	2017–2032	(b)	150	—	
Subtotal						9 993	7 940	

12. Financial instruments

In millions of CHF

Issuer		Face value in millions	Coupon	Effective interest rate	Year of issue/ maturity	Comments	2017	2016
Subtotal from previous page							9 993	7 940
Nestlé Finance International Ltd., Luxembourg	AUD	125	4.63%	4.86%	2012–2017		—	92
	EUR	500	1.50%	1.61%	2012–2019		583	536
	EUR	500	1.25%	1.30%	2013–2020		583	537
	EUR	500	2.13%	2.20%	2013–2021		582	536
	EUR	500	0.75%	0.90%	2014–2021		581	534
	EUR	850	1.75%	1.89%	2012–2022		986	907
	GBP	400	2.25%	2.34%	2012–2023	(e)	549	531
	EUR	500	0.75%	0.92%	2015–2023	(f)	586	544
	EUR	500	0.38%	0.54%	2017–2024		578	—
	EUR	750	1.25%	1.32%	2017–2029		869	—
	EUR	750	1.75%	1.83%	2017–2037		865	—
Other bonds							254	278
Total carrying amount (*)							17 009	12 435
of which due within one year							1 720	1 954
of which due after one year							15 289	10 481
Fair value (*) of bonds, based on prices quoted (level 2)							17 350	12 755

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

(a) Subject to an interest rate and/or currency swap that creates a liability at floating rates in the currency of the issuer.

(b) Subject to an interest rate and currency swap that creates a liability at fixed rates in the currency of the issuer.

(c) This bond is composed of:

– AUD 300 million subject to an interest rate and currency swap that creates a liability at fixed rates in the currency of the issuer; and

– AUD 100 million subject to an interest rate and currency swap that creates a liability at floating rates in the currency of the issuer.

(d) This bond is composed of:

– GBP 400 million issued in 2015 and subject to an interest rate and currency swap that creates a liability at fixed rates in the currency of the issuer; and

– GBP 100 million issued in 2016 and subject to an interest rate and currency swap that creates a liability at floating rates in the currency of the issuer.

(e) Subject to an interest rate swap.

(f) Out of which EUR 375 million is subject to an interest rate swap.

Several bonds are hedged by currency and/or interest derivatives. The fair value of these derivatives is shown under derivative assets for CHF 144 million (2016: CHF 98 million) and under derivative liabilities for CHF 265 million (2016: CHF 797 million).

12.2 Financial risks

In the course of its business, the Group 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 Group's objectives, policies and processes for managing its financial risk and capital.

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

The Asset and Liability Management Committee (ALMC), chaired by the Chief Financial Officer, is the governing body for the establishment and subsequent execution of the Nestlé Group's Financial Asset and Liability Management Policy. It ensures implementation of strategies and achievement of objectives of the Group's financial asset and liabilities management, which are executed by the Centre Treasury, the Regional Treasury Centres and, in specific local circumstances, by the subsidiaries. Approved treasury management guidelines define and classify risks as well as determine, by category of transaction, specific approval, execution and monitoring procedures. The activities of the Centre Treasury and of the Regional Treasury Centres are supervised by an independent Middle Office, which verifies the compliance of the strategies and/or operations with the approved guidelines and decisions taken by the ALMC.

12.2a 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 Group. Credit risk arises on financial assets (liquid, non-current and derivative) and on trade and other receivables.

The Group aims to minimise 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 Group 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 Group is not exposed to material concentrations of credit risk on its trade receivables (see Note 7). Nevertheless, commercial counterparties are constantly monitored following the similar methodology used for financial counterparties.

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 Group's financial assets.

Credit rating of financial assets

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

In millions of CHF		
	2017	2016
Investment grade A– and above	10 552	10 845
Investment grade BBB+, BBB and BBB–	2 047	2 366
Non-investment grade (BB+ and below)	967	1 128
Not rated ^(a)	1 261	1 226
	14 827	15 565

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

12.2b 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 or disruption or refinancing problems. The Group'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. The Group does not expect any refinancing issues and in October 2017 successfully extended the tenor of both its revolving credit facilities by one year:

- A new USD 4.7 billion and EUR 2.5 billion revolving credit facility with an initial maturity date of October 2018. The Group has the ability to convert the facility into a one year term loan.
- A USD 3.0 billion and EUR 1.8 billion revolving credit facility with a new maturity date of October 2022.

The facilities serve primarily as a backstop to the Group's short-term debt.

Contractual maturities of financial liabilities and derivatives (including interest)

In millions of CHF

	In the first year	In the second year	In the third to the fifth year	After the fifth year	Contractual amount	Carrying amount
2017						
Trade and other payables	(18 872)	(136)	(118)	(2 250)	(21 376)	(21 374)
Commercial paper ^(a)	(5 727)	—	—	—	(5 727)	(5 716)
Bonds ^(a)	(2 016)	(2 212)	(8 627)	(5 613)	(18 468)	(17 009)
Other financial debt	(3 179)	(418)	(230)	(61)	(3 888)	(3 743)
Total financial debt	(10 922)	(2 630)	(8 857)	(5 674)	(28 083)	(26 468)
Financial liabilities (excluding derivatives)	(29 794)	(2 766)	(8 975)	(7 924)	(49 459)	(47 842)
Non-currency derivative assets	24	8	10	3	45	44
Non-currency derivative liabilities	(98)	(16)	(11)	—	(125)	(124)
Gross amount receivable from currency derivatives	10 497	46	1 831	1 734	14 108	13 983
Gross amount payable from currency derivatives	(10 655)	(97)	(2 112)	(1 867)	(14 731)	(14 179)
Net derivatives	(232)	(59)	(282)	(130)	(703)	(276)
of which derivatives under cash flow hedges ^(b)	(111)	(16)	(11)	—	(138)	(138)
2016						
Trade and other payables	(18 629)	(149)	(356)	(1 925)	(21 059)	(21 016)
Commercial paper ^(a)	(7 180)	—	—	—	(7 180)	(7 171)
Bonds ^(a)	(2 210)	(1 956)	(6 938)	(2 204)	(13 308)	(12 435)
Other financial debt	(3 092)	(118)	(478)	(88)	(3 776)	(3 603)
Total financial debt	(12 482)	(2 074)	(7 416)	(2 292)	(24 264)	(23 209)
Financial liabilities (excluding derivatives)	(31 111)	(2 223)	(7 772)	(4 217)	(45 323)	(44 225)
Non-currency derivative assets	96	9	17	5	127	125
Non-currency derivative liabilities	(130)	(27)	(28)	—	(185)	(183)
Gross amount receivable from currency derivatives	14 421	878	1 113	—	16 412	16 307
Gross amount payable from currency derivatives	(14 511)	(1 017)	(1 383)	—	(16 911)	(16 767)
Net derivatives	(124)	(157)	(281)	5	(557)	(518)
of which derivatives under cash flow hedges ^(b)	34	(26)	(28)	—	(20)	(18)

(a) Commercial paper of CHF 4726 million (2016: CHF 6333 million) and bonds of CHF 953 million (2016: CHF 171 million) have maturities of less than three months.

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

12.2c Market risk

The Group 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 Group is exposed to foreign currency risk from transactions and translation.

Transactional exposures arise from transactions in foreign currency. They are managed within a prudent and systematic hedging policy in accordance with the Group's specific business needs through the use of currency forwards, futures, swaps and options.

Exchange differences recorded in the income statement represented a loss of CHF 99 million in 2017 (2016: loss of CHF 147 million). They are allocated to the appropriate headings of expenses by function.

Translation exposure arises from the consolidation of the financial statements of foreign operations in Swiss francs, which is, in principle, not hedged.

Value at Risk (VaR) based on historic data for a 250-day period and a confidence level of 95% results in a potential one-day loss for currency risk of less than CHF 10 million in 2017 and 2016.

The Group cannot predict the future movements in exchange rates, therefore the above VaR number neither represents actual losses nor considers the effects of favourable movements in underlying variables. Accordingly, the VaR number may only be considered indicative of future movements to the extent the historic market patterns repeat in the future.

Interest rate risk

The Group is exposed primarily to fluctuation in USD and EUR interest rates. 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 59% (2016: 45%).

Based on the structure of net debt at year end, an increase of interest rates of 100 basis points would cause an additional expense in Net financing cost of net debt of CHF 29 million (2016: CHF 49 million).

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 Group's products.

The Group's objective is to minimise the impact of commodity price fluctuations and this exposure is hedged in accordance with the Nestlé Group policy on commodity price risk management. The Global Procurement Organisation is responsible for managing commodity price risk 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 managed using a combination of derivatives (mainly futures and options) and executory contracts. As a result of the short product business cycle of the Group, the majority of the anticipated future raw material transactions outstanding at the balance sheet date are expected to occur in the next year.

Equity price risk

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

12.2d Derivative assets and liabilities and hedge accounting

Derivative financial instruments

The Group's derivatives mainly consist of currency forwards, options and swaps; commodity futures and options; interest rate forwards, futures, options and swaps. Derivatives are mainly used to manage exposures to foreign exchange, interest rate and commodity price risk as described in section 12.2c Market risk.

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

Hedge accounting

The Group designates and documents the use of certain derivatives and other financial assets or financial liabilities 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

The Group 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

The Group uses cash flow hedges to mitigate a particular risk associated with a recognised asset or liability or highly probable forecast transactions, such as anticipated future export sales, purchases of equipment and raw materials, as well as the variability of expected interest payments and receipts.

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

Undesignated derivatives

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

By type

In millions of CHF

	2017			2016		
	Contractual or notional amounts	Fair value assets	Fair value liabilities	Contractual or notional amounts	Fair value assets	Fair value liabilities
Fair value hedges						
Currency forwards and swaps	2 376	8	27	4 563	202	2
Interest rate forwards, futures and swaps	964	31	–	905	40	–
Interest rate and currency swaps	4 291	113	265	2 909	58	797
Cash flow hedges						
Currency forwards, swaps and options	6 647	62	89	7 917	161	81
Interest rate forwards, futures and swaps	1 368	–	46	1 432	–	81
Commodity futures and options	1 488	12	77	1 541	85	102
Undesignated derivatives						
Currency forwards, swaps and options	676	4	2	955	4	5
Commodity futures and options	59	1	1	–	–	–
	17 869	231	507	20 222	550	1 068
Conditional offsets ^(a)						
Derivative assets and liabilities		(145)	(145)		(101)	(101)
Use of cash collateral received or deposited		(30)	(210)		(36)	(652)
Balances after conditional offsets		56	152		413	315

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

Impact on the income statement of fair value hedges

In millions of CHF

	2017	2016
on hedged items	377	(254)
on hedging instruments	(375)	257

Ineffective portion of gains/(losses) of cash flow hedges and net investment hedges is not significant.

12.2e Capital risk management

The Group's capital management is driven by the impact on shareholders of the level of total capital employed. It is the Group's policy to maintain a sound capital base to support the continued development of its business.

The Board of Directors seeks to maintain a prudent balance between different components of the Group's capital. The ALMC monitors the capital structure and the net financial debt by currency. Net financial debt is defined as current and non-current financial liabilities less cash and cash equivalents and short-term investments.

The operating cash flow-to-net financial debt ratio highlights the ability of a business to repay its debts. As at 31 December 2017, the ratio was 75.4% (2016: 112.0%).

The Group's subsidiaries have complied with local statutory capital requirements as appropriate.

13. Taxes

The Group is subject to taxes in different countries all over the world. Taxes and fiscal risks recognised in the Consolidated Financial Statements reflect Group Management's best estimate of the outcome based on the facts known at the balance sheet date in each individual country. These facts may include but are not limited to change in tax laws and interpretation thereof in the various jurisdictions where the Group operates. 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 income statement in the period in which they are incurred, unless anticipated.

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

Deferred taxes are based on the temporary differences that arise when taxation authorities recognise and measure assets and liabilities with rules that differ from the principles of the Consolidated Financial Statements. They also arise on temporary differences stemming from tax losses carried forward.

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

13.1 Taxes recognised in the income statement

In millions of CHF

	2017	2016
Components of taxes		
Current taxes ^(a)	(3 391)	(3 677)
Deferred taxes ^{(b)(c)}	235	(504)
Taxes reclassified to other comprehensive income	361	(234)
Taxes reclassified to equity	16	2
Total taxes	(2 779)	(4 413)
Reconciliation of taxes		
Expected tax expense at weighted average applicable tax rate	(3 163)	(3 331)
Tax effect of non-deductible or non-taxable items	(83)	(97)
Prior years' taxes	248	(36)
Transfers to unrecognised deferred tax assets	(131)	(74)
Transfers from unrecognised deferred tax assets	18	9
Changes in tax rates ^{(b)(c)}	823	(481)
Withholding taxes levied on transfers of income	(491)	(403)
Total taxes	(2 779)	(4 413)

(a) Current taxes related to prior years include a tax income of CHF 212 million (2016: tax income of CHF 4 million).

(b) In 2016, this item included a one-time charge of CHF 0.5 billion related to deferred tax, arising in Switzerland, in accordance with a new cantonal tax law.

(c) In 2017, this item includes a one-time income of CHF 0.8 billion related to deferred tax, arising in the USA, in accordance with the federal tax reform.

The expected tax expense at weighted average applicable tax rate is the result from applying the domestic statutory tax rates to profits before taxes of each entity in the country it operates. For the Group, the weighted average applicable tax rate varies from one year to the other depending on the relative weight of the profit of each individual entity in the Group's profit as well as the changes in the statutory tax rates.

