

# Financial Statements 2016

**Consolidated Financial Statements  
of the Nestlé Group 2016**

**150th Financial Statements  
of Nestlé S.A.**





# Consolidated Financial Statements of the Nestlé Group 2016



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# Principal exchange rates

CHF per

		2016	2015	2016	2015
		Year ending rates		Weighted average annual rates	
1 US Dollar	USD	1.023	0.989	0.985	0.964
1 Euro	EUR	1.075	1.081	1.090	1.068
100 Chinese Yuan Renminbi	CNY	14.715	15.239	14.838	15.325
100 Brazilian Reais	BRL	31.383	25.337	28.583	29.004
100 Philippine Pesos	PHP	2.064	2.109	2.075	2.115
1 Pound Sterling	GBP	1.255	1.467	1.331	1.474
100 Mexican Pesos	MXN	4.938	5.690	5.279	6.074
1 Canadian Dollar	CAD	0.758	0.713	0.745	0.752
100 Japanese Yen	JPY	0.874	0.822	0.907	0.798
1 Australian Dollar	AUD	0.738	0.723	0.733	0.723
100 Russian Ruble	RUB	1.685	1.347	1.485	1.579

# Consolidated income statement for the year ended 31 December 2016

In millions of CHF

	Notes	2016	2015
<b>Sales</b>	3	<b>89 469</b>	<b>88 785</b>
Other revenue		317	298
Cost of goods sold		(44 199)	(44 730)
Distribution expenses		(8 059)	(7 899)
Marketing and administration expenses		(21 485)	(20 744)
Research and development costs		(1 736)	(1 678)
Other trading income	4	99	78
Other trading expenses	4	(713)	(728)
<b>Trading operating profit</b>	3	<b>13 693</b>	<b>13 382</b>
Other operating income	4	354	126
Other operating expenses	4	(884)	(1 100)
<b>Operating profit</b>		<b>13 163</b>	<b>12 408</b>
Financial income	5	121	101
Financial expense	5	(758)	(725)
<b>Profit before taxes, associates and joint ventures</b>		<b>12 526</b>	<b>11 784</b>
Taxes	13	(4 413)	(3 305)
Income from associates and joint ventures	14	770	988
<b>Profit for the year</b>		<b>8 883</b>	<b>9 467</b>
of which attributable to non-controlling interests		352	401
of which attributable to shareholders of the parent (Net profit)		8 531	9 066
<b>As percentages of sales</b>			
Trading operating profit		15.3%	15.1%
Profit for the year attributable to shareholders of the parent (Net profit)		9.5%	10.2%
<b>Earnings per share (in CHF)</b>			
Basic earnings per share	15	2.76	2.90
Diluted earnings per share	15	2.75	2.89

# Consolidated statement of comprehensive income for the year ended 31 December 2016

In millions of CHF

	Notes	2016	2015
<b>Profit for the year recognised in the income statement</b>		<b>8 883</b>	<b>9 467</b>
Currency retranslations, net of taxes	17	1 033	(3 771)
Fair value adjustments on available-for-sale financial instruments, net of taxes	17	16	(144)
Fair value adjustments on cash flow hedges, net of taxes	17	(1)	62
Share of other comprehensive income of associates and joint ventures	14/17	(154)	165
Items that are or may be reclassified subsequently to the income statement		894	(3 688)
Remeasurement of defined benefit plans, net of taxes	10/17	(143)	(362)
Share of other comprehensive income of associates and joint ventures	14/17	(10)	112
Items that will never be reclassified to the income statement		(153)	(250)
<b>Other comprehensive income for the year</b>	17	<b>741</b>	<b>(3 938)</b>
<b>Total comprehensive income for the year</b>		<b>9 624</b>	<b>5 529</b>
of which attributable to non-controlling interests		343	317
of which attributable to shareholders of the parent		9 281	5 212

# Consolidated balance sheet as at 31 December 2016

before appropriations

In millions of CHF

	Notes	2016	2015
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	12/16	7 990	4 884
Short-term investments	12	1 306	921
Inventories	6	8 401	8 153
Trade and other receivables	7/12	12 411	12 252
Prepayments and accrued income		573	583
Derivative assets	12	550	337
Current income tax assets		786	874
Assets held for sale	2	25	1 430
<b>Total current assets</b>		<b>32 042</b>	<b>29 434</b>
<b>Non-current assets</b>			
Property, plant and equipment	8	27 554	26 576
Goodwill	9	33 007	32 772
Intangible assets	9	20 397	19 236
Investments in associates and joint ventures	14	10 709	8 675
Financial assets	12	5 719	5 419
Employee benefits assets	10	310	109
Current income tax assets		114	128
Deferred tax assets	13	2 049	1 643
<b>Total non-current assets</b>		<b>99 859</b>	<b>94 558</b>
<b>Total assets</b>		<b>131 901</b>	<b>123 992</b>



In millions of CHF

	Notes	2016	2015
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Financial debt	12	12 118	9 629
Trade and other payables	12	18 629	17 038
Accruals and deferred income		3 855	3 673
Provisions	11	620	564
Derivative liabilities	12	1 068	1 021
Current income tax liabilities		1 221	1 124
Liabilities directly associated with assets held for sale	2	6	272
<b>Total current liabilities</b>		<b>37 517</b>	<b>33 321</b>
<b>Non-current liabilities</b>			
Financial debt	12	11 091	11 601
Employee benefits liabilities	10	8 420	7 691
Provisions	11	2 640	2 601
Deferred tax liabilities	13	3 865	3 063
Other payables	12	2 387	1 729
<b>Total non-current liabilities</b>		<b>28 403</b>	<b>26 685</b>
<b>Total liabilities</b>		<b>65 920</b>	<b>60 006</b>
<b>Equity</b>	17		
Share capital		311	319
Treasury shares		(990)	(7 489)
Translation reserve		(18 799)	(19 851)
Other reserves		1 198	1 345
Retained earnings		82 870	88 014
<b>Total equity attributable to shareholders of the parent</b>		<b>64 590</b>	<b>62 338</b>
Non-controlling interests		1 391	1 648
<b>Total equity</b>		<b>65 981</b>	<b>63 986</b>
<b>Total liabilities and equity</b>		<b>131 901</b>	<b>123 992</b>

# Consolidated cash flow statement for the year ended 31 December 2016

In millions of CHF

	Notes	2016	2015
<b>Operating activities</b>			
Operating profit	17	13 163	12 408
Depreciation and amortisation		3 132	3 178
Impairment		640	576
Net result on disposal of businesses		—	422
Other non-cash items of income and expense		35	172
<b>Cash flow before changes in operating assets and liabilities</b>		<b>16 970</b>	<b>16 756</b>
Decrease/(increase) in working capital	16	1 801	741
Variation of other operating assets and liabilities	16	54	(248)
<b>Cash generated from operations</b>		<b>18 825</b>	<b>17 249</b>
Net cash flows from treasury activities	16	(327)	(93)
Taxes paid		(3 435)	(3 310)
Dividends and interest from associates and joint ventures	14	519	456
<b>Operating cash flow</b>		<b>15 582</b>	<b>14 302</b>
<b>Investing activities</b>			
Capital expenditure	8	(4 010)	(3 872)
Expenditure on intangible assets	9	(682)	(422)
Acquisition of businesses	2	(585)	(530)
Disposal of businesses	2	271	213
Investments (net of divestments) in associates and joint ventures	14	(748)	(44)
Inflows/(outflows) from treasury investments		(335)	521
Other investing activities		(34)	(19)
<b>Investing cash flow</b>		<b>(6 123)</b>	<b>(4 153)</b>
<b>Financing activities</b>			
Dividend paid to shareholders of the parent	17	(6 937)	(6 950)
Dividends paid to non-controlling interests		(432)	(424)
Acquisition (net of disposal) of non-controlling interests	2	(1 208)	—
Purchase (net of sale) of treasury shares <sup>(a)</sup>		760	(6 377)
Inflows from bonds and other non-current financial debt		1 695	1 381
Outflows from bonds and other non-current financial debt		(1 430)	(508)
Inflows/(outflows) from current financial debt		1 368	643
<b>Financing cash flow</b>		<b>(6 184)</b>	<b>(12 235)</b>
Currency retranslations		(169)	(478)
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>3 106</b>	<b>(2 564)</b>
Cash and cash equivalents at beginning of year		4 884	7 448
<b>Cash and cash equivalents at end of year</b>		<b>7 990</b>	<b>4 884</b>

(a) In 2015, mostly relates to the Share Buy-Back Programme launched in 2014.

# Consolidated statement of changes in equity for the year ended 31 December 2016

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
<b>Equity as at 31 December 2014 as originally published</b>	<b>322</b>	<b>(3 918)</b>	<b>(17 255)</b>	<b>—</b>	<b>90 981</b>	<b>70 130</b>	<b>1 754</b>	<b>71 884</b>
Reclassification following the changes in presentation	—	—	953	1 418	(2 371)	—	—	—
<b>Equity restated as at 31 December 2014</b>	<b>322</b>	<b>(3 918)</b>	<b>(16 302)</b>	<b>1 418</b>	<b>88 610</b>	<b>70 130</b>	<b>1 754</b>	<b>71 884</b>
Profit for the year	—	—	—	—	9 066	9 066	401	9 467
Other comprehensive income for the year	—	—	(3 549)	(55)	(250)	(3 854)	(84)	(3 938)
Total comprehensive income for the year	—	—	(3 549)	(55)	8 816	5 212	317	5 529
Dividends	—	—	—	—	(6 950)	(6 950)	(424)	(7 374)
Movement of treasury shares	—	(6 322)	—	—	39	(6 283)	—	(6 283)
Equity compensation plans	—	239	—	—	(56)	183	—	183
Changes in non-controlling interests	—	—	—	—	(21)	(21)	1	(20)
Reduction in share capital <sup>(a)</sup>	(3)	2 512	—	—	(2 509)	—	—	—
Total transactions with owners	(3)	(3 571)	—	—	(9 497)	(13 071)	(423)	(13 494)
Other movements	—	—	—	(18)	85	67	—	67
<b>Equity restated as at 31 December 2015</b>	<b>319</b>	<b>(7 489)</b>	<b>(19 851)</b>	<b>1 345</b>	<b>88 014</b>	<b>62 338</b>	<b>1 648</b>	<b>63 986</b>
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 <sup>(b)</sup>	—	—	—	—	(991)	(991)	(168)	(1 159)
Reduction in share capital <sup>(a)</sup>	(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)
<b>Equity as at 31 December 2016</b>	<b>311</b>	<b>(990)</b>	<b>(18 799)</b>	<b>1 198</b>	<b>82 870</b>	<b>64 590</b>	<b>1 391</b>	<b>65 981</b>

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

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



## 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 2016 were approved for issue by the Board of Directors on 15 February 2017 and are subject to approval by the Annual General Meeting on 6 April 2017.

### 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 – Consolidated statement of comprehensive income

The Group has simplified the presentation of its statement of comprehensive income by aggregating items and by presenting them net of taxes. Detail information on these movements are disclosed in the notes.

2015 comparatives have been restated.

### Changes in presentation – Consolidated statement of changes in equity

The Group has enhanced the presentation of its statement of changes in equity. All reserves that may be reclassified subsequently to the income statement are presented separately net of taxes.

2015 comparatives have been restated.

### Changes in accounting standards

A number of standards have been modified on miscellaneous points with effect from 1 January 2016. Such changes include Disclosure Initiative (Amendments to IAS 1), Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11), Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28), Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28) and Annual Improvements 2012–2014 (which made amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting).

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 2016

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 2017 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.

In order to measure the consequences of this new standard, the Group has engaged a review of the business model corresponding to the different portfolios of financial assets and of the characteristics of these financial assets, such as equity instruments and instruments whose cash flows are solely payments of principal and interest ("SPPI"). This review will also support the designation of equity instruments at fair value through other comprehensive income when appropriate as per the business objective.

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 is also under review. 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 as well some statistical data reflecting the actual past experience of occurred loss for default.

Furthermore, the Group is reviewing the definition of the hedging relationship 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.

The retrospective application of the new standard for classification and measurement may lead to classify a portion of the instruments currently classified as available-for-sale under IAS 39 to be reclassified either to amortised cost (for qualified SPPI when the business model is to collect contractual cash flows only), to fair value through income statement (for equity instruments or when it reduces an accounting mismatch) or to fair value through other comprehensive income with no recycling (for equity instruments) when it corresponds to the business objective at the date of initial application of the standard. At this stage, the review has not identified financial assets which would be reclassified from fair value through income statement to a different accounting category.

The Group is assessing whether the new standard will be implemented with a restatement of previous period. In the absence of such restatement, 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.

#### **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 0.3 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 less than CHF 0.3 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 assessing 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 Disclosure Initiative (Amendments to IAS 7), Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12) and Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).

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

## 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

Business combinations are accounted for using the acquisition method. Where not all of the equity of a subsidiary is acquired the non-controlling interests are 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 2016, among others, the acquisitions during the year include:

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

None of the acquisitions of the year were significant.

In 2015, among others, the acquisitions included:

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

None of the acquisitions of 2015 were significant.



## Disposals

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 relates to the creation of the joint venture Froneri (see Note 14.3).

None of the other disposals of the year were significant.

In 2015, none of the 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

	2016	2015
Property, plant and equipment	8	114
Intangible assets <sup>(a)</sup>	560	163
Inventories and other assets	64	69
Financial debt	—	(1)
Employee benefits, deferred taxes and provisions	—	(92)
Other liabilities	(43)	(25)
<b>Fair value of identifiable net assets</b>	<b>589</b>	<b>228</b>

(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

	2016	2015
<b>Fair value of consideration transferred</b>	<b>682</b>	<b>529</b>
Non-controlling interests <sup>(a)</sup>	100	1
<b>Subtotal</b>	<b>782</b>	<b>530</b>
Fair value of identifiable net assets	(589)	(228)
<b>Goodwill</b>	<b>193</b>	<b>302</b>

(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

	2016	2015
Fair value of consideration transferred	682	529
Cash and cash equivalents acquired	(13)	(6)
Consideration payable	(96)	—
Payment of consideration payable on prior years acquisitions	12	7
<b>Cash outflow on acquisitions</b>	<b>585</b>	<b>530</b>

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

### Acquisition-related costs

Acquisition-related costs, which mostly relate to the acquisition of the Proactiv business, have been recognised under other operating expenses in the income statement (see Note 4.2) for an amount of CHF 17 million (2015: CHF 11 million).

## 2.3 Disposals of businesses

During the year, assets and liabilities disposed of mainly relate to the 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) is 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 amounts to CHF 90 million. It includes 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 2015, the loss on disposals was mainly composed of impairments of various disposal groups held for sale which were not individually significant and the recycling in the income statement of cumulative translation losses in other comprehensive income related to disposals.

In 2016, the profit on disposals (see Note 4.2) is 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 2016 and 2015, 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 2015, the main disposal group related to the creation of the joint venture Froneri (see Note 14.3). It has been disposed of during 2016 at the completion of the transaction. None of the other businesses classified as held for sale were individually significant.

## 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, the most significant ones being 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 was recorded as a liability in previous years for approximately CHF 311 million. The equity 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 86 countries and sales in 191 countries and employs around 328 000 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 Nestlé Professional, Nespresso, Nestlé Health Science and Nestlé Skin Health, are combined and presented in Other businesses.

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 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.

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 payable 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

						2016
	Sales <sup>(a)</sup>	Trading operating profit	Net other trading income/(expenses) <sup>(b)</sup>	of which impairment of property, plant and equipment	of which restructuring costs	Depreciation and amortisation
Zone EMENA	16 249	2 712	(129)	(32)	(104)	(456)
Zone AMS	26 356	5 074	(166)	(15)	(104)	(715)
Zone AOA	14 493	2 756	(84)	(56)	(15)	(476)
Nestlé Waters	7 926	946	(44)	(20)	(7)	(335)
Nestlé Nutrition	10 326	2 342	(47)	(13)	(13)	(356)
Other businesses <sup>(c)</sup>	14 119	2 144	(117)	(16)	(56)	(639)
Unallocated items <sup>(d)</sup>	—	(2 281)	(27)	(5)	(1)	(155)
<b>Total</b>	<b>89 469</b>	<b>13 693</b>	<b>(614)</b>	<b>(157)</b>	<b>(300)</b>	<b>(3 132)</b>

In millions of CHF

						2015
	Sales <sup>(a)</sup>	Trading operating profit	Net other trading income/(expenses) <sup>(b)</sup>	of which impairment of property, plant and equipment	of which restructuring costs	Depreciation and amortisation
Zone EMENA	16 403	2 572	(129)	(33)	(74)	(521)
Zone AMS	25 844	5 021	(120)	(17)	(31)	(691)
Zone AOA	14 338	2 632	(127)	(20)	(13)	(456)
Nestlé Waters	7 625	825	(44)	(9)	(19)	(402)
Nestlé Nutrition	10 461	2 361	(33)	(10)	(7)	(346)
Other businesses <sup>(c)</sup>	14 114	2 221	(72)	(10)	(21)	(620)
Unallocated items <sup>(d)</sup>	—	(2 250)	(125)	(1)	—	(142)
<b>Total</b>	<b>88 785</b>	<b>13 382</b>	<b>(650)</b>	<b>(100)</b>	<b>(165)</b>	<b>(3 178)</b>

(a) Inter-segment sales are not significant.

(b) Included in Trading operating profit.

(c) Mainly Nestlé Professional, Nespresso, Nestlé Health Science and Nestlé Skin Health.

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

## Invested capital and other information

In millions of CHF

						2016
	Invested capital	Goodwill and intangible assets	Impairment of goodwill	Impairment of intangible assets	Capital additions	of which capital expenditure
Zone EMENA	4 481	1 619	(2)	—	773	738
Zone AMS	7 508	8 056	(67)	—	1 094	1 030
Zone AOA	3 993	3 322	(365)	—	539	512
Nestlé Waters	2 481	1 534	(5)	(14)	556	496
Nestlé Nutrition	5 554	15 506	—	—	558	414
Other businesses <sup>(a)</sup>	3 179	13 097	—	(3)	1 619	619
Unallocated items <sup>(b)</sup> and inter-segment eliminations	1 544	10 270	—	(27)	323	201
<b>Total</b>	<b>28 740</b>	<b>53 404</b>	<b>(439)</b>	<b>(44)</b>	<b>5 462</b>	<b>4 010</b>

In millions of CHF

						2015
	Invested capital	Goodwill and intangible assets	Impairment of goodwill	Impairment of intangible assets	Capital additions	of which capital expenditure
Zone EMENA	5 338	1 595	(78)	—	723	710
Zone AMS	7 675	7 843	—	(6)	1 648	1 038
Zone AOA	4 367	3 763	(222)	—	485	482
Nestlé Waters	2 418	1 494	—	—	448	432
Nestlé Nutrition	5 440	15 319	—	—	626	489
Other businesses <sup>(a)</sup>	4 142	12 054	(38)	(11)	665	518
Unallocated items <sup>(b)</sup> and inter-segment eliminations	1 097	9 940	—	(121)	288	203
<b>Total</b>	<b>30 477</b>	<b>52 008</b>	<b>(338)</b>	<b>(138)</b>	<b>4 883</b>	<b>3 872</b>

(a) Mainly Nestlé Professional, 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

			2016		
	Sales	Trading operating profit	Net other trading income/(expenses) <sup>(a)</sup>	of which impairment of property, plant and equipment	of which restructuring costs
Powdered and Liquid Beverages	19 792	4 111	(141)	(54)	(68)
Water	7 414	906	(44)	(20)	(8)
Milk products and Ice cream	14 331	2 640	(111)	(30)	(60)
Nutrition and Health Science	15 038	2 775	(125)	(18)	(44)
Prepared dishes and cooking aids	12 148	1 817	(102)	(9)	(81)
Confectionery	8 679	1 190	(45)	(13)	(32)
PetCare	12 067	2 535	(19)	(8)	(6)
Unallocated items <sup>(b)</sup>	—	(2 281)	(27)	(5)	(1)
<b>Total</b>	<b>89 469</b>	<b>13 693</b>	<b>(614)</b>	<b>(157)</b>	<b>(300)</b>

In millions of CHF

			2015		
	Sales	Trading operating profit	Net other trading income/(expenses) <sup>(a)</sup>	of which impairment of property, plant and equipment	of which restructuring costs
Powdered and Liquid Beverages	19 245	4 100	(89)	(13)	(31)
Water	7 112	796	(43)	(9)	(19)
Milk products and Ice cream	14 637	2 471	(85)	(8)	(31)
Nutrition and Health Science	14 854	2 909	(59)	(11)	(16)
Prepared dishes and cooking aids	12 579	1 724	(130)	(18)	(19)
Confectionery	8 870	1 246	(84)	(23)	(39)
PetCare	11 488	2 386	(35)	(17)	(10)
Unallocated items <sup>(b)</sup>	—	(2 250)	(125)	(1)	—
<b>Total</b>	<b>88 785</b>	<b>13 382</b>	<b>(650)</b>	<b>(100)</b>	<b>(165)</b>

(a) Included in Trading operating profit.