13.2 Reconciliation of deferred taxes by type of temporary differences recognised on the balance sheet

In millions of CHF

	Property, plant and equipment	Goodwill and intangible assets	Employee benefits	Inventories, receivables, payables and provisions	Unused tax losses and unused tax credits	Other	Total
At 1 January 2017	(1 723)	(3 248)	2 049	1 060	340	(294)	(1 816)
Currency retranslations	24	70	(19)	(10)	(10)	6	61
Deferred tax (expense)/income	359	384	(548)	(57)	44	53	235
Modification of the scope of consolidation	13	(101)	–	8	6	2	(72)
At 31 December 2017	(1 327)	(2 895)	1 482	1 001	380	(233)	(1 592)
At 1 January 2016	(1 755)	(2 520)	1 709	1 013	309	(176)	(1 420)
Currency retranslations	(52)	(7)	47	41	40	3	72
Deferred tax (expense)/income	76	(742)	299	12	(14)	(135)	(504)
Reclassification to/from held for sale	4	11	(2)	2	–	16	31
Modification of the scope of consolidation	4	10	(4)	(8)	5	(2)	5
At 31 December 2016	(1 723)	(3 248)	2 049	1 060	340	(294)	(1 816)

In millions of CHF

	2017	2016
Reflected in the balance sheet as follows:		
Deferred tax assets	1 967	2 049
Deferred tax liabilities	(3 559)	(3 865)
Net assets/(liabilities)	(1 592)	(1 816)

13.3 Unrecognised deferred taxes

The deductible temporary differences as well as the unused tax losses and tax credits for which no deferred tax assets are recognised expire as follows:

In millions of CHF

	2017	2016
Within one year	177	77
Between one and five years	431	348
More than five years	2 602	1 943
	3 210	2 368

At 31 December 2017, the unrecognised deferred tax assets amount to CHF 655 million (2016: CHF 473 million). In addition, the Group has not recognised deferred tax liabilities in respect of unremitted earnings that are considered indefinitely reinvested in foreign subsidiaries. At 31 December 2017, these earnings amount to CHF 25.7 billion (2016: CHF 22.4 billion). They could be subject to withholding and other taxes on remittance.

14. Associates and joint ventures

Associates are companies where the Group has the power to exercise a significant influence but does not exercise control. Significant influence may be obtained when the Group 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 Group 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 interest in the associate or joint venture also includes long-term loans which are in substance extensions of the Group's investment in the associate or joint venture. The net assets and results are adjusted to comply with the Group'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 millions of CHF

	2017				2016			
	L'Oréal	Other associates	Joint ventures	Total	L'Oréal	Other associates	Joint ventures	Total
At 1 January	7 453	1 183	2 073	10 709	7 275	955	445	8 675
Currency retranslations	632	44	125	801	(40)	20	(12)	(32)
Investments	—	148	45	193	—	249	1 769	2 018
Divestments	—	(5)	(52)	(57)	—	—	—	—
Share of results	927	(145)	46	828	787	20	13	820
Impairment	—	—	—	—	—	(50)	—	(50)
Share of other comprehensive income	(298)	—	110	(188)	(68)	(1)	(95)	(164)
Dividends and interest received	(465)	(27)	(90)	(582)	(444)	(28)	(47)	(519)
Other	(65)	—	(11)	(76)	(57)	18	—	(39)
At 31 December	8 184	1 198	2 246	11 628	7 453	1 183	2 073	10 709

Investments in joint ventures mainly relate to Froneri (see Note 14.3).

As part of the investment, loans granted by the Group to joint ventures amount to CHF 1841 million at 31 December 2017 (2016: CHF 1695 million).

Income from associates and joint ventures

In millions of CHF

	2017	2016
Share of results	828	820
Impairment	—	(50)
Profit on disposal of other associates	(4)	—
	824	770

14.1 L'Oréal

The Group holds 129 881 021 shares in L'Oréal (which ultimate parent company is domiciled in France), the world leader in cosmetics, representing a 23.2% participation in its equity after elimination of its treasury shares (2016: 129 881 021 shares representing a 23.2% participation).

At 31 December 2017, the market value of the shares held amounts to CHF 28.0 billion (2016: CHF 24.2 billion).

Summarised financial information of L'Oréal

In billions of CHF		
	2017	2016
Total current assets	12.9	10.8
Total non-current assets	28.4	27.5
Total assets	41.3	38.3
Total current liabilities	10.7	9.9
Total non-current liabilities	1.6	2.1
Total liabilities	12.3	12.0
Total equity	29.0	26.3
Total sales	29.0	28.2
Profit from continuing operations	4.3	3.4
Profit from discontinued operations	(0.3)	—
Other comprehensive income	(1.3)	(0.3)
Total comprehensive income	2.7	3.1

Reconciliation of the carrying amount

In billions of CHF		
	2017	2016
Share held by the Group in the equity of L'Oréal	6.7	6.1
Goodwill and other adjustments	1.5	1.4
Carrying amount of L'Oréal	8.2	7.5

14.2 Other associates

The Group holds a number of other associates that are individually not material.

14.3 Joint ventures

The Group holds a number of joint ventures operating in the food and beverage activities. These joint ventures are individually not material to the Group, the main ones being Froneri (as from end of September 2016) and Cereal Partners Worldwide.

At the end of September 2016, the Group launched a joint venture with Britain's R&R Ice Cream called Froneri. Nestlé and R&R contributed their ice cream businesses across Europe, the Middle East (excluding Israel), Argentina, Australia, Brazil, the Philippines and South Africa to form the new company. Nestlé also contributed part of its European frozen food business, as well as its chilled dairy business in the Philippines (see Note 2.1).

A list of the principal joint ventures and associates is provided in the section Companies of the Nestlé Group, joint arrangements and associates.

15. Earnings per share

	2017	2016
Basic earnings per share (in CHF)	2.32	2.76
Net profit (in millions of CHF)	7 183	8 531
Weighted average number of shares outstanding (in millions of units)	3 092	3 091
Diluted earnings per share (in CHF)	2.32	2.75
Net profit, net of effects of dilutive potential ordinary shares (in millions of CHF)	7 183	8 531
Weighted average number of shares outstanding, net of effects of dilutive potential ordinary shares (in millions of units)	3 098	3 097
Reconciliation of weighted average number of shares outstanding (in millions of units)		
Weighted average number of shares outstanding used to calculate basic earnings per share	3 092	3 091
Adjustment for share-based payment schemes, where dilutive	6	6
Weighted average number of shares outstanding used to calculate diluted earnings per share	3 098	3 097

16. Cash flow statement

16.1 Operating profit

In millions of CHF

	2017	2016
Profit for the year	7 538	8 883
Income from associates and joint ventures	(824)	(770)
Taxes	2 779	4 413
Financial income	(152)	(121)
Financial expense	771	758
	10 112	13 163

16.2 Non-cash items of income and expense

In millions of CHF

	2017	2016
Depreciation of property, plant and equipment	2 853	2 795
Impairment of property, plant and equipment	366	157
Impairment of goodwill	3 033	439
Amortisation of intangible assets	374	337
Impairment of intangible assets	158	44
Net result on disposal of businesses	132	—
Net result on disposal of assets	29	36
Non-cash items in financial assets and liabilities	(380)	(208)
Equity compensation plans	146	165
Other	20	42
	6 731	3 807

16.3 Decrease/(increase) in working capital

In millions of CHF

	2017	2016
Inventories	(838)	(238)
Trade and other receivables	(55)	(46)
Prepayments and accrued income	(51)	(2)
Trade and other payables	520	1 914
Accruals and deferred income	181	173
	(243)	1 801

16.4 Variation of other operating assets and liabilities

In millions of CHF

	2017	2016
Variation of employee benefits assets and liabilities	(71)	(167)
Variation of provisions	244	40
Other	220	181
	393	54

16.5 Net cash flows from treasury activities

In millions of CHF

	2017	2016
Interest paid	(534)	(534)
Interest and dividends received	119	96
Net cash flows from derivatives used to hedge foreign operations	(2)	115
Net cash flows from trading derivatives	(6)	(4)
	(423)	(327)

16.6 Reconciliation of free cash flow and net financial debt

In millions of CHF

	2017	2016
Operating cash flow	13 486	15 582
Capital expenditure	(3 934)	(4 010)
Expenditure on intangible assets	(769)	(682)
Investments (net of divestments) in associates and joint ventures	(140)	(748)
Other investing activities	(134)	(34)
Free cash flow	8 509	10 108
Acquisition of businesses	(696)	(585)
Financial liabilities and short-term investments acquired in business combinations	(19)	–
Disposal of businesses	140	271
Financial liabilities and short-term investments transferred on disposal of businesses	–	2
Acquisition (net of disposal) of non-controlling interests	(526)	(1 208)
Dividend paid to shareholders of the parent	(7 126)	(6 937)
Dividends paid to non-controlling interests	(342)	(432)
Purchase (net of sale) of treasury shares	(3 295)	760
Reclassification of financial investments from non-current financial assets to net financial debt	16	109
Outflows from non-current treasury investments	(26)	(39)
Cash inflows from hedging derivatives on net debt	(644)	74
Currency retranslations and exchange differences	34	(583)
Other movements	13	(28)
(Increase)/decrease of net financial debt	(3 962)	1 512
Net financial debt at beginning of year	(13 913)	(15 425)
Net financial debt at end of year	(17 875)	(13 913)
of which		
Current financial debt	(10 536)	(12 118)
Non-current financial debt	(15 932)	(11 091)
Cash and cash equivalents	7 938	7 990
Short-term investments	655	1 306

16.7 Cash and cash equivalents at end of year

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

In millions of CHF

	2017	2016
Cash at bank and in hand	2 202	3 341
Time deposits	1 330	1 292
Commercial paper	4 406	3 357
	7 938	7 990

17. Equity

17.1 Share capital issued

The ordinary share capital of Nestlé S.A. authorised, issued and fully paid is composed of 3 112 160 000 registered shares with a nominal value of CHF 0.10 each (2016: 3 112 160 000 registered shares). Each share confers the right to one vote.

No shareholder may be registered with the right to vote for shares which it holds, directly or indirectly, in excess of 5% of the share capital. Shareholders have the right to receive dividends.

In 2016, the share capital changed as a consequence of the Share Buy-Back Programme launched in 2014. The cancellation of shares was approved at the Annual General Meeting of 7 April 2016. The share capital was reduced by 76 240 000 shares from CHF 319 million to CHF 311 million.

On 27 June 2017, the Group announced that the Board of Directors approved a share buy-back programme of up to CHF 20 billion to be completed by the end of June 2020.

It is subject to market conditions and strategic opportunities.

17.2 Conditional share capital

The conditional capital of Nestlé S.A. amounts to CHF 10 million as in the preceding year. It confers the right to increase the ordinary share capital, through the exercise of conversion or option rights in connection with debentures and other financial market instruments, by the issue of a maximum of 100 000 000 registered shares with a nominal value of CHF 0.10 each. Thus the Board of Directors has at its disposal a flexible instrument enabling it, if necessary, to finance the activities of the Company through convertible debentures.

17.3 Treasury shares

Number of shares in millions of units	2017	2016
Purpose of holding		
Trading	4.2	4.3
Share Buy-Back Programme	41.6	—
Long-Term Incentive Plans	8.8	9.9
	54.6	14.2

At 31 December 2017, the treasury shares held by the Group represent 1.8% of the share capital (2016: 0.5%). Their market value amounts to CHF 4576 million (2016: CHF 1033 million).

17.4 Number of shares outstanding

Number of shares in millions of units

	Shares issued	Treasury shares	Outstanding shares
At 1 January 2017	3 112.2	(14.2)	3 098.0
Purchase of treasury shares	—	(43.6)	(43.6)
Treasury shares delivered in respect of options exercised	—	0.9	0.9
Treasury shares delivered in respect of equity compensation plans	—	2.3	2.3
At 31 December 2017	3 112.2	(54.6)	3 057.6
At 1 January 2016	3 188.4	(103.9)	3 084.5
Purchase of treasury shares	—	(4.0)	(4.0)
Sale of treasury shares	—	13.8	13.8
Treasury shares delivered in respect of options exercised	—	0.8	0.8
Treasury shares delivered in respect of equity compensation plans	—	2.9	2.9
Treasury shares cancelled	(76.2)	76.2	—
At 31 December 2016	3 112.2	(14.2)	3 098.0

17.5 Translation reserve and other reserves

The translation reserve and the other reserves represent the cumulative amount attributable to shareholders of the parent of items that may be reclassified subsequently to the income statement.

The translation reserve comprises the cumulative gains and losses arising from translating the financial statements of foreign operations that use functional currencies other than Swiss Francs. It also includes the changes in the fair value of hedging instruments used for net investments in foreign operations.

The other reserves comprise the fair value reserve and the hedging reserve of the subsidiaries. The fair value reserve includes the gains and losses on remeasuring available-for-sale financial instruments and 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.

The other reserves also comprise our share in the items that may be reclassified subsequently to the income statement by the associates and joint ventures (reserves equity accounted for).

17.6 Retained earnings

Retained earnings represent the cumulative profits as well as remeasurement of defined benefit plans attributable to shareholders of the parent.

17.7 Non-controlling interests

The non-controlling interests comprise the portion of equity of subsidiaries that are not owned, directly or indirectly, by Nestlé S.A. These non-controlling interests are individually not material for the Group.

17.8 Other comprehensive income

In millions of CHF

	Translation reserve	Fair value reserves	Hedging reserves	Reserves of associates and joint ventures	Retained earnings	Total equity attributable to shareholders of the parent	Non-controlling interests	Total equity
2017								
Currency retranslations								
– Recognised	(726)	–	(1)	95	–	(632)	(18)	(650)
– Reclassified to income statement	–	–	–	–	–	–	–	–
– Taxes	92	–	–	–	–	92	–	92
	(634)	–	(1)	95	–	(540)	(18)	(558)
Fair value adjustments on available-for-sale financial instruments								
– Recognised	–	135	–	–	–	135	–	135
– Reclassified to income statement	–	(136)	–	–	–	(136)	–	(136)
– Taxes	–	(9)	–	–	–	(9)	–	(9)
	–	(10)	–	–	–	(10)	–	(10)
Fair value adjustments on cash flow hedges								
– Recognised	–	–	(225)	–	–	(225)	(5)	(230)
– Reclassified to income statement	–	–	166	–	–	166	3	169
– Taxes	–	–	6	–	–	6	–	6
	–	–	(53)	–	–	(53)	(2)	(55)
Remeasurement of defined benefit plans								
– Recognised	–	–	–	–	1 524	1 524	(11)	1 513
– Taxes	–	–	–	–	(454)	(454)	4	(450)
	–	–	–	–	1 070	1 070	(7)	1 063
Share of other comprehensive income of associates and joint ventures								
– Recognised	–	–	–	(240)	52	(188)	–	(188)
– Reclassified to income statement	–	–	–	–	–	–	–	–
	–	–	–	(240)	52	(188)	–	(188)
Other comprehensive income for the year	(634)	(10)	(54)	(145)	1 122	279	(27)	252

17. Equity

In millions of CHF

	Translation reserve	Fair value reserves	Hedging reserves	Reserves of associates and joint ventures	Retained earnings	Total equity attributable to shareholders of the parent	Non-controlling interests	Total equity
2016								
Currency retranslations								
– Recognised	721	–	(2)	(7)	–	712	(10)	702
– Reclassified to income statement	390	–	–	–	–	390	–	390
– Taxes	(59)	–	–	–	–	(59)	–	(59)
	1 052	–	(2)	(7)	–	1 043	(10)	1 033
Fair value adjustments on available-for-sale financial instruments								
– Recognised	–	110	–	–	–	110	1	111
– Reclassified to income statement	–	(94)	–	–	–	(94)	–	(94)
– Taxes	–	(1)	–	–	–	(1)	–	(1)
	–	15	–	–	–	15	1	16
Fair value adjustments on cash flow hedges								
– Recognised	–	–	62	–	–	62	(1)	61
– Reclassified to income statement	–	–	(48)	–	–	(48)	–	(48)
– Taxes	–	–	(14)	–	–	(14)	–	(14)
	–	–	–	–	–	–	(1)	(1)
Remeasurement of defined benefit plans								
– Recognised	–	–	–	–	(452)	(452)	1	(451)
– Taxes	–	–	–	–	308	308	–	308
	–	–	–	–	(144)	(144)	1	(143)
Share of other comprehensive income of associates and joint ventures								
– Recognised	–	–	–	(154)	(10)	(164)	–	(164)
– Reclassified to income statement	–	–	–	–	–	–	–	–
	–	–	–	(154)	(10)	(164)	–	(164)
Other comprehensive income for the year	1 052	15	(2)	(161)	(154)	750	(9)	741

17.9 Reconciliation of the other reserves

In millions of CHF

	Fair value reserves	Hedging reserves	Reserves of associates and joint ventures	Total
At 1 January 2017	46	(15)	1 167	1 198
Other comprehensive income for the year	(10)	(54)	(145)	(209)
At 31 December 2017	36	(69)	1 022	989
At 1 January 2016	31	(13)	1 327	1 345
Other comprehensive income for the year	15	(2)	(161)	(148)
Other movements	–	–	1	1
At 31 December 2016	46	(15)	1 167	1 198

17.10 Dividend

In accordance with Swiss law and the Company's Articles of Association, dividend is treated as an appropriation of profit in the year in which it is ratified at the Annual General Meeting and subsequently paid.