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



## Invested capital and other information

In millions of CHF

				2016
	Invested capital	Goodwill and intangible assets	Impairment of goodwill	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 <sup>(a)</sup> and intra-group eliminations	1 432	2 084	—	(27)
<b>Total</b>	<b>30 596</b>	<b>52 592</b>	<b>(439)</b>	<b>(44)</b>

In millions of CHF

				2015
	Invested capital	Goodwill and intangible assets	Impairment of goodwill	Impairment of intangible assets
Powdered and Liquid Beverages	5 830	642	(16)	(11)
Water	2 428	1 481	—	—
Milk products and Ice cream	4 831	3 933	(176)	—
Nutrition and Health Science	7 183	27 552	(22)	—
Prepared dishes and cooking aids	3 881	5 565	(49)	(6)
Confectionery	3 114	1 886	(46)	—
PetCare	3 488	9 626	—	—
Unallocated items <sup>(a)</sup> and intra-group eliminations	1 529	2 088	(29)	(121)
<b>Total</b>	<b>32 284</b>	<b>52 773</b>	<b>(338)</b>	<b>(138)</b>

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

### 3.3a Reconciliation from trading operating profit to profit before taxes, associates and joint ventures

In millions of CHF

	2016	2015
<b>Trading operating profit</b>	<b>13 693</b>	<b>13 382</b>
Impairment of goodwill	(439)	(338)
Net other operating income/(expenses) excluding impairment of goodwill	(91)	(636)
<b>Operating profit</b>	<b>13 163</b>	<b>12 408</b>
Net financial income/(expense)	(637)	(624)
<b>Profit before taxes, associates and joint ventures</b>	<b>12 526</b>	<b>11 784</b>

### 3.3b Reconciliation from invested capital to total assets

In millions of CHF

	2016	2015
Invested capital as per Note 3.1	28 740	30 477
Liabilities included in invested capital	23 301	21 197
<b>Subtotal</b>	<b>52 041</b>	<b>51 674</b>
Intangible assets and goodwill as per Note 3.1	53 404	52 008
Other assets	26 456	20 310
<b>Total assets</b>	<b>131 901</b>	<b>123 992</b>

### 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

	2016		2015	
	Sales	Non-current assets	Sales	Non-current assets
USA	26 704	27 436	25 293	26 622
Greater China Region	6 536	8 408	7 060	9 073
Switzerland	1 475	14 475	1 549	14 263
Rest of the world	54 754	30 639	54 883	28 626
<b>Total</b>	<b>89 469</b>	<b>80 958</b>	<b>88 785</b>	<b>78 584</b>

## 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, 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. It does not include dismissal indemnities paid for normal attrition, poor performance, professional misconduct, etc.

### Other operating income/(expenses)

These comprise impairment of goodwill, results on disposals of businesses (including impairment and subsequent remeasurement of businesses classified as held for sale, as well as other directly related disposal costs like restructuring costs directly linked to businesses disposed of and legal, advisory and other professional fees), acquisition-related costs, the effect of the hyperinflation accounting and other 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	2016	2015
<b>Other trading income</b>		<b>99</b>	<b>78</b>
Restructuring costs		(300)	(165)
Impairment of property, plant and equipment and intangible assets	8/9	(201)	(238)
Litigations and onerous contracts <sup>(a)</sup>		(155)	(277)
Miscellaneous trading expenses		(57)	(48)
<b>Other trading expenses</b>		<b>(713)</b>	<b>(728)</b>
<b>Total net other trading income/(expenses)</b>		<b>(614)</b>	<b>(650)</b>

(a) Mainly relates to numerous separate legal cases (for example labour, civil and tax litigations), liabilities linked to product withdrawals as well as several separate onerous contracts.

## 4.2 Net other operating income/(expenses)

In millions of CHF

	Notes	2016	2015
Profit on disposal of businesses	2	203	40
Miscellaneous operating income		151	86
<b>Other operating income</b>		<b>354</b>	<b>126</b>
Loss on disposal of businesses	2	(203)	(462)
Impairment of goodwill	9	(439)	(338)
Miscellaneous operating expenses		(242)	(300)
<b>Other operating expenses</b>		<b>(884)</b>	<b>(1 100)</b>
<b>Total net other operating income/(expenses)</b>		<b>(530)</b>	<b>(974)</b>

## 5. Net financial income/(expense)

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

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

In millions of CHF

	Notes	2016	2015
Interest income		99	73
Interest expense		(543)	(517)
<b>Net financing cost of net debt</b>		<b>(444)</b>	<b>(444)</b>
Interest income on defined benefit plans		22	28
Interest expense on defined benefit plans		(210)	(205)
<b>Net interest income/(expense) on defined benefit plans</b>	10	<b>(188)</b>	<b>(177)</b>
Other		(5)	(3)
<b>Net financial income/(expense)</b>		<b>(637)</b>	<b>(624)</b>

## 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

	2016	2015
Raw materials, work in progress and sundry supplies	3 619	3 387
Finished goods	5 008	5 014
Allowance for write-down to net realisable value	(226)	(248)
	<b>8 401</b>	<b>8 153</b>

Inventories amounting to CHF 271 million (2015: CHF 280 million) are pledged as security for financial liabilities.

## 7. Trade and other receivables

### 7.1 By type

In millions of CHF

	2016	2015
Trade receivables	10 023	9 696
Other receivables	2 388	2 556
	<b>12 411</b>	<b>12 252</b>

The five major customers represent 12% (2015: 12%) of trade and other receivables, none of them individually exceeding 7% (2015: 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. These estimates are based on the ageing of customers' balances, specific credit circumstances and the Group's historical bad receivables experience.

In millions of CHF

	2016	2015
Not past due	11 086	10 811
Past due 1–30 days	812	791
Past due 31–60 days	178	196
Past due 61–90 days	105	115
Past due 91–120 days	59	68
Past due more than 120 days	522	595
Allowance for doubtful receivables	(351)	(324)
	<b>12 411</b>	<b>12 252</b>

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.

## 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 – 10 years
Vehicles	3 – 8 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.

## 8. Property, plant and equipment

In millions of CHF

	Land and buildings	Machinery and equipment	Tools, furniture and other equipment	Vehicles	Total
<b>Gross value</b>					
At 1 January 2016	16 359	28 554	7 254	732	52 899
Currency retranslations	50	200	109	6	365
Capital expenditure <sup>(a)</sup>	1 124	2 048	782	56	4 010
Disposals	(94)	(561)	(497)	(63)	(1 215)
Reclassification (to)/from held for sale <sup>(b)</sup>	(39)	(58)	14	—	(83)
Modification of the scope of consolidation	(20)	(17)	(9)	—	(46)
<b>At 31 December 2016</b>	<b>17 380</b>	<b>30 166</b>	<b>7 653</b>	<b>731</b>	<b>55 930</b>
<b>Accumulated depreciation and impairments</b>					
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 <sup>(b)</sup>	46	48	(31)	(2)	61
Modification of the scope of consolidation	7	9	4	—	20
<b>At 31 December 2016</b>	<b>(5 727)</b>	<b>(16 708)</b>	<b>(5 472)</b>	<b>(469)</b>	<b>(28 376)</b>
<b>Net at 31 December 2016</b>	<b>11 653</b>	<b>13 458</b>	<b>2 181</b>	<b>262</b>	<b>27 554</b>
<b>Gross value</b>					
At 1 January 2015	17 233	30 003	8 042	828	56 106
Currency retranslations	(1 285)	(2 150)	(458)	(42)	(3 935)
Capital expenditure <sup>(a)</sup>	925	2 117	765	65	3 872
Disposals	(81)	(588)	(492)	(60)	(1 221)
Reclassification (to)/from held for sale <sup>(b)</sup>	(491)	(794)	(582)	(62)	(1 929)
Modification of the scope of consolidation	58	(34)	(21)	3	6
<b>At 31 December 2015</b>	<b>16 359</b>	<b>28 554</b>	<b>7 254</b>	<b>732</b>	<b>52 899</b>
<b>Accumulated depreciation and impairments</b>					
At 1 January 2015	(5 506)	(16 078)	(5 605)	(496)	(27 685)
Currency retranslations	343	1 058	387	26	1 814
Depreciation	(447)	(1 519)	(814)	(81)	(2 861)
Impairments	(18)	(72)	(10)	—	(100)
Disposals	72	520	457	55	1 104
Reclassification to/(from) held for sale <sup>(b)</sup>	273	571	425	48	1 317
Modification of the scope of consolidation	20	52	16	—	88
<b>At 31 December 2015</b>	<b>(5 263)</b>	<b>(15 468)</b>	<b>(5 144)</b>	<b>(448)</b>	<b>(26 323)</b>
<b>Net at 31 December 2015</b>	<b>11 096</b>	<b>13 086</b>	<b>2 110</b>	<b>284</b>	<b>26 576</b>

(a) Including borrowing costs.

(b) Mainly relates to the disposal of businesses with regards of the creation of the joint venture Froneri.



At 31 December 2016, property, plant and equipment include CHF 703 million of assets under construction (2015: CHF 551 million). Net property, plant and equipment held under finance leases amount to CHF 133 million (2015: CHF 127 million). Net property, plant and equipment of CHF 301 million are pledged as security for financial liabilities (2015: CHF 328 million).

At 31 December 2016, the Group was committed to expenditure amounting to CHF 645 million (2015: CHF 637 million).

#### **Impairment of property, plant and equipment**

Consideration is given at each balance sheet date to determine whether there is any indication of impairment of the carrying amounts of the Group's property, plant and equipment. Indication 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.

## 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 they are separately identifiable and are expected to generate future benefits.

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 intangible assets 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
<b>Gross value</b>						
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 <sup>(a)</sup>	120	413	(3)	(2)	408	(1)
<b>At 31 December 2016</b>	<b>36 654</b>	<b>17 447</b>	<b>2 848</b>	<b>4 486</b>	<b>24 781</b>	<b>4 049</b>
of which indefinite useful life	—	16 200	33	—	16 233	—
<b>Accumulated amortisation and impairments</b>						
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
<b>At 31 December 2016</b>	<b>(3 647)</b>	<b>(315)</b>	<b>(465)</b>	<b>(3 604)</b>	<b>(4 384)</b>	<b>(3 307)</b>
of which indefinite useful life	—	(20)	(10)	—	(30)	—
<b>Net at 31 December 2016</b>	<b>33 007</b>	<b>17 132</b>	<b>2 383</b>	<b>882</b>	<b>20 397</b>	<b>742</b>
of which indefinite useful life <sup>(b)</sup>	—	16 180	23	—	16 203	—

(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.

In millions of CHF

	Goodwill	Brands and intellectual property rights	Operating rights and others	Management information systems	Total intangible assets	of which internally generated
<b>Gross value</b>						
At 1 January 2015	37 539	17 245	2 378	4 156	23 779	3 853
of which indefinite useful life	—	16 103	37	—	16 140	—
Currency retranslations	(1 279)	(502)	40	(243)	(705)	(235)
Expenditure	—	7	159	256	422	224
Disposals	—	(3)	(49)	(11)	(63)	(8)
Reclassification (to)/from held for sale <sup>(a)</sup>	(579)	(204)	(33)	(40)	(277)	(39)
Modification of the scope of consolidation <sup>(b)</sup>	265	105	7	—	112	—
<b>At 31 December 2015</b>	<b>35 946</b>	<b>16 648</b>	<b>2 502</b>	<b>4 118</b>	<b>23 268</b>	<b>3 795</b>
of which indefinite useful life	—	15 418	32	—	15 450	—
<b>Accumulated amortisation and impairments</b>						
At 1 January 2015	(2 982)	(166)	(329)	(3 484)	(3 979)	(3 249)
of which indefinite useful life	—	(19)	—	—	(19)	—
Currency retranslations	51	5	10	238	253	230
Amortisation	—	(99)	(113)	(105)	(317)	(83)
Impairments	(338)	—	—	(138)	(138)	(138)
Disposals	—	—	48	11	59	8
Reclassification to/(from) held for sale <sup>(a)</sup>	73	14	9	38	61	37
Modification of the scope of consolidation	22	29	—	—	29	—
<b>At 31 December 2015</b>	<b>(3 174)</b>	<b>(217)</b>	<b>(375)</b>	<b>(3 440)</b>	<b>(4 032)</b>	<b>(3 195)</b>
of which indefinite useful life	—	(19)	—	—	(19)	—
<b>Net at 31 December 2015</b>	<b>32 772</b>	<b>16 431</b>	<b>2 127</b>	<b>678</b>	<b>19 236</b>	<b>600</b>
of which indefinite useful life <sup>(c)</sup>	—	15 399	32	—	15 431	—

(a) Mainly relates to the disposal of businesses with regards of the creation of the joint venture Froneri.

(b) Goodwill: acquisition of businesses amounts to CHF 302 million and disposal of businesses to CHF 37 million.

(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.

At 31 December 2016, the Group was committed to expenditure amounting to CHF 10 million (2015: CHF 75 million).

In addition to the above, the Group has entered into long-term agreements to in-license or acquire intellectual property 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 (see accounting policy in Note 9 – Intangible assets).

As of 31 December 2016, the Group's committed payments (undiscounted and not risk-adjusted) and their estimated timing are:

In millions of CHF

	Unconditional commitments	Potential milestone payments	Total
2017	—	41	41
2018	—	126	126
2019	—	165	165
2020	—	103	103
Thereafter	—	1 290	1 290
<b>Total</b>	—	<b>1 725</b>	<b>1 725</b>
of which related parties	—	1 167	1 167

### Impairment of goodwill and intangible assets

Goodwill and indefinite life intangible assets 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. 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

There are various impairments of goodwill (predominantly in Zone AOA) and intangible assets in 2016. None of them are individually significant.

In 2015, 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).

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

	2016			2015		
	Goodwill	Intangible assets with indefinite useful life	Total	Goodwill	Intangible assets with indefinite useful life	Total
Wyeth Infant Nutrition	4 624	4 544	9 168	4 661	4 593	9 254
PetCare Zone AMS	8 180	397	8 577	7 901	382	8 283
Nestlé Skin Health	3 182	4 653	7 835	2 946	4 020	6 966
DSD for Frozen Pizza and Ice Cream – USA	2 602	1 831	4 433	2 517	1 771	4 288
Nestlé Infant Nutrition	3 851	1 359	5 210	3 748	1 315	5 063
<b>Subtotal</b>	<b>22 439</b>	<b>12 784</b>	<b>35 223</b>	<b>21 773</b>	<b>12 081</b>	<b>33 854</b>
as % of total carrying amount	68%	79%	72%	66%	78%	70%
Other CGUs	10 568	3 419	13 987	10 999	3 350	14 349
<b>Total</b>	<b>33 007</b>	<b>16 203</b>	<b>49 210</b>	<b>32 772</b>	<b>15 431</b>	<b>48 203</b>

For all CGUs, the recoverable amount is higher than its carrying amount. The recoverable amount has been determined based upon a value-in-use calculation. Cash flows have been projected over the next 5 years, except for Nestlé Skin Health for which a 10 year period has been used due to the product development cycle. 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:

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%
2015					
	Period of cash flow projections	Annual sales growth	Annual margin evolution	Terminal growth rate	Pre-tax discount rate
Wyeth Infant Nutrition	5 years	9% to 10%	Improvement	3.5%	7.5%
PetCare Zone AMS	5 years	3%	Stable	2.0%	7.3%
Nestlé Skin Health	10 years	12% to 21%	Improvement	2.4%	7.6%
DSD for Frozen Pizza and Ice Cream – USA	5 years	0% to 1%	Improvement	1.5%	7.7%
Nestlé Infant Nutrition	5 years	–4% to 5%	Improvement	3.6%	10.7%

- 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 DSD for Frozen Pizza and Ice Cream – USA. For this CGU, the following changes in the material assumptions lead to a situation where the value in use equals the carrying amount:

	Sensitivity
Sales growth (CAGR)	Decrease by 550 basis points
Margin improvement	Decrease by 60 basis points
Terminal growth rate	Decrease by 130 basis points
Pre-tax discount rate	Increase by 170 basis points

## 10. Employee benefits

### 10.1 Employee remuneration

The Group's salaries of CHF 12 427 million (2015: CHF 12 123 million) and welfare expenses of CHF 4290 million (2015: CHF 4219 million) represent a total of CHF 16 717 million (2015: CHF 16 342 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 227 million (2015: CHF 219 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 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 Nestlé Waters, Nestlé Nutrition, Nestlé Professional, Nespresso, Nestlé Health Science and Nestlé Skin Health.

### 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, UK 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.

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. Members employed before 1 July 2016 have the option to switch between the defined benefit section and the defined contribution section. The funding of the shortfall of the Nestle UK Pension Fund (a related party) is defined on the basis of a triennial independent actuarial valuation in accordance with local regulations. An amount of GBP 86 million has been paid by Nestle UK Ltd during the year in accordance with the agreed schedule of contributions. The undiscounted future payments after 31 December 2016 related to the shortfall amount to GBP 516 million (GBP 172 million between 2017 and 2018, GBP 258 million between 2019 and 2021 and GBP 86 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, that 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.

#### **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 minor plan amendments and restructuring events which have been recognised as past service costs and curtailments.

#### **Asset-liability management and funding arrangement**

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

The overall investment policy and strategy for the 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

	2016			2015		
	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	27 201	52	27 253	26 411	52	26 463
Fair value of plan assets	(23 013)	(24)	(23 037)	(22 353)	(25)	(22 378)
Excess of liabilities/(assets) over funded obligations	4 188	28	4 216	4 058	27	4 085
Present value of unfunded obligations	775	2 021	2 796	699	1 732	2 431
Unrecognised assets	43	—	43	27	—	27
<b>Net defined benefit liabilities/(assets)</b>	<b>5 006</b>	<b>2 049</b>	<b>7 055</b>	<b>4 784</b>	<b>1 759</b>	<b>6 543</b>
Other employee benefit liabilities			1 055			1 039
<b>Net liabilities</b>			<b>8 110</b>			<b>7 582</b>
Reflected in the balance sheet as follows:						
Employee benefit assets			(310)			(109)
Employee benefit liabilities			8 420			7 691
<b>Net liabilities</b>			<b>8 110</b>			<b>7 582</b>

## 10.2b Funding situation by geographic area of defined benefit plans

In millions of CHF

	2016				2015			
	EMENA	AMS	AOA	Total	EMENA	AMS	AOA	Total
Present value of funded obligations	20 055	5 285	1 913	27 253	19 799	4 884	1 780	26 463
Fair value of plan assets	(15 985)	(5 261)	(1 791)	(23 037)	(15 974)	(4 766)	(1 638)	(22 378)
Excess of liabilities/(assets) over funded obligations	4 070	24	122	4 216	3 825	118	142	4 085
Present value of unfunded obligations	421	2 099	276	2 796	386	1 810	235	2 431

## 10.2c Movement in the present value of defined benefit obligations

In millions of CHF

	2016			2015		
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total	Defined benefit retirement plans	Post-employment medical benefits and other benefits	Total
<b>At 1 January</b>	<b>27 110</b>	<b>1 784</b>	<b>28 894</b>	28 738	1 989	<b>30 727</b>
of which funded defined benefit plans	26 411	52	<b>26 463</b>	27 971	56	<b>28 027</b>
of which unfunded defined benefit plans	699	1 732	<b>2 431</b>	767	1 933	<b>2 700</b>
Currency retranslations	(645)	133	<b>(512)</b>	(1 264)	(190)	<b>(1 454)</b>
Service cost	798	51	<b>849</b>	813	48	<b>861</b>
of which current service cost	800	54	<b>854</b>	817	56	<b>873</b>
of which past service cost	(2)	(3)	<b>(5)</b>	(4)	(8)	<b>(12)</b>
Interest expense	723	98	<b>821</b>	755	88	<b>843</b>
Actuarial (gains)/losses	1 723	140	<b>1 863</b>	(189)	(23)	<b>(212)</b>
Benefits paid on funded defined benefit plans	(1 108)	(5)	<b>(1 113)</b>	(1 322)	(4)	<b>(1 326)</b>
Benefits paid on unfunded defined benefit plans	(46)	(115)	<b>(161)</b>	(50)	(118)	<b>(168)</b>
Modification of the scope of consolidation	(2)	(1)	<b>(3)</b>	(24)	(3)	<b>(27)</b>
Reclassification (to)/from held for sale <sup>(a)</sup>	29	(12)	<b>17</b>	(259)	(1)	<b>(260)</b>
Transfer from/(to) defined contribution plans	(606)	—	<b>(606)</b>	(88)	(2)	<b>(90)</b>
<b>At 31 December</b>	<b>27 976</b>	<b>2 073</b>	<b>30 049</b>	<b>27 110</b>	<b>1 784</b>	<b>28 894</b>
of which funded defined benefit plans	27 201	52	<b>27 253</b>	26 411	52	<b>26 463</b>
of which unfunded defined benefit plans	775	2 021	<b>2 796</b>	699	1 732	<b>2 431</b>

(a) Mainly relates to the disposal of businesses with regards of the creation of the joint venture Froneri.

## 10.2d Movement in fair value of defined benefit plan assets

In millions of CHF

	2016			2015		
	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	(22 353)	(25)	(22 378)	(24 122)	(27)	(24 149)
Currency retranslations	566	(1)	565	1 053	1	1 054
Interest income	(633)	(1)	(634)	(667)	(1)	(668)
Actual return on plan assets, excluding interest income	(1 427)	2	(1 425)	590	—	590
Employees' contributions	(138)	—	(138)	(136)	—	(136)
Employer contributions	(733)	(4)	(737)	(665)	(2)	(667)
Benefits paid on funded defined benefit plans	1 108	5	1 113	1 322	4	1 326
Administration expenses	21	—	21	19	—	19
Modification of the scope of consolidation	2	—	2	7	—	7
Reclassification to/(from) held for sale <sup>(a)</sup>	(32)	—	(32)	156	—	156
Transfer (from)/to defined contribution plans	606	—	606	90	—	90
<b>At 31 December</b>	<b>(23 013)</b>	<b>(24)</b>	<b>(23 037)</b>	<b>(22 353)</b>	<b>(25)</b>	<b>(22 378)</b>

(a) Mainly relates to the disposal of businesses with regards of the creation of the joint venture Froneri.