The dividend related to 2016 was paid on 12 April 2017 in accordance with the decision taken at the Annual General Meeting on 6 April 2017. Shareholders approved the proposed dividend of CHF 2.30 per share, resulting in a total dividend of CHF 7126 million.

Dividend payable is not accounted for until it has been ratified at the Annual General Meeting. At the meeting on 12 April 2018, a dividend of CHF 2.35 per share will be proposed, resulting in an estimated total dividend of CHF 7216 million. For further details, refer to the Financial Statements of Nestlé S.A.

The Financial Statements for the year ended 31 December 2017 do not reflect this proposed distribution, which will be treated as an appropriation of profit in the year ending 31 December 2018.

18. Lease commitments

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

Assets acquired under finance leases are capitalised and depreciated in accordance with the Group's policy on property, plant and equipment unless the lease term is shorter. The associated finance lease obligations are included under financial debt and the finance charge is presented as part of net financing cost of net debt.

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

18.1 Operating leases

In millions of CHF

	2017	2016
Minimum lease payments (Future value)		
Within one year	733	726
In the second year	606	596
In the third to the fifth year	1 180	1 086
After the fifth year	1 014	831
	3 533	3 239

Lease commitments relate mainly to buildings and vehicles. The operating lease charge for the year 2017 amounts to CHF 808 million (2016: CHF 788 million).

18.2 Finance leases

In millions of CHF

	2017		2016	
	Present value	Future value	Present value	Future value
Minimum lease payments				
Within one year	44	46	42	45
In the second year	22	25	42	46
In the third to the fifth year	52	66	58	73
After the fifth year	33	51	39	56
	151	188	181	220

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

19. Transactions with related parties

19.1 Compensation of the Board of Directors and the Executive Board

Board of Directors

Members of the Board of Directors receive an annual compensation that varies with the Board and the Committee responsibilities as follows:

- Board members: CHF 280 000;
- members of the Chairman's and Corporate Governance Committee: additional CHF 200 000 (Chair CHF 300 000);
- members of the Compensation Committee: additional CHF 70 000 (Chair CHF 150 000);
- members of the Nomination and Sustainability Committee: additional CHF 40 000 (Chair CHF 100 000); and
- members of the Audit Committee: additional CHF 100 000 (Chair CHF 150 000).

The Chairman and the CEO Committee fees are included in their total compensation.

Half of the compensation is paid through the granting of Nestlé S.A. shares at the ex-dividend closing price. These shares are subject to a three-year blocking period.

With the exception of the Chairman and the CEO, members of the Board of Directors also receive an annual expense allowance of CHF 15 000 each. This allowance covers travel and hotel accommodation in Switzerland, as well as sundry out-of-pocket expenses. For Board members from outside Europe, the Company reimburses additionally their airline tickets. When the Board meets outside of Switzerland, all expenses are borne and paid directly by the Company.

The Chairman is entitled to a cash compensation, as well as Nestlé S.A. shares which are blocked for three years.

In millions of CHF

	2017	2016
Chairman's compensation	5	6
Other Board members		
Remuneration – cash	3	3
Shares	2	2
Total (a)	10	11

(a) For the detailed disclosures regarding the remunerations of the Board of Directors that are required by Swiss law, refer to the Compensation report of Nestlé S.A. with the audited sections highlighted with a blue bar.

Executive Board

The total annual remuneration of the members of the Executive Board comprises a salary, a bonus (based on the individual's performance and the achievement of the Group's objectives), equity compensation and other benefits. Members of the Executive Board can choose to receive part or all of their bonus in Nestlé S.A. shares at the average closing price of the last ten trading days of January of the year of the payment of the bonus. The CEO has to take a minimum of 50% in shares. These shares are subject to a three-year blocking period.

In millions of CHF

	2017	2016
Remuneration – cash	15	16
Bonus – cash	8	8
Bonus – shares	5	8
Equity compensation plans ^(a)	14	14
Pension	3	5
Total ^(b)	45	51

(a) Equity compensation plans are equity-settled share-based payment transactions whose cost is recognised over the vesting period as required by IFRS 2.

(b) For the detailed disclosures regarding the remunerations of the Executive Board that are required by Swiss law, refer to the Compensation report of Nestlé S.A. with the audited sections highlighted with a blue bar.

19.2 Transactions with associates and joint ventures

The main transactions with associates and joint ventures are:

- royalties received on brand licensing;
- dividends and interest received as well as loans granted (see Note 14);
- research and development commitments (see Note 9);
- in-licensing and intellectual property purchase (see Note 9).

19.3 Other transactions

Nestlé Capital Advisers S.A. (NCA), one of the Group's subsidiaries, is an unregulated investment and actuarial adviser, based in Switzerland. Further to actuarial advice, NCA renders investment consulting services to some of the Group's pension funds, either directly or indirectly via the Robusta mutual fund umbrella, but NCA never executes trading and investment transactions. The fees received by NCA in 2017 for those activities amounted to CHF 9 million (2016: CHF 10 million).

Nestlé Capital Management Ltd (NCM) is a 100% subsidiary of NCA. Until 30 November 2017, NCM was an asset manager authorised and regulated by the Financial Conduct Authority, in the United Kingdom. NCM ceased its activities during 2017 and will be wound-up in 2018. NCM managed some of the assets of the Group's pension funds. In this function, NCM executed trading and investment transactions on behalf of these pension funds directly or for the Robusta mutual funds pension investment vehicles. The fees received by NCM in 2017 for those activities amounted to CHF 6 million (2016: CHF 19 million). The assets under direct management represented CHF 10.4 billion at 31 December 2016.

In addition, Robusta Asset Management Ltd (RAML), a 100% subsidiary of NCA, is in charge of selecting and monitoring investment managers for the Robusta mutual funds pension investment vehicles. RAML has delegated most of its activities to third parties, including NCA and hence no fee income is generated by RAML. Any remaining expenses are covered by means of fees deducted from its assets under management. The assets under supervision of RAML amounted to CHF 7.9 billion at 31 December 2017 (2016: CHF 9.5 billion; of this amount CHF 6.5 billion of assets were under direct management of NCM at 31 December 2016).

For information regarding the Group's pension plans, which are considered as related parties, please refer to Note 10 Employee benefits.

Furthermore, throughout 2017, no director of the Group had a personal interest in any transaction of significance for the business of the Group.

20. Guarantees

At 31 December 2017 and 31 December 2016, the Group has no significant guarantees given to third parties.

21. Events after the balance sheet date

The values of assets and liabilities at the balance sheet date are adjusted if there is evidence that subsequent adjusting events warrant a modification of these values. These adjustments are made up to the date of approval of the Consolidated Financial Statements by the Board of Directors.

At 14 February 2018, the date of approval for issue of the Consolidated Financial Statements by the Board of Directors, the Group has no subsequent events which warrant a modification of the value of its assets and liabilities. There are no subsequent events which require any additional disclosure except the estimated gain on the disposal of the US confectionery business mentioned in Note 2.4 Assets held for sale.



Statutory Auditor's Report

To the General Meeting of Nestlé S.A., Cham & Vevey

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Nestlé S.A. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 64 to 142) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters



Revenue recognition



Carrying value of goodwill and indefinite life intangible assets



Income taxes

Key audit matters are those matters that, in our professional judgement, 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.



Revenue recognition

Key Audit Matter

Revenue from the sale of goods is recognised at the moment when the significant risks and rewards of ownership have been transferred to the buyer; and is measured net of pricing allowances, other trade discounts, and price promotions to customers (collectively 'trade spend').

The judgements required by management to estimate trade spend accruals are complex due to the diverse range of contractual agreements and commercial terms across the Group's markets.

There is a risk that revenue may be overstated because of fraud, resulting from the pressure local management may feel to achieve performance targets. Revenue is also an important element of how the Group measures its performance, upon which management are incentivised.

The Group focuses on revenue as a key performance measure, which could create an incentive for revenue to be recognised before the risks and rewards have been transferred.

Our response

We considered the appropriateness of the Group's revenue recognition accounting policies, including the recognition and classification criteria for trade spend.

Due to the high reliance of revenue recognition on IT, we evaluated the integrity of the general IT control environment and tested the operating effectiveness of key IT application controls. We performed detailed testing over the completeness and accuracy of the underlying customer master data, by assessing mandatory fields and critical segregation of duties.

Additionally we identified transactions that deviated from the standard process for further investigation and validated the existence and accuracy of this population. We also tested the operating effectiveness of controls over the calculation and monitoring of trade spend.

Furthermore, we performed a monthly trend analysis of revenue by market by considering both internal and external benchmarks, overlaying our understanding of each market, to compare the reported results with our expectation.

We also considered the accuracy of the Group's description of the accounting policy related to revenue, and whether revenue is adequately disclosed throughout the consolidated financial statements.

For further information on revenue recognition refer to the following:

- Note 1, "Accounting policies"
- Note 3, "Analyses by segment"



Carrying value of goodwill and indefinite life intangible assets

Key Audit Matter

The Group has goodwill of CHF 29,748 million and indefinite life intangible assets of CHF 16,188 million as at 31 December 2017 which are required to be tested for impairment at least on an annual basis. The recoverability of these assets is dependent on achieving sufficient level of future net cash flows.

Management apply judgement 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.

Our response

We evaluated the accuracy of impairment tests applied to significant amounts of goodwill and indefinite life intangible assets, the appropriateness of the assumptions used, and the methodology used by management to prepare its cash flow forecasts.

For a sample of CGUs, identified based on quantitative and qualitative factors and including among others the Nestlé Skin Health CGU, we assessed the historical accuracy of the plans and forecasts by comparing the forecasts used in the prior year model to the actual performance in the current year. We compared these against the latest plans and forecasts approved by management.

In 2017 an impairment loss of CHF 2,799 million was recognised in respect of Nestlé Skin Health, following a strategy review that triggered substantial changes to the CGU's portfolio and focus.

We then challenged the robustness of the key assumptions used to determine the recoverable amount, including identification of the CGU, forecast cash flows, long term growth rates and the discount rate based on our understanding of the commercial prospects of the related assets. In addition, we identified and analysed changes in assumptions from prior periods, made an assessment of the appropriateness of assumptions, and performed a comparison of assumptions with publicly available data.

We also considered the appropriateness of disclosures in relation to impairment sensitivities and disclosures in relation to the impairment recognised in respect of Nestlé Skin Health.

For further information on the carrying value of goodwill and indefinite life intangible assets refer to the following:

- Note 1, "Accounting policies"
- Note 9, "Goodwill and intangible assets"



Income taxes

Key Audit Matter

The Group operates across multiple tax jurisdictions around the world, and is thus regularly subject to tax challenges and audits by local tax authorities on various matters including intragroup financing, pricing and royalty arrangements, different business models and other transaction-related matters.

Where the amount of tax liabilities or assets is uncertain, the Group recognises provisions that reflect management's best estimate of the most likely outcome based on the facts known in the relevant jurisdiction.

Our response

We evaluated management's judgment of tax risks, estimates of tax exposures and contingencies by involving our local country tax specialists. Third party opinions, past and current experience with the tax authorities in the respective jurisdiction and our tax specialists' own expertise were used to assess the appropriateness of management's best estimate of the most likely outcome of each uncertain tax position.

Our audit approach included additional reviews performed at Group level to consider the Group's uncertain tax positions viewed from a worldwide perspective - in particular for transfer prices, intragroup financing and payments in relation to centralised business models where multiple jurisdictions and tax authorities are involved. We drew on our own tax expertise and knowledge gained with other similar groups to conclude on management's best estimate of the outcome on the Group's worldwide uncertain tax positions as they relate to more than one jurisdiction.

For further information on income taxes refer to the following:

- Note 1, "Accounting policies"
- Note 11, "Provisions and contingencies"
- Note 13, "Taxes"

Other Information in the Annual Report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the Company, the compensation report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report 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 in the annual report 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.

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Auditor's 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 auditor's 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 Swiss law, ISAs and Swiss Auditing Standards 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 Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Group 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 Group 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 the Board of Directors or its relevant committee 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 the Board of Directors or its relevant committee 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 the Board of Directors or its relevant committee, 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 auditor's 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.