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

	2016	2015
<b>Equities</b>	<b>29%</b>	<b>32%</b>
of which US equities	13%	13%
of which European equities	8%	11%
of which other equities	8%	8%
<b>Debts</b>	<b>43%</b>	<b>39%</b>
of which government debts	30%	26%
of which corporate debts	13%	13%
<b>Real estate</b>	<b>10%</b>	<b>10%</b>
<b>Alternative investments</b>	<b>14%</b>	<b>17%</b>
of which hedge funds	9%	10%
of which private equities	4%	5%
of which commodities	1%	2%
<b>Cash/Deposits</b>	<b>4%</b>	<b>2%</b>

Equity, government debts and commodities represent 60% (2015: 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 36% (2015: 38%) of the plan assets. Almost all of them are either not quoted or quoted in a market which is not active.

The plan assets of funded defined benefit plans include property occupied by subsidiaries with a fair value of CHF 26 million (2015: CHF 24 million). Furthermore, funded defined benefit plans are invested in Nestlé S.A. (or related) shares to the extent of CHF 39 million (2015: CHF 43 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 739 million to its funded defined benefit plans in 2017.

## 10.2e Expenses recognised in the income statement

In millions of CHF

	2016			2015		
	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	798	51	849	813	48	861
Employees' contributions	(138)	—	(138)	(136)	—	(136)
Net interest (income)/expense	91	97	188	90	87	177
Administration expenses	21	—	21	19	—	19
<b>Defined benefit expenses</b>	<b>772</b>	<b>148</b>	<b>920</b>	<b>786</b>	<b>135</b>	<b>921</b>
<b>Defined contribution expenses</b>			<b>325</b>			<b>287</b>
<b>Total</b>			<b>1 245</b>			<b>1 208</b>

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

	2016			2015		
	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	1 427	(2)	1 425	(590)	—	(590)
Experience adjustments on plan liabilities	251	(45)	206	(30)	(51)	(81)
Change in demographic assumptions on plan liabilities	(224)	11	(213)	(67)	(2)	(69)
Change in financial assumptions on plan liabilities	(1 750)	(106)	(1 856)	286	76	362
Transfer from/(to) unrecognised assets and other	(13)	—	(13)	8	—	8
<b>Remeasurement of defined benefit plans</b>	<b>(309)</b>	<b>(142)</b>	<b>(451)</b>	<b>(393)</b>	<b>23</b>	<b>(370)</b>

### 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.

	2016				2015			
	EMENA	AMS	AOA	Total	EMENA	AMS	AOA	Total
Discount rates	1.5%	5.1%	4.4%	2.6%	2.1%	5.2%	4.5%	3.0%
Expected rates of salary increases	1.9%	2.8%	4.5%	2.4%	2.8%	2.8%	4.7%	3.0%
Expected rates of pension adjustments	1.3%	0.5%	1.7%	1.1%	1.4%	0.4%	1.8%	1.2%
Medical cost trend rates		5.5%		5.5%		6.1%		6.2%

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

Expressed in years

		2016	2015	2016	2015
		Life expectancy at age 65 for a male member currently aged 65		Life expectancy at age 65 for a female member currently aged 65	
Country	Mortality table				
EMENA					
Switzerland	LPP 2015	21.9	20.8	23.9	23.1
United Kingdom	S1NA	21.5	21.5	23.1	23.0
Germany	Heubeck Richttafeln 2005 G modifiziert	20.1	20.1	23.6	23.6
AMS					
USA	RP-2014	20.9	21.1	22.9	23.2

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

	2016				2015			
	EMENA	AMS	AOA	Total	EMENA	AMS	AOA	Total
As reported	20 476	7 384	2 189	30 049	20 185	6 694	2 015	28 894
Discount rates								
Increase of 50 basis points	18 878	6 994	2 092	27 964	18 592	6 342	1 941	26 875
Decrease of 50 basis points	22 319	7 808	2 299	32 426	21 936	7 075	2 099	31 110
Expected rates of salary increases								
Increase of 50 basis points	20 641	7 449	2 220	30 310	20 346	6 752	2 049	29 147
Decrease of 50 basis points	20 324	7 322	2 161	29 807	20 037	6 642	1 986	28 665
Expected rates of pension adjustments								
Increase of 50 basis points	21 634	7 442	2 250	31 326	21 402	6 925	2 069	30 396
Decrease of 50 basis points	19 869	7 321	2 171	29 361	19 039	6 632	1 999	27 670
Medical cost trend rates								
Increase of 50 basis points	20 476	7 434	2 191	30 101	20 185	6 729	2 017	28 931
Decrease of 50 basis points	20 475	7 340	2 187	30 002	20 184	6 663	2 013	28 860
Mortality assumption								
Setting forward the tables by 1 year	19 794	7 236	2 157	29 187	19 514	6 568	1 989	28 071
Setting back the tables by 1 year	21 168	7 532	2 220	30 920	20 867	6 824	2 041	29 732

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

	2016				2015			
	EMENA	AMS	AOA	Total	EMENA	AMS	AOA	Total
At 31 December	17.0	11.6	10.3	15.2	16.7	11.5	10.0	15.0

## 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 there exists a legal or constructive obligation stemming from a past event and when the future cash outflows can be reliably estimated. 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	Litigation	Other	Total
At 1 January 2015	542	21	2 670	623	3 856
Currency retranslations	(24)	(1)	(245)	(18)	(288)
Provisions made during the year <sup>(a)</sup>	161	4	501	181	847
Amounts used	(153)	(3)	(363)	(81)	(600)
Reversal of unused amounts	(39)	—	(475)	(132)	(646)
Reclassification (to)/from held for sale	(28)	—	(2)	(2)	(32)
Modification of the scope of consolidation	—	—	1	27	28
<b>At 31 December 2015</b>	<b>459</b>	<b>21</b>	<b>2 087</b>	<b>598</b>	<b>3 165</b>
of which expected to be settled within 12 months					564
Currency retranslations	4	1	72	10	87
Provisions made during the year <sup>(a)</sup>	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)
<b>At 31 December 2016</b>	<b>583</b>	<b>27</b>	<b>2 118</b>	<b>532</b>	<b>3 260</b>
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 EMENA and AMS. Restructuring provisions are expected to result in future cash outflows when implementing the plans (usually over the following two to three years).

### **Litigation**

Litigation provisions have been set up to cover tax, legal and administrative proceedings that arise in the ordinary course of the business. These provisions cover numerous separate cases whose detailed disclosure could be detrimental to the Group interests. The Group does not believe that any of these litigation proceedings will have a material adverse impact on its financial position. The timing of outflows is uncertain as it depends upon the outcome of the proceedings. In that instance, these provisions are not discounted because their present value would not represent meaningful information. 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 1893 million (2015: CHF 1350 million) representing potential litigations of CHF 1874 million (2015: CHF 1322 million) and other items of CHF 19 million (2015: CHF 28 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 201 million (2015: CHF 149 million).

## 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.

In case of regular-way purchase or sale (purchase or sale under a contract whose terms require delivery within the time frame established by regulation or convention in the market place), the settlement date is used for both initial recognition and subsequent derecognition.

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

	2016				2015			
Classes	Loans, receivables and liabilities at amortised cost <sup>(a)</sup>	At fair value to income statement	Available for sale	Total categories	Loans, receivables and liabilities at amortised cost <sup>(a)</sup>	At fair value to income statement	Available for sale	Total categories
Cash at bank and in hand	3 341	—	—	3 341	1 906	—	—	1 906
Commercial paper	—	—	3 677	3 677	—	—	1 788	1 788
Time deposits	—	—	1 318	1 318	—	—	1 242	1 242
Bonds and debt funds	—	379	3 433	3 812	—	346	3 121	3 467
Equity and equity funds	—	386	215	601	—	376	184	560
Other financial assets	1 235	44	987	2 266	1 281	41	939	2 261
<b>Liquid assets <sup>(b)</sup> and non-current financial assets</b>	<b>4 576</b>	<b>809</b>	<b>9 630</b>	<b>15 015</b>	<b>3 187</b>	<b>763</b>	<b>7 274</b>	<b>11 224</b>
Trade and other receivables	12 411	—	—	12 411	12 252	—	—	12 252
Derivative assets <sup>(c)</sup>	—	550	—	550	—	337	—	337
<b>Total financial assets</b>	<b>16 987</b>	<b>1 359</b>	<b>9 630</b>	<b>27 976</b>	<b>15 439</b>	<b>1 100</b>	<b>7 274</b>	<b>23 813</b>
Trade and other payables	(21 016)	—	—	(21 016)	(18 767)	—	—	(18 767)
Financial debt	(23 209)	—	—	(23 209)	(21 230)	—	—	(21 230)
Derivative liabilities <sup>(c)</sup>	—	(1 068)	—	(1 068)	—	(1 021)	—	(1 021)
<b>Total financial liabilities</b>	<b>(44 225)</b>	<b>(1 068)</b>	<b>—</b>	<b>(45 293)</b>	<b>(39 997)</b>	<b>(1 021)</b>	<b>—</b>	<b>(41 018)</b>
<b>Net financial position</b>	<b>(27 238)</b>	<b>291</b>	<b>9 630</b>	<b>(17 317)</b>	<b>(24 558)</b>	<b>79</b>	<b>7 274</b>	<b>(17 205)</b>
of which at fair value	—	291	9 630	9 921	—	79	7 274	7 353

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

(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

	2016	2015
Derivative assets	63	43
Bonds and debt funds	649	706
Equity and equity funds	297	254
Other financial assets	21	30
Derivative liabilities	(100)	(96)
<b>Prices quoted in active markets (Level 1)</b>	<b>930</b>	<b>937</b>
Commercial paper	3 677	1 788
Time deposits	1 318	1 242
Derivative assets	487	294
Bonds and debt funds	3 142	2 739
Equity and equity funds	265	272
Other financial assets	829	800
Derivative liabilities	(968)	(925)
<b>Valuation techniques based on observable market data (Level 2)</b>	<b>8 750</b>	<b>6 210</b>
<b>Valuation techniques based on unobservable input (Level 3)</b>	<b>241</b>	<b>206</b>
<b>Total financial instruments at fair value</b>	<b>9 921</b>	<b>7 353</b>

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

## 12.1c Bonds

In millions of CHF

Issuer		Face value in millions	Coupon	Effective interest rate	Year of issue/ maturity	Comments	2016	2015
Nestlé Holdings, Inc., USA	AUD	275	5.50%	5.69%	2011–2016		—	203
	USD	200	2.00%	2.06%	2011–2016		—	198
	NOK	1 000	3.38%	3.59%	2011–2016		—	115
	AUD	200	4.00%	4.11%	2012–2017	(a)	148	144
	NOK	1 000	2.25%	2.31%	2012–2017	(a)	118	112
	NOK	3 000	2.50%	2.66%	2012–2017	(a)	354	336
	USD	900	1.38%	1.46%	2012–2017		920	889
	GBP	250	1.63%	1.71%	2013–2017	(b)	312	365
	CHF	250	2.63%	2.66%	2007–2018	(b)	259	267
	USD	500	1.25%	1.32%	2012–2018		511	494
	AUD	175	3.75%	3.84%	2013–2018	(b)	131	129
	AUD	200	3.88%	4.08%	2013–2018	(a)	147	144
	AUD	400	4.13%	4.33%	2013–2018	(c)	296	290
	USD	400	1.38%	1.50%	2013–2018		408	394
	USD	500	2.00%	2.17%	2013–2019		509	491
	USD	500	2.25%	2.41%	2013–2019		510	492
	USD	400	2.00%	2.06%	2014–2019		408	395
	USD	650	2.13%	2.27%	2014–2020		662	639
	AUD	250	4.25%	4.43%	2014–2020	(b)	192	191
	AUD	175	3.63%	3.77%	2014–2020	(b)	134	132
	NOK	1 000	2.75%	2.85%	2014–2020	(b)	122	118
	GBP	500	1.75%	1.79%	2015–2020	(d)	630	585
	USD	550	1.88%	2.03%	2016–2021		559	—
	USD	600	1.38%	1.52%	2016–2021		610	—
Nestlé Finance International Ltd., Luxembourg	EUR	500	0.75%	0.83%	2012–2016		—	540
	AUD	125	4.63%	4.86%	2012–2017	(a)	92	90
	EUR	500	1.50%	1.61%	2012–2019		536	539
	EUR	500	1.25%	1.30%	2013–2020		537	540
	EUR	500	2.13%	2.20%	2013–2021		536	538
	EUR	500	0.75%	0.90%	2014–2021		534	536
	EUR	850	1.75%	1.89%	2012–2022		907	911
	GBP	400	2.25%	2.34%	2012–2023	(e)	531	589
	EUR	500	0.75%	0.92%	2015–2023	(f)	544	537
Other bonds							278	278
<b>Total carrying amount (*)</b>							<b>12 435</b>	<b>12 221</b>
of which due within one year							1 954	1 062
of which due after one year							10 481	11 159
<b>Fair value (*) of bonds, based on prices quoted (level 2)</b>							<b>12 755</b>	<b>12 501</b>

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



Several bonds are hedged by currency and/or interest derivatives. The fair value of these derivatives is shown under derivative assets for CHF 98 million (2015: CHF 78 million) and under derivative liabilities for CHF 796 million (2015: CHF 708 million).

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

## 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 liquid assets, non-current financial assets, derivative assets, trade and other receivables.

The Group aims to minimise its financial credit risk 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.

In millions of CHF

	2016	2015
Investment grade A– and above	10 845	7 719
Investment grade BBB+, BBB and BBB–	2 366	2 053
Non-investment grade (BB+ and below)	1 128	445
Not rated <sup>(a)</sup>	1 226	1 344
	<b>15 565</b>	<b>11 561</b>

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

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

### 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 2016 successfully extended the tenor of both its revolving credit facilities by one year:

- A new USD 4.1 billion and EUR 2.3 billion revolving credit facility with an initial maturity date of October 2017. 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 2021.

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
<b>2016</b>						
<b>Trade and other payables</b>	<b>(18 629)</b>	<b>(149)</b>	<b>(356)</b>	<b>(1 925)</b>	<b>(21 059)</b>	<b>(21 016)</b>
Commercial paper <sup>(a)</sup>	(7 180)	—	—	—	(7 180)	(7 171)
Bonds <sup>(a)</sup>	(2 210)	(1 956)	(6 938)	(2 204)	(13 308)	(12 435)
Other financial debt	(3 092)	(118)	(478)	(88)	(3 776)	(3 603)
<b>Total financial debt</b>	<b>(12 482)</b>	<b>(2 074)</b>	<b>(7 416)</b>	<b>(2 292)</b>	<b>(24 264)</b>	<b>(23 209)</b>
<b>Financial liabilities (excluding derivatives)</b>	<b>(31 111)</b>	<b>(2 223)</b>	<b>(7 772)</b>	<b>(4 217)</b>	<b>(45 323)</b>	<b>(44 225)</b>
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)
<b>Net derivatives</b>	<b>(124)</b>	<b>(157)</b>	<b>(281)</b>	<b>5</b>	<b>(557)</b>	<b>(518)</b>
of which derivatives under cash flow hedges <sup>(b)</sup>	34	(26)	(28)	—	(20)	(18)
<b>2015</b>						
<b>Trade and other payables</b>	<b>(17 038)</b>	<b>(39)</b>	<b>(77)</b>	<b>(1 656)</b>	<b>(18 810)</b>	<b>(18 767)</b>
Commercial paper <sup>(a)</sup>	(5 944)	—	—	—	(5 944)	(5 942)
Bonds <sup>(a)</sup>	(1 309)	(2 183)	(6 276)	(3 504)	(13 272)	(12 221)
Other financial debt	(2 748)	(214)	(235)	(69)	(3 266)	(3 067)
<b>Total financial debt</b>	<b>(10 001)</b>	<b>(2 397)</b>	<b>(6 511)</b>	<b>(3 573)</b>	<b>(22 482)</b>	<b>(21 230)</b>
<b>Financial liabilities (excluding derivatives)</b>	<b>(27 039)</b>	<b>(2 436)</b>	<b>(6 588)</b>	<b>(5 229)</b>	<b>(41 292)</b>	<b>(39 997)</b>
Non-currency derivative assets	47	3	—	(6)	44	44
Non-currency derivative liabilities	(159)	(25)	(45)	(9)	(238)	(235)
Gross amount receivable from currency derivatives	12 555	1 133	1 923	—	15 611	15 452
Gross amount payable from currency derivatives	(12 506)	(1 437)	(2 169)	—	(16 112)	(15 945)
<b>Net derivatives</b>	<b>(63)</b>	<b>(326)</b>	<b>(291)</b>	<b>(15)</b>	<b>(695)</b>	<b>(684)</b>
of which derivatives under cash flow hedges <sup>(b)</sup>	(13)	(27)	(45)	(2)	(87)	(84)

(a) Commercial paper of CHF 6333 million (2015: CHF 5822 million) and bonds of CHF 171 million (2015: CHF 387 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 147 million in 2016 (2015: loss of CHF 156 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 2016 and 2015.

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 45% (2015: 50%).

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 49 million (2015: CHF 57 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 regional Commodity Purchasing Competence Centres are 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, futures, 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 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

	2016			2015		
	Contractual or notional amounts	Fair value assets	Fair value liabilities	Contractual or notional amounts	Fair value assets	Fair value liabilities
<b>Fair value hedges</b>						
Currency forwards, futures and swaps	4 563	202	2	4 173	49	18
Interest rate forwards, futures and swaps	905	40	—	992	5	4
Interest rate and currency swaps	2 909	58	797	3 193	74	704
<b>Cash flow hedges</b>						
Currency forwards, futures, swaps and options	7 917	161	81	6 912	167	59
Interest rate forwards, futures and swaps	1 432	—	81	1 385	—	107
Commodity futures and options	1 541	85	102	1 682	39	124
<b>Undesignated derivatives</b>						
Currency forwards, futures, swaps and options	955	4	5	1 143	3	5
	<b>20 222</b>	<b>550</b>	<b>1 068</b>	<b>19 480</b>	<b>337</b>	<b>1 021</b>
<b>Conditional offsets <sup>(a)</sup></b>						
Derivative assets and liabilities		(101)	(101)		(75)	(75)
Use of cash collateral received or deposited		(36)	(652)		(10)	(598)
<b>Balances after conditional offsets</b>		<b>413</b>	<b>315</b>		<b>252</b>	<b>348</b>

(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

	2016	2015
on hedged items	(254)	(189)
on hedging instruments	257	185

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 2016, the ratio was 112.0% (2015: 92.7%).

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

	2016	2015
<b>Components of taxes</b>		
Current taxes <sup>(a)</sup>	(3 677)	(3 156)
Deferred taxes <sup>(b)</sup>	(504)	93
Taxes reclassified to other comprehensive income	(234)	(245)
Taxes reclassified to equity	2	3
<b>Total taxes</b>	<b>(4 413)</b>	<b>(3 305)</b>
<b>Reconciliation of taxes</b>		
Expected tax expense at weighted average applicable tax rate	(3 331)	(3 062)
Tax effect of non-deductible or non-taxable items	(97)	(135)
Prior years' taxes	(36)	250
Transfers to unrecognised deferred tax assets	(74)	(71)
Transfers from unrecognised deferred tax assets	9	27
Changes in tax rates <sup>(b)</sup>	(481)	(10)
Withholding taxes levied on transfers of income	(403)	(304)
<b>Total taxes</b>	<b>(4 413)</b>	<b>(3 305)</b>

(a) Current taxes related to prior years represent a tax income of CHF 4 million (2015: tax income of CHF 118 million).