Report on Other Legal and Regulatory Requirements

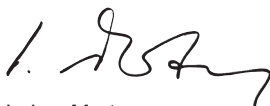
In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG SA



Scott Cormack
Licensed Audit Expert
Auditor in Charge



Lukas Marty
Licensed Audit Expert

Geneva, 14 February 2018

KPMG SA, 111 Rue de Lyon, P.O. Box 347, CH-1211 Geneva 13

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Financial information – 5 year review

In millions of CHF (except for data per share and employees)

	2017	2016
Results		
Sales	89 791	89 469
Underlying Trading operating profit *	14 729	14 307
as % of sales	16.4%	16.0%
Trading operating profit *	13 233	13 693
as % of sales	14.7%	15.3%
Taxes	2 779	4 413
Profit for the year attributable to shareholders of the parent (Net profit)	7 183	8 531
as % of sales	8.0%	9.5%
Total amount of dividend	7 216 ^(b)	7 126
Depreciation of property, plant and equipment	2 853	2 795
Balance sheet and Cash flow statement		
Current assets	32 190	32 042
Non-current assets	98 190	99 859
Total assets	130 380	131 901
Current liabilities	36 054	37 517
Non-current liabilities	31 549	28 403
Equity attributable to shareholders of the parent	61 504	64 590
Non-controlling interests	1 273	1 391
Net financial debt *	17 875	13 913
Ratio of net financial debt to equity (gearing)	29.1%	21.5%
Operating cash flow	13 486	15 582
as % of net financial debt	75.4%	112.0%
Free cash flow *	8 509	10 108
Capital expenditure	3 934	4 010
as % of sales	4.4%	4.5%
Data per share		
Weighted average number of shares outstanding (in millions of units)	3 092	3 091
Basic earnings per share	2.32	2.76
Underlying earnings per share *	3.55	3.40
Dividend	2.35 ^(b)	2.30
Pay-out ratio based on basic earnings per share	101.3% ^(b)	83.3%
Stock prices (high)	86.40	80.05
Stock prices (low)	71.45	67.00
Yield ^(a)	2.7/3.3 ^(b)	2.9/3.4
Market capitalisation	256 223	226 310
Number of employees (in thousands)	323	328

* Certain financial performance measures, that are not defined by IFRS, are used by management to assess the financial and operational performance of the Group. The "Alternative Performance Measures" document published under <https://www.nestle.com/investors/publications> provides the definition of these non-IFRS financial performance measures.

(a) Calculated on the basis of the dividend for the year concerned, which is paid in the following year, and on high/low stock prices.

(b) As proposed by the Board of Directors of Nestlé S.A.

2015	2014	2013	
			Results
88 785	91 612	92 158	Sales
14 032	14 816	14 892	Underlying Trading operating profit *
15.8%	16.2%	16.2%	as % of sales
13 382	14 019	14 047	Trading operating profit *
15.1%	15.3%	15.2%	as % of sales
3 305	3 367	3 256	Taxes
9 066	14 456	10 015	Profit for the year attributable to shareholders of the parent (Net profit)
10.2%	15.8%	10.9%	as % of sales
6 937	6 950	6 863	Total amount of dividend
2 861	2 782	2 864	Depreciation of property, plant and equipment
			Balance sheet and Cash flow statement
29 434	33 961	30 066	Current assets
94 558	99 489	90 376	Non-current assets
123 992	133 450	120 442	Total assets
33 321	32 895	32 917	Current liabilities
26 685	28 671	23 386	Non-current liabilities
62 338	70 130	62 575	Equity attributable to shareholders of the parent
1 648	1 754	1 564	Non-controlling interests
15 425	12 325	14 690	Net financial debt *
24.7%	17.6%	23.5%	Ratio of net financial debt to equity (gearing)
14 302	14 700	14 992	Operating cash flow
92.7%	119.3%	102.1%	as % of net financial debt
9 945	14 137	10 486	Free cash flow *
3 872	3 914	4 928	Capital expenditure
4.4%	4.3%	5.3%	as % of sales
			Data per share
3 129	3 188	3 191	Weighted average number of shares outstanding (in millions of units)
2.90	4.54	3.14	Basic earnings per share
3.31	3.44	3.50	Underlying earnings per share *
2.25	2.20	2.15	Dividend
77.6%	48.5%	68.5%	Pay-out ratio based on basic earnings per share
77.00	73.30	70.00	Stock prices (high)
64.55	63.85	59.20	Stock prices (low)
2.9/3.5	3.0/3.4	3.1/3.6	Yield ^(a)
229 947	231 136	208 279	Market capitalisation
335	339	333	Number of employees (in thousands)

Companies of the Nestlé group, joint arrangements and associates

In the context of the SIX Swiss Exchange Directive on Information relating to Corporate Governance, the disclosure criteria of the principal affiliated companies are as follows:

- operating companies are disclosed if their sales exceed CHF 10 million or equivalent;
- financial companies are disclosed if either their equity exceeds CHF 10 million or equivalent and/or the total balance sheet is higher than CHF 50 million or equivalent;
- joint ventures and associates are disclosed if the share held by the Group in their profit exceeds CHF 10 million or equivalent and/or the Group's investment in them exceeds CHF 50 million or equivalent

Entities directly held by Nestlé S.A. that are below the disclosure criteria are listed with a °.

All companies listed below are fully consolidated except for:

- 1) Joint ventures accounted for using the equity method;
- 2) Joint operations accounted for in proportion to the Nestlé contractual specified share (usually 50%);
- 3) Associates accounted for using the equity method.

Countries within the continents are listed according to the alphabetical order of the country names.

Percentage of capital shareholding corresponds to voting powers unless stated otherwise.

△ Companies listed on the stock exchange

◊ Sub-holding, financial and property companies

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Europe					
Austria					
Galderma Austria GmbH	Linz		100%	EUR	35 000
Nespresso Österreich GmbH & Co. OHG	Wien		100%	EUR	35 000
Nestlé Österreich GmbH	Wien	34.4%	100%	EUR	7 270 000
Azerbaijan					
Nestlé Azerbaijan LLC	Baku	100%	100%	USD	200 000
Belarus					
LLC Nestlé Bel	° Minsk	100%	100%	BYN	410 000
Belgium					
Centre de Coordination Nestlé S.A.	◊ Bruxelles	91.5%	100%	EUR	4 298 971 818
Nespresso Belgique S.A.	Bruxelles	100%	100%	EUR	550 000
Nestlé Belgilux S.A.	Bruxelles	56.9%	100%	EUR	64 924 438
Nestlé Catering Services N.V.	Bruxelles		100%	EUR	14 035 500
Nestlé Waters Benelux S.A.	Etalle		100%	EUR	5 601 257
Bosnia and Herzegovina					
Nestlé Adriatic BH d.o.o.	Sarajevo	100%	100%	BAM	2 151

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Bulgaria					
Nestlé Bulgaria A.D.	Sofia	100%	100%	BGN	10 234 933
Croatia					
Nestlé Adriatic d.o.o.	Zagreb	100%	100%	HRK	14 685 500
Czech Republic					
Nestlé Cesko s.r.o.	Praha	100%	100%	CZK	300 000 000
Tivall CZ, s.r.o.	Krupka		100%	CZK	400 000 000
Cereal Partners Czech Republic, s.r.o.	¹⁾ Praha		50%	CZK	23 100 000
Denmark					
Nestlé Danmark A/S	Copenhagen	100%	100%	DKK	44 000 000
Nestlé Professional Food A/S	Rønnede		100%	DKK	12 000 000
Glycom A/S	³⁾ Copenhagen	35.7%	35.7%	DKK	1 383 655
Finland					
Puljonki Oy	Juuka		100%	EUR	85 000
Suomen Nestlé Oy	Helsinki	100%	100%	EUR	6 000 000
France					
Centres de Recherche et Développement Nestlé S.A.S.	Noisiel		100%	EUR	3 138 230
Galderma International S.A.S.	Courbevoie		100%	EUR	940 020
Galderma Q-Med S.A.S.	Nanterre		100%	EUR	3 769 870
Galderma Research and Development SNC	Biot		100%	EUR	30 322 851
Herta S.A.S.	Noisiel		100%	EUR	12 908 610
Laboratoires Galderma S.A.S.	Alby-sur-Chéran		100%	EUR	14 015 454
Nespresso France S.A.S.	Paris		100%	EUR	1 360 000
Nestlé Entreprises S.A.S.	⁰ Noisiel	84%	100%	EUR	739 559 392
Nestlé France S.A.S.	Noisiel		100%	EUR	130 925 520
Nestlé France M.G. S.A.S.	Noisiel		100%	EUR	50 000
Nestlé Health Science France S.A.S.	Noisiel		100%	EUR	57 943 072
Nestlé Purina PetCare France S.A.S.	Noisiel		100%	EUR	21 091 872
Nestlé Waters S.A.S.	⁰ Issy-les-Moulineaux		100%	EUR	254 825 042
Nestlé Waters France S.A.S.	⁰ Issy-les-Moulineaux		100%	EUR	44 856 149
Nestlé Waters Management & Technology S.A.S.	Issy-les-Moulineaux		100%	EUR	38 113
Nestlé Waters Marketing & Distribution S.A.S.	Issy-les-Moulineaux		100%	EUR	26 740 940
Nestlé Waters Services S.A.S.	Issy-les-Moulineaux		100%	EUR	1 356 796
Nestlé Waters Supply Est S.A.S.	Issy-les-Moulineaux		100%	EUR	17 539 660
Nestlé Waters Supply Sud S.A.S.	Issy-les-Moulineaux		100%	EUR	7 309 106
Société des Produits Alimentaires de Caudry S.A.S.	Noisiel		100%	EUR	8 670 319
Société Immobilière de Noisiel S.A.	⁰ Noisiel		100%	EUR	22 753 550
Société Industrielle de Transformation de Produits Agricoles S.A.S.	Noisiel		100%	EUR	9 718 000

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
France (continued)						
Cereal Partners France SNC	1)	Noisiel		50%	EUR	3 000 000
L'Oréal S.A. ^(a)	Δ3)	Paris	23.2%	23.2%	EUR	112 103 818
<i>Listed on the Paris stock exchange, market capitalisation EUR 103.7 billion, quotation code (ISIN) FR0000120321</i>						
Lactalis Nestlé Produits Frais S.A.S.	3)	Laval	40%	40%	EUR	69 208 832
Georgia						
Nestlé Georgia LLC	°	Tbilisi	100%	100%	CHF	700 000
Germany						
Bübchen-Werk Ewald Hermes Pharmazeutische Fabrik GmbH		Soest		100%	EUR	25 565
Galderma Laboratorium GmbH		Düsseldorf		100%	EUR	800 000
Nestlé Deutschland AG		Frankfurt am Main		100%	EUR	214 266 628
Nestlé Product Technology Centre Lebensmittelforschung GmbH		Freiburg i. Br.		100%	EUR	52 000
Nestlé Unternehmungen Deutschland GmbH	◊	Frankfurt am Main		100%	EUR	60 000 000
Nestlé Waters Deutschland GmbH		Frankfurt am Main		100%	EUR	10 566 000
Terra Canis GmbH		München		80%	EUR	60 336
C.P.D. Cereal Partners Deutschland GmbH & Co. OHG	1)	Frankfurt am Main		50%	EUR	511 292
Trinks GmbH	3)	Braunschweig		25%	EUR	2 360 000
Trinks Süd GmbH	3)	München		25%	EUR	260 000
Greece						
Nespresso Hellas S.A.		Maroussi	100%	100%	EUR	500 000
Nestlé Hellas S.A.		Maroussi	100%	100%	EUR	5 269 765
C.P.W. Hellas Breakfast Cereals S.A.	1)	Maroussi		50%	EUR	201 070
Hungary						
Nestlé Hungária Kft.		Budapest	100%	100%	HUF	6 000 000 000
Cereal Partners Hungária Kft.	1)	Budapest		50%	HUF	22 000 000
Italy						
Fastlog S.p.A.		Assago		100%	EUR	154 935
Galderma Italia S.p.A.		Milano		100%	EUR	612 000
Nespresso Italiana S.p.A.		Assago		100%	EUR	250 000
Nestlé Italiana S.p.A.		Assago	100%	100%	EUR	25 582 492
Sanpellegrino S.p.A.		San Pellegrino Terme		100%	EUR	58 742 145
Kazakhstan						
Nestlé Food Kazakhstan LLP		Almaty	100%	100%	KZT	91 900

^(a) Voting powers amount to 23.2%

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Lithuania					
UAB „Nestlé Baltics“	Vilnius	100%	100%	EUR	31 856
Luxembourg					
Compagnie Financière du Haut-Rhin S.A.	◊ Luxembourg		100%	EUR	105 200 000
Nespresso Luxembourg Sàrl	Luxembourg	100%	100%	EUR	12 525
Nestlé Finance International Ltd	◊ Luxembourg	100%	100%	EUR	440 000
Nestlé Treasury International S.A.	◊ Luxembourg	100%	100%	EUR	1 000 000
NTC-Europe S.A.	◊ Luxembourg	100%	100%	EUR	3 565 000
Macedonia					
Nestlé Adriatik Makedonija d.o.o.e.l.	Skopje-Karpos	100%	100%	MKD	31 065 780
Malta					
Nestlé Malta Ltd	Lija	99.9%	100%	EUR	116 470
Moldova					
LLC Nestlé	° Chisinau	100%	100%	USD	1 000
Netherlands					
East Springs International N.V.	◊ Amsterdam		100%	EUR	25 370 000
Galderma BeNeLux B.V.	Rotterdam		100%	EUR	18 002
Nespresso Nederland B.V.	Amsterdam		100%	EUR	680 670
Nestlé Nederland B.V.	Amsterdam	100%	100%	EUR	11 346 000
Tivall Netherlands B.V.	Zeist		100%	EUR	18 000
Norway					
A/S Nestlé Norge	Lysaker		100%	NOK	81 250 000
Poland					
Galderma Polska Z o.o.	Warszawa		100%	PLN	93 000
Nestlé Polska S.A.	Warszawa	100%	100%	PLN	42 800 000
Nestlé Waters Polska S.A.	Warszawa		100%	PLN	196 100 000
Cereal Partners Poland Torun-Pacific Sp. Z o.o.	¹⁾ Torun	50%	50%	PLN	14 572 838
Portugal					
Nestlé Business Services Lisbon, S.A.	° Oeiras	100%	100%	EUR	50 000
Nestlé Portugal S.A.	Oeiras		100%	EUR	30 000 000
ProLacto-Lactínios de São Miguel S.A.	Ponta Delgada		100%	EUR	700 000
Cereal Associados Portugal A.E.I.E.	¹⁾ Oeiras		50%	EUR	99 760
Republic of Ireland					
Nestlé (Ireland) Ltd	Dublin		100%	EUR	1 270
Wyeth Nutritionals Ireland Ltd	Askeaton		100%	USD	10 000 000
WyNutri Ltd	Dublin		100%	USD	1