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

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 2015	(1 660)	(2 513)	1 826	1 075	385	(246)	(1 133)
Currency retranslations	69	25	(116)	(116)	(92)	(38)	(268)
Deferred tax (expense)/income	(132)	39	6	57	17	106	93
Reclassification to/from held for sale	(7)	8	(9)	(9)	(18)	1	(34)
Modification of the scope of consolidation	(25)	(79)	2	6	17	1	(78)
<b>At 31 December 2015</b>	<b>(1 755)</b>	<b>(2 520)</b>	<b>1 709</b>	<b>1 013</b>	<b>309</b>	<b>(176)</b>	<b>(1 420)</b>
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
<b>At 31 December 2016</b>	<b>(1 723)</b>	<b>(3 248)</b>	<b>2 049</b>	<b>1 060</b>	<b>340</b>	<b>(294)</b>	<b>(1 816)</b>

In millions of CHF

	2016	2015
Reflected in the balance sheet as follows:		
Deferred tax assets	2 049	1 643
Deferred tax liabilities	(3 865)	(3 063)
<b>Net assets/(liabilities)</b>	<b>(1 816)</b>	<b>(1 420)</b>

### 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

	2016	2015
Within one year	77	23
Between one and five years	348	434
More than five years	1 943	2 272
	<b>2 368</b>	<b>2 729</b>

At 31 December 2016, the unrecognised deferred tax assets amount to CHF 473 million (2015: CHF 587 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 2016, these earnings amount to CHF 22.4 billion (2015: CHF 18.0 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

	2016				2015			
	L'Oréal	Other associates	Joint ventures	Total	L'Oréal	Other associates	Joint ventures	Total
At 1 January	7 275	955	445	8 675	7 191	1 001	457	8 649
Currency retranslations	(40)	20	(12)	(32)	(727)	(106)	(19)	(852)
Investments	—	249	1 769	2 018	—	105	28	133
Divestments	—	—	—	—	—	(1)	—	(1)
Share of results	787	20	13	820	820	26	49	895
Impairment	—	(50)	—	(50)	—	(37)	—	(37)
Share of other comprehensive income	(68)	(1)	(95)	(164)	290	1	(14)	277
Dividends and interest received	(444)	(28)	(47)	(519)	(365)	(34)	(57)	(456)
Other	(57)	18	—	(39)	66	—	1	67
<b>At 31 December</b>	<b>7 453</b>	<b>1 183</b>	<b>2 073</b>	<b>10 709</b>	<b>7 275</b>	<b>955</b>	<b>445</b>	<b>8 675</b>

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 1695 million at 31 December 2016 (2015: CHF 240 million).

### Income from associates and joint ventures

In millions of CHF

	2016	2015
Share of results	820	895
Impairment	(50)	(37)
Profit on disposal of other associates	—	130
	<b>770</b>	<b>988</b>

### 14.1 L'Oréal

The Group holds 129 881 021 shares in L'Oréal, the world leader in cosmetics, representing a 23.2% participation in its equity after elimination of its treasury shares (2015: 129 881 021 shares representing a 23.2% participation).

At 31 December 2016, the market value of the shares held amounts to CHF 24.2 billion (2015: CHF 21.8 billion).

### Summarised financial information of L'Oréal

In billions of CHF

	2016	2015
Total current assets	10.8	10.0
Total non-current assets	27.5	26.4
<b>Total assets</b>	<b>38.3</b>	<b>36.4</b>
Total current liabilities	9.9	8.8
Total non-current liabilities	2.1	2.1
<b>Total liabilities</b>	<b>12.0</b>	<b>10.9</b>
<b>Total equity</b>	<b>26.3</b>	<b>25.5</b>
<b>Total sales</b>	<b>28.2</b>	<b>27.0</b>
Profit from continuing operations	3.4	3.5
Other comprehensive income	(0.3)	1.2
<b>Total comprehensive income</b>	<b>3.1</b>	<b>4.7</b>

### Reconciliation of the carrying amount

In billions of CHF

	2016	2015
Share held by the Group in the equity of L'Oréal	6.1	5.9
Goodwill and other adjustments	1.4	1.4
<b>Carrying amount of L'Oréal</b>	<b>7.5</b>	<b>7.3</b>

### 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

	2016	2015
<b>Basic earnings per share</b> (in CHF)	2.76	2.90
Net profit (in millions of CHF)	8 531	9 066
Weighted average number of shares outstanding (in millions of units)	3 091	3 129
<b>Diluted earnings per share</b> (in CHF)	2.75	2.89
Net profit, net of effects of dilutive potential ordinary shares (in millions of CHF)	8 531	9 066
Weighted average number of shares outstanding, net of effects of dilutive potential ordinary shares (in millions of units)	3 097	3 136
<b>Reconciliation of weighted average number of shares outstanding</b> (in millions of units)		
Weighted average number of shares outstanding used to calculate basic earnings per share	3 091	3 129
Adjustment for share-based payment schemes, where dilutive	6	7
Weighted average number of shares outstanding used to calculate diluted earnings per share	3 097	3 136

## 16. Cash flow statement

### 16.1 Operating profit

In millions of CHF

	2016	2015
Profit for the year	8 883	9 467
Income from associates and joint ventures	(770)	(988)
Taxes	4 413	3 305
Financial income	(121)	(101)
Financial expense	758	725
	<b>13 163</b>	<b>12 408</b>

### 16.2 Non-cash items of income and expense

In millions of CHF

	2016	2015
Depreciation of property, plant and equipment	2 795	2 861
Impairment of property, plant and equipment	157	100
Impairment of goodwill	439	338
Amortisation of intangible assets	337	317
Impairment of intangible assets	44	138
Net result on disposal of businesses	—	422
Net result on disposal of assets	36	66
Non-cash items in financial assets and liabilities	(208)	(135)
Equity compensation plans	165	166
Other	42	75
	<b>3 807</b>	<b>4 348</b>

### 16.3 Decrease/(increase) in working capital

In millions of CHF

	2016	2015
Inventories	(238)	(25)
Trade and other receivables	(46)	(323)
Prepayments and accrued income	(2)	(91)
Trade and other payables	1 914	988
Accruals and deferred income	173	192
	<b>1 801</b>	<b>741</b>

**16.4 Variation of other operating assets and liabilities**

In millions of CHF

	2016	2015
Variation of employee benefits assets and liabilities	(167)	(125)
Variation of provisions	40	(327)
Other	181	204
	<b>54</b>	<b>(248)</b>

**16.5 Net cash flows from treasury activities**

In millions of CHF

	2016	2015
Interest paid	(534)	(522)
Interest and dividends received	96	70
Net cash flows from derivatives used to hedge foreign operations	115	361
Net cash flows from trading derivatives	(4)	(2)
	<b>(327)</b>	<b>(93)</b>

**16.6 Reconciliation of free cash flow and net financial debt**

In millions of CHF

	2016	2015
Operating cash flow	15 582	14 302
Capital expenditure	(4 010)	(3 872)
Expenditure on intangible assets	(682)	(422)
Investments (net of divestments) in associates and joint ventures	(748)	(44)
Other investing activities	(34)	(19)
<b>Free cash flow</b>	<b>10 108</b>	<b>9 945</b>
Acquisition of businesses	(585)	(530)
Financial liabilities and short-term investments acquired in business combinations	—	(1)
Disposal of businesses	271	213
Financial liabilities and short-term investments transferred on disposal of businesses	2	—
Acquisition (net of disposal) of non-controlling interests	(1 208)	—
Dividend paid to shareholders of the parent	(6 937)	(6 950)
Dividends paid to non-controlling interests	(432)	(424)
Purchase (net of sale) of treasury shares	760	(6 377)
Reclassification of financial investments from non-current financial assets to net financial debt	109	73
Outflows from non-current treasury investments	(39)	(6)
Cash inflows from hedging derivatives on net debt	74	226
Currency retranslations and exchange differences	(583)	724
Other movements	(28)	7
<b>(Increase)/decrease of net financial debt</b>	<b>1 512</b>	<b>(3 100)</b>
Net financial debt at beginning of year	(15 425)	(12 325)
<b>Net financial debt at end of year</b>	<b>(13 913)</b>	<b>(15 425)</b>

**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

	2016	2015
Cash at bank and in hand	3 341	1 906
Time deposits	1 292	1 191
Commercial paper	3 357	1 787
	<b>7 990</b>	<b>4 884</b>



## 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

(2015: 3 188 400 000 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.

The share capital changed twice in the last two financial years as a consequence of the Share Buy-Back Programme launched in 2014. The cancellation of shares was approved at the Annual General Meetings of 16 April 2015 and 7 April 2016. In 2015, the share capital was reduced by 36 400 000 shares from CHF 322 million to CHF 319 million. In 2016, the share capital was further reduced by 76 240 000 shares from CHF 319 million to CHF 311 million.

### 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

	2016	2015
<b>Purpose of holding</b>		
Trading	4.3	18.1
Share Buy-Back Programme	—	76.2
Long-Term Incentive Plans	9.9	9.6
	<b>14.2</b>	<b>103.9</b>

At 31 December 2016, the treasury shares held by the Group represent 0.5% of the share capital (2015: 3.3%). Their market value amounts to CHF 1033 million (2015: CHF 7748 million).

### 17.4 Number of shares outstanding

Number of shares in millions of units

	Shares issued	Treasury shares	Outstanding shares
<b>At 1 January 2015</b>	<b>3 224.8</b>	<b>(56.4)</b>	<b>3 168.4</b>
Purchase of treasury shares	—	(88.9)	(88.9)
Sale of treasury shares	—	—	—
Treasury shares delivered in respect of options exercised	—	1.7	1.7
Treasury shares delivered in respect of equity compensation plans	—	3.3	3.3
Treasury shares cancelled	(36.4)	36.4	—
<b>At 31 December 2015</b>	<b>3 188.4</b>	<b>(103.9)</b>	<b>3 084.5</b>
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	—
<b>At 31 December 2016</b>	<b>3 112.2</b>	<b>(14.2)</b>	<b>3 098.0</b>

### 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
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)
<b>Other comprehensive income for the year</b>	<b>1 052</b>	<b>15</b>	<b>(2)</b>	<b>(161)</b>	<b>(154)</b>	<b>750</b>	<b>(9)</b>	<b>741</b>

In millions of CHF

2015

	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
Currency retranslations								
– Recognised	(3 839)	(3)	—	(134)	—	(3 976)	(85)	(4 061)
– Reclassified to income statement	102	—	—	—	—	102	—	102
– Taxes	188	—	—	—	—	188	—	188
	(3 549)	(3)	—	(134)	—	(3 686)	(85)	(3 771)
Fair value adjustments on available-for-sale financial instruments								
– Recognised	—	(134)	—	—	—	(134)	—	(134)
– Reclassified to income statement	—	(75)	—	—	—	(75)	—	(75)
– Taxes	—	65	—	—	—	65	—	65
	—	(144)	—	—	—	(144)	—	(144)
Fair value adjustments on cash flow hedges								
– Recognised	—	—	(6)	—	—	(6)	1	(5)
– Reclassified to income statement	—	—	83	—	—	83	—	83
– Taxes	—	—	(16)	—	—	(16)	—	(16)
	—	—	61	—	—	61	1	62
Remeasurement of defined benefit plans								
– Recognised	—	—	—	—	(370)	(370)	—	(370)
– Taxes	—	—	—	—	8	8	—	8
	—	—	—	—	(362)	(362)	—	(362)
Share of other comprehensive income of associates and joint ventures								
– Recognised	—	—	—	165	112	277	—	277
– Reclassified to income statement	—	—	—	—	—	—	—	—
	—	—	—	165	112	277	—	277
<b>Other comprehensive income for the year</b>	<b>(3 549)</b>	<b>(147)</b>	<b>61</b>	<b>31</b>	<b>(250)</b>	<b>(3 854)</b>	<b>(84)</b>	<b>(3 938)</b>

### 17.9 Reconciliation of the other reserves

In millions of CHF

	Fair value reserves	Hedging reserves	Reserves of associates and joint ventures	Total
<b>At 31 December 2014</b>	<b>178</b>	<b>(74)</b>	<b>1 314</b>	<b>1 418</b>
Other comprehensive income for the year	(147)	61	31	(55)
Other movements	—	—	(18)	(18)
<b>At 31 December 2015</b>	<b>31</b>	<b>(13)</b>	<b>1 327</b>	<b>1 345</b>
Other comprehensive income for the year	15	(2)	(161)	(148)
Other movements	—	—	1	1
<b>At 31 December 2016</b>	<b>46</b>	<b>(15)</b>	<b>1 167</b>	<b>1 198</b>

### 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 2015 was paid on 13 April 2016 in accordance with the decision taken at the Annual General Meeting on 7 April 2016. Shareholders approved the proposed dividend of CHF 2.25 per share, resulting in a total dividend of CHF 6937 million.