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Republic of Serbia					
Nestlé Adriatic S d.o.o., Beograd-Surcin	Beograd-Surcin	100%	100%	RSD	12 222 327 814
Romania					
Nestlé Romania S.R.L.	Bucharest	100%	100%	RON	132 906 800
Russia					
Nestlé Kuban LLC	Timashevsk	67.4%	100%	RUB	21 041 793
Nestlé Rossiya LLC	Moscow	84.1%	100%	RUB	880 154 115
ooo Galderma LLC	Moscow		100%	RUB	25 000 000
Cereal Partners Rus, LLC	¹⁾ Moscow	35%	50%	RUB	39 730 861
Slovak Republic					
Nestlé Slovensko s.r.o.	Prievidza	100%	100%	EUR	13 277 568
Slovenia					
Nestlé Adriatic Trgovina d.o.o.	^o Ljubljana	100%	100%	EUR	8 763
Spain					
Laboratorios Galderma, S.A.	Madrid		100%	EUR	432 480
Nestlé España S.A.	Esplugues de Llobregat (Barcelona)	100%	100%	EUR	100 000 000
Nestlé Global Services Spain, S.L.	^o Esplugues de Llobregat (Barcelona)	100%	100%	EUR	3 000
Nestlé Purina PetCare España S.A.	Castellbisbal (Barcelona)		100%	EUR	12 000 000
Productos del Café S.A.	Reus (Tarragona)		100%	EUR	6 600 000
Cereal Partners España A.E.I.E.	¹⁾ Esplugues de Llobregat (Barcelona)		50%	EUR	120 202
Sweden					
Galderma Nordic AB	Uppsala		100%	SEK	31 502 698
Nestlé Sverige AB	Helsingborg		100%	SEK	20 000 000
Q-Med AB	Uppsala		100%	SEK	24 845 500
Tivall Sweden AB	Malmö		100%	SEK	100 000
Switzerland					
DPA (Holding) S.A.	^o Vevey	100%	100%	CHF	100 000
Entreprises Maggi S.A.	^o Cham	100%	100%	CHF	100 000
Galderma S.A.	Cham		100%	CHF	178 100
Galderma Pharma S.A.	^o Lausanne		100%	CHF	48 900 000
Galderma Schweiz AG	Egerkingen		100%	CHF	100 000
Intercona Re AG	^o Châtel-St-Denis		100%	CHF	35 000 000
Materna-Nestlé GmbH	^o Zug	100%	100%	CHF	20 000
Nespresso IS Services S.A.	^o Lausanne	100%	100%	CHF	100 000

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Switzerland (continued)					
Nestec S.A.	Vevey	100%	100%	CHF	5 000 000
Nestlé Capital Advisers S.A.	Vevey	100%	100%	CHF	400 000
Nestlé Finance S.A.	◊ Cham		100%	CHF	30 000 000
Nestlé Health Science S.A.	◊ Epalinges	100%	100%	CHF	100 000
Nestlé Institute of Health Sciences S.A.	Ecublens		100%	CHF	100 000
Nestlé International Travel Retail S.A.	Vevey	100%	100%	CHF	3 514 000
Nestlé Nespresso S.A.	Lausanne	100%	100%	CHF	2 000 000
Nestlé Operational Services Worldwide S.A.	Bussigny-près-Lausanne	100%	100%	CHF	100 000
Nestlé Skin Health S.A.	◊ Lausanne	100%	100%	CHF	100 000
Nestlé Ventures S.A.	◊ Vevey	100%	100%	CHF	250 000
Nestlé Waters (Suisse) S.A.	Henniez		100%	CHF	5 000 000
Nestrad S.A.	La Tour-de-Peilz	100%	100%	CHF	6 500 000
Nutrition-Wellness Venture AG	◊ Vevey	100%	100%	CHF	100 000
Provestor AG	◊ Cham	100%	100%	CHF	2 000 000
Servcom S.A.	◊ La Tour-de-Peilz	100%	100%	CHF	50 000
Société des Produits Nestlé S.A.	Vevey	100%	100%	CHF	34 750 000
Sofinol S.A.	Manno		100%	CHF	3 000 000
Somafa S.A.	◊ Cham	100%	100%	CHF	400 000
Spirig Pharma AG	Egerkingen		100%	CHF	600 000
The Proactiv Company Sàrl	Lausanne		75%	CHF	20 000
Vetropa S.A.	◊ Fribourg	100%	100%	CHF	2 500 000
Beverage Partners Worldwide (Europe) AG	◊ ¹⁾ Zürich	50%	50%	CHF	1 000 000
CPW Operations Sàrl	¹⁾ Prilly	50%	50%	CHF	20 000
CPW S.A.	¹⁾ Prilly	50%	50%	CHF	10 000 000
Microbiome Diagnostics Partners S.A.	◊ ¹⁾ Epalinges	50%	50%	CHF	100 000
Eckes-Granini (Suisse) S.A.	²⁾ Henniez		49%	CHF	2 000 000
Turkey					
Erikli Dağıtım ve Pazarlama A.S.	Bursa		100%	TRY	3 849 975
Erikli Su ve Mesrubat Sanayi ve Ticaret A.S.	Bursa		100%	TRY	12 700 000
Nestlé Türkiye Gıda Sanayi A.S.	Istanbul	99.9%	99.9%	TRY	35 000 000
Nestlé Waters Gıda ve Mesrubat Sanayi Ticaret A.S.	Bursa		100%	TRY	8 000 000
Cereal Partners Gıda Ticaret Limited Sirketi	¹⁾ Istanbul		50%	TRY	87 020 000
Ukraine					
LLC Nestlé Ukraine	Kyiv	100%	100%	USD	150 000
PJSC „Lviv Confectionery Factory Svitoch“	Lviv	97%	97%	UAH	88 111 060
PRJSC Volynholding	Torchyn	90.5%	100%	UAH	100 000
United Kingdom					
Galderma (UK) Ltd	Watford		100%	GBP	1 500 000
Nespresso UK Ltd	Gatwick		100%	GBP	275 000
Nestec York Ltd	Gatwick		100%	GBP	500 000
Nestlé Capital Management Ltd	Gatwick		100%	GBP	2 000 000

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
United Kingdom (continued)						
Nestlé Holdings (UK) PLC	◊	Gatwick	93.7%	100%	GBP	77 940 000
Nestlé Purina PetCare (UK) Ltd		Gatwick		100%	GBP	44 000 000
Nestlé UK Ltd		Gatwick		100%	GBP	129 972 342
Nestlé Waters UK Ltd		Gatwick		100%	GBP	640
Osem UK Ltd		London		100%	GBP	2 000
Proactiv Skin Health Ltd		London		75%	GBP	101
Vitaflo (International) Ltd		Liverpool		100%	GBP	625 379
Cereal Partners UK	1)	Herts		50%	GBP	—
Froneri Ltd ^(b)	1)	Northallerton	22.2%	44.9%	EUR	13 000
Phagenesis Ltd	°3)	Manchester	29.2%	29.2%	GBP	16 146

^(b) Excluding non voting preference shares. Voting powers amount to 50%

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Africa					
Algeria					
Nestlé Algérie SpA	Alger	<0.1%	49%	DZD	2 600 000 000
Nestlé Industrie Algérie SpA	Alger	49%	49%	DZD	1 100 000 000
Nestlé Waters Algérie SpA	Blida		49%	DZD	377 606 250
Angola					
Nestlé Angola Lda	Luanda	100%	100%	AOA	1 443 600 000
Burkina Faso					
Nestlé Burkina Faso S.A.	Ouagadougou		100%	XOF	50 000 000
Cameroon					
Nestlé Cameroun S.A.	Douala	100%	100%	XAF	4 323 960 000
Chad					
Nestlé Chad S.A.	N'Djamena	100%	100%	XAF	50 000 000
Côte d'Ivoire					
Centre de Recherche et de Développement					
Nestlé Abidjan S.A.	Abidjan		100%	XOF	10 000 000
Nestlé Côte d'Ivoire S.A.	△ Abidjan	79.6%	86.5%	XOF	5 517 600 000
<i>Listed on the Abidjan stock exchange, market capitalisation XOF 41.9 billion, quotation code (ISIN) CI0009240728</i>					
Democratic Republic of the Congo					
Nestlé Congo S.A.R.L	Kinshasa	100%	100%	USD	33 200 000
Egypt					
Caravan Marketing Company S.A.E.	Giza	100%	100%	EGP	33 000 000
Nestlé Egypt S.A.E.	Giza	100%	100%	EGP	80 722 000
Nestlé Waters Egypt S.A.E.	Cairo		63.8%	EGP	90 140 000
Ethiopia					
Nestlé Waters Ethiopia Share Company	Addis Ababa		51%	ETB	223 450 770
Gabon					
Nestlé Gabon, S.A.	Libreville	90%	90%	XAF	344 000 000
Ghana					
Nestlé Central and West Africa Ltd	Accra	100%	100%	GHS	95 796 000
Nestlé Ghana Ltd	Accra	76%	76%	GHS	20 100 000
Guinea					
Nestlé Guinée S.A.	Conakry	99%	99%	GNF	3 424 000 000

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Kenya					
Nestlé Equatorial African Region Ltd	Nairobi	100%	100%	KES	132 000 000
Nestlé Kenya Ltd	Nairobi	100%	100%	KES	226 100 400
Mali					
Nestlé Mali S.A.U.	Bamako		100%	XOF	10 000 000
Mauritius					
Nestlé's Products (Mauritius) Ltd	Port Louis	100%	100%	BSD	71 500
Morocco					
Nestlé Maghreb S.A.	° Casablanca	100%	100%	MAD	300 000
Nestlé Maroc S.A.	El Jadida	94.5%	94.5%	MAD	156 933 000
Mozambique					
Nestlé Moçambique Lda	° Maputo	100%	100%	MZN	2 474 909 200
Niger					
Nestlé Niger S.A.	Niamey		99.6%	XOF	50 000 000
Nigeria					
Nestlé Nigeria Plc	△ Ilupeju	66.2%	66.2%	NGN	396 328 126
<i>Listed on the Nigerian Stock Exchange, market capitalisation NGN 1233.0 billion, quotation code (ISIN) NGNESTLE0006</i>					
Senegal					
Nestlé Sénégal S.A.	Dakar	100%	100%	XOF	1 620 000 000
South Africa					
Galderma Laboratories South Africa (Pty) Ltd	Bryanston		100%	ZAR	375 000
Nestlé (South Africa) (Pty) Ltd	Johannesburg	100%	100%	ZAR	759 735 000
Clover Waters Proprietary Limited	³⁾ Johannesburg		30%	ZAR	56 021 890
Tunisia					
Nestlé Tunisie S.A.	° Tunis	99.5%	99.5%	TND	8 438 280
Nestlé Tunisie Distribution S.A.	Tunis	<0.1%	99.5%	TND	100 000
Zambia					
Nestlé Zambia Trading Ltd	Lusaka	99.8%	100%	ZMW	2 317 500
Zimbabwe					
Nestlé Zimbabwe (Private) Ltd	Harare	100%	100%	USD	2 100 000

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Americas					
Argentina					
Eco de Los Andes S.A.	Buenos Aires		50.9%	ARS	92 524 285
Galderma Argentina S.A.	Buenos Aires		100%	ARS	9 900 000
Nestlé Argentina S.A.	Buenos Aires	100%	100%	ARS	233 316 000
Bolivia					
Industrias Alimentícias Fagal S.R.L.	Santa Cruz	98.5%	100%	BOB	175 556 000
Nestlé Bolivia S.A.	Santa Cruz	99%	100%	BOB	191 900
Brazil					
Chocolates Garoto S.A.	Vila Velha		100%	BRL	161 450 000
Dairy Partners Americas Manufacturing Brasil Ltda	São Paulo		100%	BRL	39 468 974
Galderma Brasil Ltda	São Paulo		100%	BRL	39 741 602
Nestlé Brasil Ltda	São Paulo	100%	100%	BRL	452 985 643
Nestlé Nordeste Alimentos e Bebidas Ltda	Feira de Santana		100%	BRL	259 547 969
Nestlé Sudeste Alimentos e Bebidas Ltda	São Paulo		100%	BRL	109 317 818
Nestlé Sul – Alimentos e Bebidas Ltda	Carazinho		100%	BRL	73 049 736
Nestlé Waters Brasil – Bebidas e Alimentos Ltda	São Paulo	100%	100%	BRL	87 248 341
Ralston Purina do Brasil Ltda	° Ribeirão Preto	100%	100%	BRL	17 976 826
SOCOPAL – Sociedade Comercial de Corretagem de Seguros e de Participações Ltda	° São Paulo	100%	100%	BRL	2 155 600
CPW Brasil Ltda	1) Caçapava		50%	BRL	7 885 520
Dairy Partners Americas Brasil Ltda	3) São Paulo	49%	49%	BRL	227 606 368
Dairy Partners Americas Nordeste – Produtos Alimentícios Ltda	3) Garanhuns		49%	BRL	100 000
Canada					
G. Production Canada Inc.	Baie D'Urfé (Québec)		100%	CAD	100
Galderma Canada Inc.	Saint John (New Brunswick)		100%	CAD	100
Nestlé Canada Inc.	Toronto (Ontario)	65.7%	100%	CAD	47 165 540
Nestlé Capital Canada Ltd	° Toronto (Ontario)		100%	CAD	1 010
Cayman Islands					
Hsu Fu Chi International Limited	° Grand Cayman	60%	60%	SGD	7 950 000
Chile					
Galderma Chile Laboratorios Ltda	Santiago de Chile		100%	CLP	12 330 000
Nespresso Chile S.A.	Santiago de Chile		99.7%	CLP	1 000 000
Nestlé Chile S.A.	Santiago de Chile	99.7%	99.7%	CLP	11 832 926 000
Cereales CPW Chile Ltda	1) Santiago de Chile		50%	CLP	3 026 156 114
Aguas CCU – Nestlé Chile S.A.	3) Santiago de Chile		49.8%	CLP	49 799 375 321

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Colombia					
Comestibles La Rosa S.A.	Bogotá	52.4%	100%	COP	126 397 400
Dairy Partners Americas Manufacturing Colombia Ltda	Bogotá	99.8%	100%	COP	200 000 000
Galderma de Colombia S.A.	Bogotá		100%	COP	2 250 000 000
Nestlé de Colombia S.A.	Bogotá	100%	100%	COP	1 291 305 400
Nestlé Purina PetCare de Colombia S.A.	Bogotá	<0.1%	100%	COP	17 030 000 000
Costa Rica					
Compañía Nestlé Costa Rica S.A.	Heredia	100%	100%	CRC	18 000 000
Cuba					
Coralac S.A.	La Habana		60%	USD	6 350 000
Los Portales S.A.	La Habana		50%	USD	24 110 000
Nescor, S.A.	° Artemisa	50.9%	50.9%	USD	32 200 000
Dominican Republic					
Nestlé Dominicana S.A.	Santo Domingo	98.7%	99.9%	DOP	1 657 445 000
Silva Dominicana S.A.	Santo Domingo		99.9%	USD	50 000
Ecuador					
Ecuajugos S.A.	Quito	100%	100%	USD	521 583
Industrial Surindu S.A.	Quito	<0.1%	100%	USD	3 000 000
Nestlé Ecuador S.A.	Quito	100%	100%	USD	1 776 760
El Salvador					
Nestlé El Salvador, S.A. de C.V.	San Salvador	100%	100%	USD	4 457 200
Guatemala					
Compañía de Servicios de Distribución, S.A.	° Guatemala City	100%	100%	GTQ	50 000
Genoveva, S.A.	° Guatemala City	100%	100%	GTQ	4 598 400
Industrias Consolidadas de Occidente, S.A.	° Chimaltenango	100%	100%	GTQ	300 000
Malher Export S.A.	° Guatemala City	100%	100%	GTQ	5 000
Malher, S.A.	Guatemala City	100%	100%	GTQ	100 000 000
Nestlé Guatemala S.A.	Guatemala City	35%	100%	GTQ	23 460 600
SERESA, Contratación de Servicios Empresariales, S.A.	Guatemala City	100%	100%	GTQ	5 000
TESOCORP, S.A.	° Guatemala City	100%	100%	GTQ	5 000
Honduras					
Malher de Honduras, S.A. de C.V.	° Tegucigalpa	83.2%	100%	HNL	25 000
Nestlé Hondureña S.A.	Tegucigalpa	95%	100%	PAB	200 000
Jamaica					
Nestlé Jamaica Ltd	Kingston	100%	100%	JMD	49 200 000

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Mexico					
Galderma México, S.A. de C.V.	México, D.F.		100%	MXN	2 385 000
Malhemex, S.A. de C.V.	° México, D.F.	100%	100%	MXN	50 000
Manantiales La Asunción, S.A.P.I. de C.V. (c)	México, D.F.		40%	MXN	1 035 827 492
Marcas Nestlé, S.A. de C.V.	México, D.F.	<0.1%	100%	MXN	500 050 000
Nescalín, S.A. de C.V.	◊ México, D.F.	100%	100%	MXN	445 826 740
Nespresso México, S.A. de C.V.	México, D.F.	<0.1%	100%	MXN	10 050 000
Nestlé Holding México, S.A. de C.V.	◊° México, D.F.	100%	100%	MXN	50 000
Nestlé México, S.A. de C.V.	México, D.F.	<0.1%	100%	MXN	607 532 730
Nestlé Servicios Corporativos, S.A. de C.V.	México, D.F.	<0.1%	100%	MXN	170 100 000
Nestlé Servicios Industriales, S.A. de C.V.	México, D.F.		100%	MXN	1 050 000
Productos Gerber, S.A. de C.V.	Queretaro		100%	MXN	5 252 440
Ralston Purina México, S.A. de C.V.	México, D.F.		100%	MXN	9 257 112
Waters Partners Services México, S.A.P.I. de C.V. (c)	México, D.F.		40%	MXN	620 000
CPW México, S. de R.L. de C.V.	1) México, D.F.		50%	MXN	43 138 000
Nicaragua					
Compañía Centroamericana de Productos Lácteos, S.A.	Managua	66.1%	92.6%	NIO	10 294 900
Nestlé Nicaragua, S.A.	Managua	95%	100%	USD	150 000
Panama					
Nestlé Centroamérica, S.A.	Panamá City	100%	100%	USD	1 000 000
Nestlé Panamá, S.A.	Panamá City	100%	100%	PAB	17 500 000
Unilac, Inc.	◊ Panamá City	100%	100%	USD	750 000
Paraguay					
Nestlé Paraguay S.A.	Asunción	100%	100%	PYG	100 000 000
Peru					
Nestlé Marcas Perú, S.A.C.	Lima	50%	100%	PEN	5 536 832
Nestlé Perú, S.A.	Lima	99.5%	99.5%	PEN	88 998 365
Puerto Rico					
Nestlé Puerto Rico, Inc.	San Juan	100%	100%	USD	500 000
Payco Foods Corporation	Bayamon		100%	USD	890 000
Trinidad and Tobago					
Nestlé Caribbean, Inc.	Valsayn	95%	100%	USD	100 000
Nestlé Trinidad and Tobago Ltd	Valsayn	100%	100%	TTD	35 540 000

(c) Voting powers amount to 51%

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
United States					
BBC New Holdings, LLC	◊ Wilmington (Delaware)		67.9%	USD	0
Blue Bottle Coffee, Inc.	Wilmington (Delaware)		67.9%	USD	0
Chameleon Cold Brew, LLC	Wilmington (Delaware)		100%	USD	0
Checkerboard Holding Company, Inc.	◊ Wilmington (Delaware)		100%	USD	1 001
Dreyer's Grand Ice Cream Holdings, Inc.	◊ Wilmington (Delaware)		100%	USD	10
Foundry Foods, Inc.	Wilmington (Delaware)		100%	USD	1
Galderma Research and Development, LLC	Wilmington (Delaware)		100%	USD	2 050 000
Gerber Life Insurance Company	◊ New York		100%	USD	148 500 000
Gerber Products Company	Fremont (Michigan)		100%	USD	1 000
Lieberman Productions LLC	Sacramento (California)		75%	USD	—
Malher, Inc.	Stafford (Texas)	67%	100%	USD	1 000
Merrick Pet Care, Inc.	Dallas (Texas)		100%	USD	1 000
Merrick Pet Care Holdings Corporation	◊ Wilmington (Delaware)		100%	USD	100
Nespresso USA, Inc.	Wilmington (Delaware)		100%	USD	1 000
Nestlé Capital Corporation	◊ Wilmington (Delaware)		100%	USD	1 000 000
Nestlé Dreyer's Ice Cream Company	Wilmington (Delaware)		100%	USD	1
Nestlé Health Science US Holdings, Inc.	◊ Wilmington (Delaware)		100%	USD	1
Nestlé HealthCare Nutrition, Inc.	Wilmington (Delaware)		100%	USD	50 000
Nestlé Holdings, Inc.	◊ Wilmington (Delaware)		100%	USD	100 000
Nestlé Insurance Holdings, Inc.	◊ Wilmington (Delaware)		100%	USD	10
Nestlé Nutrition R&D Centers, Inc.	Wilmington (Delaware)		100%	USD	10 000
Nestlé Prepared Foods Company	Philadelphia (Pennsylvania)		100%	USD	476 760
Nestlé Purina PetCare Company	St. Louis (Missouri)		100%	USD	1 000
Nestlé Purina PetCare Global Resources, Inc.	Wilmington (Delaware)		100%	USD	1 000
Nestlé R&D Center, Inc.	Wilmington (Delaware)		100%	USD	10 000
Nestlé Regional GLOBE Office North America, Inc.	Wilmington (Delaware)		100%	USD	1 000
Nestlé Transportation Company	Wilmington (Delaware)		100%	USD	100
Nestlé USA, Inc.	Wilmington (Delaware)		100%	USD	1 000
Nestlé Waters North America Holdings, Inc.	◊ Wilmington (Delaware)		100%	USD	10 000 000
Nestlé Waters North America, Inc.	Wilmington (Delaware)		100%	USD	10 700 000
NiMCo US, Inc.	◊ Wilmington (Delaware)	100%	100%	USD	1
NSH Services Inc.	Fort Worth (Texas)		100%	USD	981
Prometheus Laboratories Inc.	Los Angeles (California)		100%	USD	100
Red Maple Insurance Company	◊ Williston (Vermont)		100%	USD	1 200 000
Sweet Earth Inc.	Wilmington (Delaware)		100%	USD	0
The Häagen-Daaz Shoppe Company, Inc.	West Trenton (New Jersey)		100%	USD	0
The Proactiv Company LLC	Wilmington (Delaware)		75%	USD	—
The Stouffer Corporation	◊ Cleveland (Ohio)		100%	USD	0

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
United States (continued)					
Tribe Mediterranean Foods, Inc.	Wilmington (Delaware)		100%	USD	1
TSC Holdings, Inc.	⁰ Wilmington (Delaware)		100%	USD	100 000
Vitality Foodservice, Inc.	Dover (Delaware)		100%	USD	1 240
Waggin' Train LLC	Wilmington (Delaware)		100%	USD	—
Zuke's LLC	Wilmington (Delaware)		100%	USD	0
Aimmune Therapeutics, Inc.	³⁾ Wilmington (Delaware)		14.9%	USD	5 086
Seres Therapeutics, Inc.	³⁾ Cambridge (Massachusetts)		17%	USD	40 530
Uruguay					
Nestlé del Uruguay S.A.	Montevideo	100%	100%	UYU	9 495 189
Venezuela					
Nestlé Cadipro, S.A.	Caracas		100%	VEF	50 633 501
Nestlé Venezuela, S.A.	Caracas	100%	100%	VEF	516 590

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Asia					
Afghanistan					
Nestlé Afghanistan Ltd	Kabul	100%	100%	USD	1 000 000
Bahrain					
Nestlé Bahrain Trading WLL	Manama	49%	49%	BHD	200 000
Al Manhal Water Factory (Bahrain) WLL	Manama		63%	BHD	300 000
Bangladesh					
Nestlé Bangladesh Limited	Dhaka	100%	100%	BDT	100 000 000
Greater China Region					
Anhui Yinlu Foods Co., Limited	Chuzhou	80%	80%	CNY	303 990 000
Chengdu Hsu Chi Foods Co., Limited	Chengdu		60%	CNY	40 000 000
Chengdu Yinlu Foods Co., Limited	Chengdu	80%	80%	CNY	215 800 000
Dongguan Andegu Plastic Packaging Material Limited	Dongguan		60%	HKD	10 000 000
Dongguan Hsu Chi Food Co., Limited	Dongguan		60%	HKD	700 000 000
Galderma Hong Kong Limited	Hong Kong		100%	HKD	10 000
Galderma Trading (Shanghai) Co., Limited	Shanghai		100%	EUR	400 000
Guangzhou Refrigerated Foods Limited	Guangzhou	95.5%	95.5%	CNY	390 000 000
Henan Hsu Fu Chi Foods Co., Limited	Zhumadian		60%	CNY	224 000 000
Hsu Fu Chi International Holdings Limited	Hong Kong		60%	USD	100 000
Hubei Yinlu Foods Co., Limited	Hanchuan	80%	80%	CNY	353 000 000
Nestlé (China) Limited	Beijing	100%	100%	CNY	250 000 000
Nestlé Dongguan Limited	Dongguan	100%	100%	CNY	536 000 000
Nestlé Health Science (China) Ltd	Taizhou City		100%	USD	32 640 000
Nestlé Hong Kong Limited	Hong Kong	100%	100%	HKD	250 000 000
Nestlé Hulunbeir Limited	Hulunbeir	100%	100%	CNY	158 000 000
Nestlé Nespresso Beijing Limited	Beijing	100%	100%	CNY	7 000 000
Nestlé Purina PetCare Tianjin Limited	Tianjin	100%	100%	CNY	40 000 000
Nestlé Qingdao Limited	Laixi	100%	100%	CNY	930 000 000
Nestlé R&D (China) Limited	Beijing		100%	CNY	40 000 000
Nestlé Shanghai Limited	Shanghai	95%	95%	CNY	200 000 000
Nestlé Shuangcheng Limited	Shuangcheng	97%	97%	CNY	435 000 000
Nestlé Sources Shanghai Limited	Shanghai	100%	100%	CNY	1 149 700 000
Nestlé Sources Tianjin Limited	Tianjin	95%	95%	CNY	204 000 000
Nestlé Taiwan Limited	Taipei	100%	100%	TWD	100 000 000
Nestlé Tianjin Limited	Tianjin	100%	100%	CNY	785 000 000
Q-Med International Trading (Shanghai) Limited	Shanghai		100%	USD	600 000
Shandong Yinlu Foods Co., Limited	Jinan	80%	80%	CNY	146 880 000
Shanghai Nestlé Product Services Limited	Shanghai		100%	CNY	83 000 000
Shanghai Totole First Food Limited	Shanghai	100%	100%	CNY	72 000 000
Shanghai Totole Food Limited	Shanghai	100%	100%	USD	7 800 000
Sichuan Haoji Food Co., Limited	Puge	80%	80%	CNY	80 000 000
Suzhou Hexing Food Co., Limited	Suzhou	100%	100%	CNY	40 000 000

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Greater China Region (continued)					
Wyeth (Hong Kong) Holding Co., Limited	⁰ Hong Kong	100%	100%	HKD	3 554 107 000
Wyeth (Shanghai) Trading Co., Limited	Shanghai		100%	USD	1 000 000
Wyeth Nutritional (China) Co., Limited	Suzhou		100%	CNY	900 000 000
Xiamen Yinlu Foods Group Co., Limited	Xiamen	80%	80%	CNY	496 590 000
Yunnan Dashan Drinks Co., Limited	Kunming	100%	100%	CNY	35 000 000
CPW Tianjin Limited	¹⁾ Tianjin		50%	CNY	305 000 000
India					
Galderma India Private Ltd	Mumbai		100%	INR	24 156 000
Nestlé India Ltd	^Δ New Delhi	34.3%	62.8%	INR	964 157 160
<i>Listed on the Bombay Stock Exchange (BSE Ltd), market capitalisation INR 756.4 billion, quotation code (ISIN) INE239A01016</i>					
Nestlé R&D Centre India Private Ltd	New Delhi	100%	100%	INR	2 101 380 000
Purina Petcare India Private Ltd	^o New Delhi	97%	100%	INR	20 000 000
SMA Nutrition India Private Limited	^o New Delhi	97%	100%	INR	22 000 000
Indonesia					
P.T. Nestlé Indonesia	Jakarta	90.2%	90.2%	IDR	152 753 440 000
P.T. Nestlé Trading Indonesia	^o Jakarta	1%	90.3%	IDR	60 000 000 000
P.T. Wyeth Nutrition Sduaenam	Jakarta		90%	IDR	2 000 000 000
P.T. Nestlé Indofood Citarasa Indonesia	¹⁾ Jakarta	50%	50%	IDR	200 000 000 000
Iran					
Nestlé Iran (Private Joint Stock Company)	Tehran	89.7%	89.7%	IRR	358 538 000 000
Nestlé Waters Iranian	Tehran		100%	IRR	35 300 000 000
Israel					
Assamim Gift Parcels Ltd	Shoam		73.8%	ILS	103
Beit Hashita-Asis Food Industries Limited Partnership	Kibbutz Beit Hashita		100%	ILS	100
Materna Industries Limited Partnership	Kibbutz Maabarot		100%	ILS	10 000
Migdanot Habait Ltd	Shoam		100%	ILS	4 014
Nespresso Israel Ltd	Tel Aviv	100%	100%	ILS	1 000
Noga Ice Cream Limited Partnership	Shoam		100%	ILS	1 000
OSEM Food Industries Ltd	Shoam		100%	ILS	176
OSEM Group Commerce Limited Partnership	Shoam		100%	ILS	100
OSEM Investments Ltd	Shoam	100%	100%	ILS	110 644 443
Tivall Food Industries Ltd	Kiryat Gat		100%	ILS	41 861 167
Japan					
Blue Bottle Coffee Japan, G.K.	Tokyo		67.9%	JPY	10 000 000
Galderma K.K.	Tokyo		100%	JPY	10 000 000
Nestlé Japan Ltd	Kobe	100%	100%	JPY	10 000 000 000
Nestlé Nespresso K.K.	Kobe		100%	JPY	10 000 000
Nestlé Skin Health Y.K.	Tokyo		75%	JPY	3 000 000
The Proactiv Company K.K.	Tokyo		75%	JPY	10 000 000

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Jordan					
Ghadeer Mineral Water Co. WLL	Amman		75%	JOD	1 785 000
Nestlé Jordan Trading Company Ltd	Amman	77.8%	77.8%	JOD	410 000
Kuwait					
Nestlé Kuwait General Trading Company WLL	Safat	49%	49%	KWD	300 000
Lebanon					
Société des Eaux Minérales Libanaises S.A.L.	Hazmieh		100%	LBP	1 610 000 000
Société pour l'Exportation des Produits Nestlé S.A.	Baabda	100%	100%	CHF	1 750 000
SOHAT Distribution S.A.L.	Hazmieh		100%	LBP	160 000 000
Malaysia					
Nestlé (Malaysia) Bhd.	^Δ Petaling Jaya	72.6%	72.6%	MYR	234 500 000
<i>Listed on the Kuala Lumpur stock exchange, market capitalisation MYR 24.2 billion, quotation code (ISIN) MYL470700005</i>					
Nestlé Asean (Malaysia) Sdn. Bhd.	Petaling Jaya		72.6%	MYR	42 000 000
Nestlé Manufacturing (Malaysia) Sdn. Bhd.	Petaling Jaya		72.6%	MYR	132 500 000
Nestlé Products Sdn. Bhd.	Petaling Jaya		72.6%	MYR	25 000 000
Nestlé Regional Service Centre (Malaysia) Sdn. Bhd.	[◊] Petaling Jaya	100%	100%	MYR	1 000 000
Purina PetCare (Malaysia) Sdn. Bhd.	Petaling Jaya	100%	100%	MYR	1 100 000
Wyeth Nutrition (Malaysia) Sdn. Bhd.	Petaling Jaya		100%	MYR	1 969 505
Cereal Partners (Malaysia) Sdn. Bhd.	¹⁾ Petaling Jaya	50%	50%	MYR	2 500 000
Myanmar					
Nestlé Myanmar Limited	[◊] Yangon	95%	95%	USD	5 000 000
Oman					
Nestlé Oman Trading LLC	Muscat	49%	49%	OMR	300 000
Pakistan					
Nestlé Pakistan Ltd	^Δ Lahore	59%	59%	PKR	453 495 840
<i>Listed on the Pakistan Stock Exchange, market capitalisation PKR 522.0 billion, quotation code (ISIN) PK0025101012</i>					
Palestinian Territories					
Nestlé Trading Private Limited Company	Bethlehem	97.5%	97.5%	JOD	200 000
Philippines					
Galderma Philippines, Inc.	Manila		100%	PHP	12 500 000
Nestlé Business Services AOA, Inc.	Bulacan	100%	100%	PHP	70 000 000
Nestlé Philippines, Inc.	Cabuyao	55%	100%	PHP	2 300 927 400
Penpro, Inc. ^(d)	[◊] Makati City		88.5%	PHP	630 000 000
Wyeth Philippines, Inc.	Manila	100%	100%	PHP	610 418 100
CPW Philippines, Inc.	¹⁾ Makati City	50%	50%	PHP	7 500 000

^(d) Voting powers amount to 40%

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Qatar					
Al Manhal Water Factory Co. Ltd WLL	Doha		51%	QAR	5 500 000
Nestlé Qatar Trading LLC	Doha	49%	49%	QAR	1 680 000
Republic of Korea					
Galderma Korea Ltd	Seoul		100%	KRW	500 000 000
Nestlé Korea Yuhan Chaegim Hoesa	Seoul	100%	100%	KRW	15 594 500 000
Pulmuone Waters Co., Ltd	Gyeonggi-Do		51%	KRW	6 778 760 000
LOTTE-Nestlé (Korea) Co., Ltd	^{°1)} Cheongju	50%	50%	KRW	52 783 120 000
Saudi Arabia					
Al Anhar Water Factory Co. Ltd	Jeddah		64%	SAR	7 500 000
Al Manhal Water Factory Co. Ltd	Riyadh		64%	SAR	7 000 000
Nestlé Saudi Arabia LLC	Jeddah		75%	SAR	27 000 000
Nestlé Water Factory Co. Ltd	Riyadh		64%	SAR	15 000 000
Pure Water Factory Co. Ltd	Madinah		64%	SAR	5 000 000
SHAS Company for Water Services Ltd	Riyadh		64%	SAR	13 500 000
Springs Water Factory Co. Ltd	Dammam		64%	SAR	5 000 000
Singapore					
Galderma Singapore Private Ltd	Singapore		100%	SGD	1 387 000
Nestlé R&D Center (Pte) Ltd	Singapore		100%	SGD	20 000 000
Nestlé Singapore (Pte) Ltd	Singapore	100%	100%	SGD	1 000 000
Nestlé TC Asia Pacific Pte Ltd	[◊] Singapore	100%	100%	JPY	10 000 000 000
				SGD	2
Wyeth Nutritionals (Singapore) Pte Ltd	Singapore	100%	100%	SGD	2 059 971 715
Sri Lanka					
Nestlé Lanka PLC	[△] Colombo	90.8%	90.8%	LKR	537 254 630
<i>Listed on the Colombo stock exchange, market capitalisation LKR 87.4 billion, quotation code (ISIN) LK0128N00005</i>					
Syria					
Nestlé Syria S.A.	Damascus	100%	100%	SYP	800 000 000
Thailand					
Arun Saeng Ltd	[◊] Bangkok	100%	100%	THB	250 000
Galderma (Thailand) Ltd	Bangkok		100%	THB	100 000 000
Nestlé (Thai) Ltd	Bangkok	100%	100%	THB	880 000 000
Nestlé Trading (Thailand) Ltd	[◊] Bangkok	100%	100%	THB	3 000 000
Perrier Vittel (Thailand) Ltd	Bangkok		100%	THB	235 000 000
Quality Coffee Products Ltd	Bangkok	49%	50%	THB	400 000 000

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
United Arab Emirates					
Nestlé Dubai Manufacturing LLC	Dubai	49%	49%	AED	300 000
Nestlé Middle East FZE	Dubai	100%	100%	AED	3 000 000
Nestlé Middle East Manufacturing LLC	° Dubai	49%	49%	AED	300 000
Nestlé Middle East Marketing FZE	Dubai		100%	AED	1 000 000
Nestlé Treasury Centre-Middle East & Africa Ltd	◊ Dubai	100%	100%	USD	2 997 343 684
Nestlé UAE LLC	Dubai	49%	49%	AED	2 000 000
Nestlé Waters Factory H&O LLC	Dubai		48%	AED	22 300 000
CP Middle East FZCO	¹⁾ Dubai	50%	50%	AED	600 000
Uzbekistan					
Namangansut-Nafosat MChJ	° Namangan	53.9%	100%	UZS	46 227 969
Nestlé Uzbekistan MChJ	Namangan	96.4%	100%	USD	38 715 463
Vietnam					
La Vie Limited Liability Company	Long An		65%	USD	2 663 400
Nestlé Vietnam Ltd	Bien Hoa	100%	100%	KVND	1 261 151 498

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Oceania					
Australia					
Galderma Australia Pty Ltd	Belrose		100%	AUD	2 500 300
Nestlé Australia Ltd	Sydney	100%	100%	AUD	274 000 000
Cereal Partners Australia Pty Ltd	¹⁾ Sydney		50%	AUD	107 800 000
Fiji					
Nestlé (Fiji) Ltd	Lami	33%	100%	FJD	3 000 000
French Polynesia					
Nestlé Polynésie S.A.S.	Papeete	100%	100%	XPF	5 000 000
New Caledonia					
Nestlé Nouvelle-Calédonie S.A.S.	Nouméa	100%	100%	XPF	64 000 000
New Zealand					
Nestlé New Zealand Limited	Auckland	100%	100%	NZD	300 000
CPW New Zealand	¹⁾ Auckland		50%	NZD	—
Papua New Guinea					
Nestlé (PNG) Ltd	Lae	100%	100%	PGK	11 850 000

Technical assistance, research and development units

All scientific research and technological development is undertaken in a number of dedicated centres, specialised as follows:

Technical Assistance	TA
Development centres	D
Research centres	R
Research & Development centres	R&D
Product Technology centres	PTC

The Technical Assistance centre is Nestec Ltd, a technical, scientific, commercial and business assistance company. The units of Nestec Ltd, specialised in all areas of the business, supply permanent know-how and assistance to operating companies in the Group within the framework of licence and equivalent contracts. Nestec Ltd is also responsible for all scientific research and technological development, which it undertakes itself or through affiliated companies.

The centres involved are listed below:

		City of operations	
Switzerland			
Clinical Development Unit		Lausanne	R
Galderma R&D Centre		Egerkingen	R&D
Nestec Ltd		Vevey	TA
Nestlé Development Centre		Broc	D
Nestlé Institute of Health Sciences S.A.		Ecublens	R
Nestlé Product Technology Centre Beverage		Orbe	PTC
Nestlé Product Technology Centre Dairy		Konolfingen	PTC
Nestlé Product Technology Centre Nestlé Nutrition		Konolfingen	PTC
Nestlé Product Technology Centre Nestlé Professional		Orbe	PTC
Nestlé Research Centre		Lausanne	R
Nestlé System Technology Centre		Orbe	R and PTC
CPW R&D Centre	¹⁾	Orbe	R&D
Australia			
CPW R&D Centre	¹⁾	Rutherglen	R&D
Chile			
Nestlé Development Centre		Santiago de Chile	D
Côte d'Ivoire			
Nestlé R&D Centre		Abidjan	R&D
France			
Galderma R&D Centre		Biot	R&D
Nestlé Development Centre Dairy		Lisieux	D
Nestlé Product Technology Centre Water		Vittel	PTC
Nestlé R&D Centre		Aubigny	R&D

		City of operations	
France (continued)			
Nestlé R&D Centre		Tours	R&D
Froneri Development Center Glaces S.A.S.	1)	Beauvais	PTC
Germany			
Nestlé Product Technology Centre Food		Singen	PTC
Greater China Region			
Nestlé R&D Centre		Beijing	R&D
Nestlé R&D Centre		Shanghai	R&D
India			
Nestlé Development Centre		Gurgaon	D
Italy			
Nestlé R&D Centre		Sansepolcro	R&D
Mexico			
Nestlé R&D Centre		Queretaro	R&D
Republic of Ireland			
Nestlé Development Centre		Askeaton	D
Singapore			
Nestlé Development Centre		Singapore	D
Sweden			
Galderma R&D Centre		Uppsala	R&D
United Kingdom			
Nestlé Product Technology Centre Confectionery		York	PTC
United States			
Galderma R&D Centre		Fort Worth (Texas)	R&D
Nestlé Development Centre		Fremont (Michigan)	D
Nestlé Development Centre		Marysville (Ohio)	D
Nestlé Development Centre		Solon (Ohio)	D
Nestlé Product Technology Centre Health Science		Bridgewater (New Jersey)	PTC
Nestlé Product Technology Centre Ice Cream		Bakersfield (California)	PTC
Nestlé Product Technology Centre PetCare		St. Louis (Missouri)	PTC
Nestlé R&D Centre		San Diego (California)	R&D
Nestlé R&D Centre		St. Joseph (Missouri)	R&D

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Income statement for the year ended 31 December 2017

In millions of CHF

	Notes	2017	2016
Income from Group companies	2	12 316	10 626
Profit on disposal of assets	3	155	716
Other income		96	114
Financial income	4	407	220
Total income		12 974	11 676
Expenses recharged from Group companies	5	(2 514)	(2 501)
Personnel expenses		(107)	(120)
Other expenses		(155)	(195)
Write-downs and amortisation	6	(889)	(1 835)
Financial expense	7	(93)	(35)
Taxes	8	(631)	(542)
Total expenses		(4 389)	(5 228)
Profit for the year		8 585	6 448

Balance sheet as at 31 December 2017

before appropriations

In millions of CHF			2017	2016
	Notes			
Assets				
Current assets				
Cash and cash equivalents	9		339	1 115
Other current receivables	10		724	737
Prepayments and accrued income			32	77
Total current assets			1 095	1 929
Non-current assets				
Financial assets	11		7 761	8 763
Shareholdings	12		32 006	31 175
Property, plant and equipment			1	1
Intangible assets			95	142
Total non-current assets			39 863	40 081
Total assets			40 958	42 010
Liabilities and equity				
Current liabilities				
Interest-bearing liabilities	13		2 734	2 050
Other current liabilities	14		2 162	1 645
Accruals and deferred income			17	48
Provisions	15		514	760
Total current liabilities			5 427	4 503
Non-current liabilities				
Interest-bearing liabilities	13		138	132
Provisions	15		507	501
Total non-current liabilities			645	633
Total liabilities			6 072	5 136
Equity				
Share capital	16/17		311	311
Legal retained earnings				
– General legal reserve	17		1 924	1 924
Voluntary retained earnings				
– Special reserve	17		23 319	23 288
– Profit brought forward	17		5 111	5 821
– Profit for the year	17		8 585	6 448
Treasury shares	17/18		(4 364)	(918)
Total equity			34 886	36 874
Total liabilities and equity			40 958	42 010

Notes to the annual accounts

1. Accounting policies

General

Nestlé S.A. (the Company) is the ultimate holding company of the Nestlé Group, domiciled in Cham and Vevey which comprises subsidiaries, associated companies and joint ventures throughout the world.

The accounts are prepared in accordance with accounting principles required by Swiss law (32nd title of the Swiss Code of Obligations). They are prepared under the historical cost convention and on an accrual basis. Where not prescribed by law, the significant accounting and valuation principles applied are described below.

Foreign currency translation

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward contract. Non-monetary assets and liabilities are carried at historical rates. Monetary assets and liabilities in foreign currencies are translated at year-end rates. Any resulting exchange differences are included in the respective income statement captions depending upon the nature of the underlying transactions. The aggregate unrealised exchange difference is calculated by reference to original transaction date exchange rates and includes hedging transactions. Where this gives rise to a net loss, it is charged to the income statement whilst a net gain is deferred.

Hedging

The Company uses forward foreign exchange contracts, options, financial futures and currency swaps to hedge foreign currency flows and positions. Unrealised foreign exchange differences on hedging instruments are matched and accounted for with those on the underlying asset or liability. Long-term loans, in foreign currencies, used to finance investments in shareholdings are generally not hedged.

The Company also uses interest rate swaps to manage interest rate risk. The swaps are accounted for at fair value at each balance sheet date and changes in the market price are recorded in the income statement.

The positive fair values of forward exchange contracts and interest rate swaps are included under prepayments and accrued income. The negative fair values of forward exchange contracts and interest rate swaps are included under accruals and deferred income.

Income statement

In accordance with Swiss law and the Company's Articles of Association, dividends are treated as an appropriation of profit in the year in which they are ratified at the Annual General Meeting rather than as an appropriation of profit in the year to which they relate.

Taxes

This caption includes taxes on profit, capital and withholding taxes on transfers from Group companies.

Shareholdings and financial assets

The carrying value of shareholdings and loans comprises the cost of investment, excluding the incidental costs of acquisition, less any write-downs.

Shareholdings located in countries where the political, economic or monetary situation might be considered to carry a greater than normal level of risk are carried at a nominal value of one franc.

Shareholdings and loans are written down on a conservative basis, taking into account the profitability of the company concerned.

Property, plant and equipment

The Company owns land and buildings which have been depreciated in the past. Office furniture and equipment are fully depreciated on acquisition.

Intangible assets

Trademarks and other industrial property rights are written off on acquisition or exceptionally over a longer period, not exceeding their useful lives.

Provisions

Provisions include present obligations as well as contingencies. A provision for uninsured risks is constituted to cover general risks not insured with third parties, such as consequential loss. Provisions for Swiss taxes are made on the basis of the Company's taxable capital, reserves and profit for the year. A general provision is maintained to cover possible foreign tax liabilities.

2. Income from Group companies

This represents dividends and other income from Group companies.

3. Profit on disposal of assets

This represents mainly the net gains realised on the sale of financial assets, trademarks and other industrial property rights previously written down.

4. Financial income

In millions of CHF

	2017	2016
Income on loans to Group companies	407	220
Other financial income	—	—
	407	220

5. Expenses recharged from Group companies

Expenses of central service companies recharged to Nestlé S.A.

6. Write-downs and amortisation

In millions of CHF

	2017	2016
Shareholdings and loans	735	1 429
Trademarks and other industrial property rights	154	406
	889	1 835

7. Financial expense

In millions of CHF

	2017	2016
Expenses related to loans from Group companies	6	5
Other financial expenses	87	30
	93	35

8. Taxes

In millions of CHF

	2017	2016
Direct taxes	191	171
Prior year's adjustments	—	—
Withholding taxes on income from foreign sources	440	371
	631	542

9. Cash and cash equivalents

Cash and cash equivalents include deposits with maturities of less than three months.

10. Other current receivables

In millions of CHF

	2017	2016
Amounts owed by Group companies (current accounts)	693	707
Other receivables	31	30
	724	737

11. Financial assets

In millions of CHF

	2017	2016
Loans to Group companies	7 752	8 757
Other investments	9	6
	7 761	8 763

12. Shareholdings

In millions of CHF

	2017	2016
At 1 January	31 175	32 488
Net increase/(decrease)	1 527	103
Write-downs	(696)	(1 416)
At 31 December	32 006	31 175

A list of direct and significant indirect Group companies held by Nestlé S.A. with the percentage of the capital controlled is included in the Consolidated Financial Statements of the Nestlé Group.

13. Interest-bearing liabilities

Current and non-current interest-bearing liabilities are amounts owed to Group companies.

14. Other current liabilities

In millions of CHF

	2017	2016
Amounts owed to Group companies	1 847	1 605
Other liabilities	315	40
	2 162	1 645

15. Provisions

In millions of CHF

					2017	2016
	Uninsured risks	Exchange risks	Swiss and foreign taxes	Other	Total	Total
At 1 January	475	451	174	161	1 261	1 325
Provisions made in the period	—	—	191	53	244	232
Amounts used	—	—	(162)	(78)	(240)	(210)
Unused amounts reversed	—	(244)	—	—	(244)	(86)
At 31 December	475	207	203	136	1 021	1 261
of which expected to be settled within 12 months					514	760

16. Share capital

	2017	2016
Number of registered shares of nominal value CHF 0.10 each	3 112 160 000	3 112 160 000
In millions of CHF	311	311

According to article 5 of the Company's Articles of Association, no person or entity shall be registered with voting rights for more than 5% of the share capital as recorded in the commercial register. This limitation on registration also applies to persons who hold some or all of their shares through nominees pursuant to this article. In addition, article 11 provides that no person may exercise, directly or indirectly, voting rights, with respect to own shares or shares represented by proxy, in excess of 5% of the share capital as recorded in the commercial register.

At 31 December 2017, the share register showed 157 753 registered shareholders. If unprocessed applications for registration, the indirect holders of shares under American Depositary Receipts and the beneficial owners of shareholders registered as nominees are also taken into account, the total number of shareholders probably exceeds 250 000. The Company was not aware of any shareholder holding, directly or indirectly, 5% or more of the share capital.

17. Changes in equity

In millions of CHF

	Share capital	General legal reserve	Special reserve	Retained earnings	Treasury shares	Total
At 1 January 2017	311	1 924	23 288	12 268	(918)	36 874
Profit for the year	—	—	—	8 585	—	8 585
Dividend for 2016	—	—	—	(7 126)	—	(7 126)
Movement of treasury shares	—	—	—	—	(3 446)	(3 446)
Dividend on treasury shares held on the payment date of 2016 dividend	—	—	31	(31)	—	—
At 31 December 2017	311	1 924	23 319	13 696	(4 364)	34 886

18. Treasury shares

In millions of CHF

	2017		2016	
	Number	Amount	Number	Amount
Share Buy-Back Programme	41 578 764	3 487	—	—
Long-term incentive plans	8 789 045	567	9 900 885	608
For trading purposes	4 238 445	310	4 238 445	310
	54 606 254	4 364	14 139 330	918

During the year 41 578 764 shares were purchased as part of the Share Buy-Back Programme for CHF 3487 million.

The Company held 8 789 045 shares to cover long-term incentive plans. During the year 3 135 109 shares were delivered as part of the Nestlé Group remuneration plans for a total value of CHF 190 million. In addition, 2 023 269 shares have been acquired at a cost of CHF 149 million. All treasury shares are valued at acquisition cost.

The total of own shares of 54 606 254 held by Nestlé S.A. at 31 December 2017 represents 1.8% of the Nestlé S.A. share capital (14 139 330 own shares held at 31 December 2016 by Nestlé S.A. representing 0.5% of the Nestlé S.A. share capital).

19. Contingencies

At 31 December 2017, the total of the guarantees mainly for credit facilities granted to Group companies and commercial paper programmes, together with the buy-back agreements relating to notes issued, amounted to a maximum of CHF 47 771 million (2016: CHF 43 155 million).

20. Performance Share Units and shares for members of the Board and employees granted during the year

In millions of CHF

	2017		2016	
	Number	Amount	Number	Amount
Performance Share Units granted to Nestlé S.A. employees ^(a)	272 418	15	484 488	32
Share plan for short-term bonus Executive Board ^(b)	112 515	7	100 451	6
Share plan for Board members ^(c)	85 919	5	91 255	5
	470 852	27	676 194	43

(a) Performance Share Units are disclosed at fair value at grant which corresponds to CHF 55.96 in 2017

(2016: CHF 65.85). Includes 193 280 Performance Share Units granted to Executive Board (2016: 219 020).

(b) Shares are valued at the average closing price of the last ten trading days of January, discounted by 16.038% to account for the blocking period of three years.

(c) Shares are valued at the closing price on the ex-dividend date, discounted by 16.038% account for the blocking period of three years.

21. Full-time equivalents

For Nestlé S.A., the annual average number of full-time equivalents for the reporting year, as well as the previous year, did not exceed 250.

22. Events after the balance sheet date

There are no subsequent events which either warrant a modification of the value of the assets and liabilities or any additional disclosure.

23. Shares and stock options

Shares and stock options ownership of the non-executive members of the Board of Directors and closely related parties

	2017		2016	
	Number of shares held ^(a)	Number of options held ^(b)	Number of shares held ^(a)	Number of options held ^(b)
Paul Bulcke, Chairman	1 263 185	420 000	(c)	(c)
Andreas Koopmann, Vice Chairman	101 079	—	97 176	—
Henri de Castries	18 940	—	14 442	—
Beat W. Hess	41 429	—	37 262	—
Renato Fassbind	22 921	—	18 754	—
Steven G. Hoch	167 727	—	164 475	—
Nāina Lal Kidwai	16 956	—	14 442	—
Jean-Pierre Roth	14 531	—	12 216	—
Ann M. Veneman	16 961	—	14 844	—
Eva Cheng	12 769	—	10 255	—
Ruth K. Oniang'o	5 743	—	3 891	—
Patrick Aebischer	2 315	—	—	—
Ursula M. Burns	1 852	—	—	—
Members who retired from the Board during 2017	—	—	3 581 827	127 000
Total as at 31 December	1 686 408	420 000	3 969 584	127 000

(a) Including shares subject to a three-year blocking period.

(b) The ratio is one option for one Nestlé S.A. share.

(c) For 2016 included under shares and stock options ownership of the members of the Executive Board.

Shares and stock options ownership of the members of the Executive Board and closely related parties

	2017		2016	
	Number of shares held ^(a)	Number of options held ^(b)	Number of shares held ^(a)	Number of options held ^(b)
Ulf Mark Schneider	7 795	—	—	—
Laurent Freixe	17 587	—	48 805	—
Chris Johnson	62 376	104 100	51 072	125 400
Patrice Bula	159 121	101 800	136 487	101 800
Wan Ling Martello	101 507	121 100	71 522	121 100
Stefan Catsicas	10 347	—	5 400	—
Marco Settembri	31 837	—	21 750	—
François-Xavier Roger	14 544	—	3 604	—
Magdi Batato	9 152	—	9 330	—
Peter R. Vogt	49 960	—	46 681	—
Heiko Schipper	—	—	2 800	—
Maurizio Patarnello	13 043	—	—	—
Grégory Behar	1 188	—	—	—
David P. Frick	53 199	—	48 586	—
Members who retired from the Executive Board during 2017	—	—	1 123 053	924 170
Total as at 31 December	531 656	327 000	1 569 090	1 272 470

(a) Including shares subject to a three-year blocking period.

(b) The ratio is one option for one Nestlé S.A. share.

For the detailed disclosures regarding the remunerations of the Board of Directors and the Executive Board that are required by Swiss law, refer to the Compensation report of Nestlé S.A. with the audited sections highlighted with a blue bar.

Proposed appropriation of profit

In CHF	2017	2016
Retained earnings		
Profit brought forward	5 111 232 705	5 820 737 716
Profit for the year	8 584 500 298	6 448 462 989
	13 695 733 003	12 269 200 705
We propose the following appropriation:		
Dividend for 2017, CHF 2.35 per share on 3 070 581 236 shares ^(a) (2016: CHF 2.30 on 3 112 160 000 shares) ^(b)	7 215 865 905	7 157 968 000
	7 215 865 905	7 157 968 000
Profit to be carried forward	6 479 867 098	5 111 232 705

(a) Depending on the number of shares issued as of the last trading day with entitlement to receive the dividend (13 April 2018). No dividend is paid on own shares held by the Nestlé Group; the respective amount will be attributed to the special reserve.

(b) The amount of CHF 31 852 088, representing the dividend on 13 848 734 own shares held at the date of the dividend payment, has been transferred to the special reserve.

Provided that the proposal of the Board of Directors is approved by the Annual General Meeting, the gross dividend will amount to CHF 2.35 per share, representing a net amount of CHF 1.5275 per share after payment of the Swiss withholding tax of 35%. The last trading day with entitlement to receive the dividend is 13 April 2018. The shares will be traded ex-dividend as of 16 April 2018. The net dividend will be payable as from 18 April 2018.

The Board of Directors

Cham and Vevey, 14 February 2018



Statutory Auditor's Report

To the General Meeting of Nestlé S.A., Cham & Vevey

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Nestlé S.A., which comprise the balance sheet as at 31 December 2017, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 177 to 187) for the year ended 31 December 2017 comply with Swiss law and the Company's Articles of Association.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

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. We have determined that there are no key audit matters to communicate in our report.

Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the Company's Articles of Association, 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 entity'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 entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives 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 an auditor's 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 Swiss law and Swiss Auditing Standards 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 Swiss law and Swiss Auditing Standards, 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the 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 entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report 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 auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee 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 the Board of Directors or its relevant committee 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 the Board of Directors or its relevant committee, 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 auditor's 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.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the Company's Articles of Association. We recommend that the financial statements submitted to you be approved.

KPMG SA



Scott Cormack
Licensed Audit Expert
Auditor in Charge



Lukas Marty
Licensed Audit Expert

Geneva, 14 February 2018

KPMG SA, 111 Rue de Lyon, P.O. Box 347, CH-1211 Geneva 13

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Notes