Dividend payable is not accounted for until it has been ratified at the Annual General Meeting. At the meeting on 6 April 2017, a dividend of CHF 2.30 per share will be proposed, resulting in an estimated total dividend of CHF 7158 million. For further details, refer to the Financial Statements of Nestlé S.A.

The Financial Statements for the year ended 31 December 2016 do not reflect this proposed distribution, which will be treated as an appropriation of profit in the year ending 31 December 2017.

## 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

	2016	2015
<b>Minimum lease payments (Future value)</b>		
Within one year	726	595
In the second year	596	476
In the third to the fifth year	1 086	905
After the fifth year	831	577
	<b>3 239</b>	<b>2 553</b>

Lease commitments relate mainly to buildings and vehicles. The operating lease charge for the year 2016 amounts to CHF 788 million (2015: CHF 679 million).

### 18.2 Finance leases

In millions of CHF

	2016		2015	
	Present value	Future value	Present value	Future value
<b>Minimum lease payments</b>				
Within one year	42	45	42	44
In the second year	42	46	38	42
In the third to the fifth year	58	73	65	82
After the fifth year	39	56	33	54
	<b>181</b>	<b>220</b>	<b>178</b>	<b>222</b>

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 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

	2016	2015
Chairman's compensation	6	6
Other Board members		
Remuneration – cash	3	3
Shares	2	2
<b>Total (a)</b>	<b>11</b>	<b>11</b>

(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. These shares are subject to a three-year blocking period.

In millions of CHF

	2016	2015
Remuneration – cash	16	17
Bonus – cash	8	9
Bonus – shares	8	7
Equity compensation plans <sup>(a)</sup>	14	15
Pension	5	6
<b>Total <sup>(b)</sup></b>	<b>51</b>	<b>54</b>

(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).

### 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 2016 for those activities amounted to CHF 10 million (2015: CHF 12 million).

Nestlé Capital Management Ltd (NCM), a 100% subsidiary of NCA, is an asset manager authorised and regulated by the Financial Conduct Authority, in the United Kingdom. NCM manages some of the assets of the Group's pension funds. In this function, NCM executes 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 2016 for those activities amounted to CHF 19 million (2015: CHF 18 million). The assets under direct management represented an amount of CHF 10.4 billion at 31 December 2016 (2015: CHF 10.8 billion).



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 9.5 billion at 31 December 2016 (2015: CHF 9.7 billion). Of this amount CHF 6.5 billion (2015: CHF 6.7 billion) of assets are under direct management of NCM.

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

Furthermore, throughout 2016, 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 2016 and 31 December 2015, 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 15 February 2017, the date of approval for issue of the Consolidated Financial Statements by the Board of Directors, the Group has no subsequent events which either warrant a modification of the value of its assets and liabilities or any additional disclosure.



# 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 2016, 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 60 to 135) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, 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 assessed transactions taking place at either side of the balance sheet date to evaluate whether revenue was recognised in the correct period.

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 33,007 million and indefinite life intangible assets of CHF 16,203 million as at 31 December 2016 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')

### 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, we assessed the historical accuracy of the plans and forecasts by comparing the forecasts used in the prior year model

as well as in assessing the future performance and prospects of each CGU and determining the appropriate discount rates.

to the actual performance in the current year. We compared these against the latest plans and forecasts approved by management.

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 consistency of assumptions, and performed a comparison of assumptions with publicly available data.

We also considered the appropriateness of disclosures in relation to impairment sensitivities.

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 any assumptions made by management to conclude on a 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. Recent developments including requirements for increased documentation, disclosure and justification of related party transactions were addressed with management at Group level. We drew on our own tax expertise and knowledge gained with other similar groups to conclude on the 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

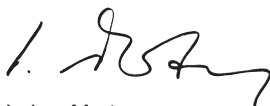
In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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, 15 February 2017

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)

	2016	2015
<b>Results</b>		
Sales	89 469	88 785
Trading operating profit	13 693	13 382
as % of sales	15.3%	15.1%
Taxes	4 413	3 305
Profit for the year attributable to shareholders of the parent (Net profit)	8 531	9 066
as % of sales	9.5%	10.2%
Total amount of dividend	7 158 <sup>(d)</sup>	6 937
Depreciation of property, plant and equipment	2 795	2 861
<b>Balance sheet and Cash flow statement</b>		
Current assets	32 042	29 434
Non-current assets	99 859	94 558
Total assets	131 901	123 992
Current liabilities	37 517	33 321
Non-current liabilities	28 403	26 685
Equity attributable to shareholders of the parent	64 590	62 338
Non-controlling interests	1 391	1 648
Net financial debt	13 913	15 425
Ratio of net financial debt to equity (gearing)	21.5%	24.7%
Operating cash flow	15 582	14 302
as % of net financial debt	112.0%	92.7%
Free cash flow <sup>(a)</sup>	10 108	9 945
Capital expenditure	4 010	3 872
as % of sales	4.5%	4.4%
<b>Data per share</b>		
Weighted average number of shares outstanding (in millions of units)	3 091	3 129
Basic earnings per share	2.76	2.90
Underlying earnings per share <sup>(b)</sup>	3.40	3.31
Dividend	2.30 <sup>(d)</sup>	2.25
Pay-out ratio based on basic earnings per share	83.3% <sup>(d)</sup>	77.6%
Stock prices (high)	80.05	77.00
Stock prices (low)	67.00	64.55
Yield <sup>(c)</sup>	2.9/3.4 <sup>(d)</sup>	2.9/3.5
<b>Market capitalisation</b>	<b>226 310</b>	<b>229 947</b>
<b>Number of employees (in thousands)</b>	<b>328</b>	<b>335</b>

(a) Refer to Note 16.6 for definition.

(b) Profit per share for the year attributable to shareholders of the parent before impairments, restructuring costs, results on disposals and significant one-off items. The tax impact from the adjusted items is also adjusted for.

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

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



2014	2013	2012	
			<b>Results</b>
91 612	92 158	89 721	Sales
14 019	14 047	13 464	Trading operating profit
15.3%	15.2%	15.0%	as % of sales
3 367	3 256	3 259	Taxes
14 456	10 015	10 228	Profit for the year attributable to shareholders of the parent (Net profit)
15.8%	10.9%	11.4%	as % of sales
6 950	6 863	6 552	Total amount of dividend
2 782	2 864	2 655	Depreciation of property, plant and equipment
			<b>Balance sheet and Cash flow statement</b>
33 961	30 066	34 020	Current assets
99 489	90 376	91 857	Non-current assets
133 450	120 442	125 877	Total assets
32 895	32 917	38 597	Current liabilities
28 671	23 386	24 616	Non-current liabilities
70 130	62 575	61 007	Equity attributable to shareholders of the parent
1 754	1 564	1 657	Non-controlling interests
12 325	14 690	18 120	Net financial debt
17.6%	23.5%	29.7%	Ratio of net financial debt to equity (gearing)
14 700	14 992	15 668	Operating cash flow
119.3%	102.1%	86.5%	as % of net financial debt
14 137	10 486	9 905	Free cash flow <sup>(a)</sup>
3 914	4 928	5 273	Capital expenditure
4.3%	5.3%	5.9%	as % of sales
			<b>Data per share</b>
3 188	3 191	3 186	Weighted average number of shares outstanding (in millions of units)
4.54	3.14	3.21	Basic earnings per share
3.44	3.50	3.25	Underlying earnings per share <sup>(b)</sup>
2.20	2.15	2.05	Dividend
48.5%	68.5%	63.9%	Pay-out ratio based on basic earnings per share
73.30	70.00	62.30	Stock prices (high)
63.85	59.20	52.50	Stock prices (low)
3.0/3.4	3.1/3.6	3.3/3.9	Yield <sup>(c)</sup>
<b>231 136</b>	<b>208 279</b>	<b>190 038</b>	<b>Market capitalisation</b>
<b>339</b>	<b>333</b>	<b>333</b>	<b>Number of employees (in thousands)</b>

# 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
<b>Europe</b>					
<b>Austria</b>					
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
<b>Azerbaijan</b>					
Nestlé Azerbaijan LLC	Baku	100%	100%	USD	200 000
<b>Belgium</b>					
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
<b>Belarus</b>					
LLC Nestlé Bel	° Minsk	100%	100%	BYR	410 000
<b>Bosnia and Herzegovina</b>					
Nestlé Adriatic BH d.o.o.	Sarajevo	100%	100%	BAM	2 151
<b>Bulgaria</b>					
Nestlé Bulgaria A.D.	Sofia	100%	100%	BGN	10 234 933

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Croatia</b>					
Nestlé Adriatic d.o.o.	Zagreb	100%	100%	HRK	14 685 500
<b>Czech Republic</b>					
Nestlé Cesko s.r.o.	Praha	100%	100%	CZK	300 000 000
Tivall CZ s.r.o.	Krupka		100%	CZK	400 000 000
<b>Denmark</b>					
Glycom A/S	<sup>3)</sup> Copenhagen	35.7%	35.7%	DKK	1 383 655
Nestlé Danmark A/S	Copenhagen	100%	100%	DKK	44 000 000
Oscar A/S	Rønnede		100%	DKK	12 000 000
<b>Finland</b>					
Puljonki Oy	Juuka		100%	EUR	85 000
Suomen Nestlé Oy	Helsinki	100%	100%	EUR	6 000 000
<b>France</b>					
Centres de Recherche et Développement Nestlé S.A.S.	Noisiel		100%	EUR	3 138 230
Cereal Partners France SNC	<sup>1)</sup> Noisiel		50%	EUR	3 000 000
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	70 518 259
Herta S.A.S.	Noisiel		100%	EUR	12 908 610
L'Oréal S.A.	<sup>(a) Δ3)</sup> Paris	23.1%	23.1%	EUR	112 371 148
<i>Listed on the Paris stock exchange, market capitalisation EUR 97.4 billion, quotation code (ISIN) FR0000120321</i>					
Laboratoires Galderma S.A.S.	Alby-sur-Chéran		100%	EUR	14 015 454
Lactalis Nestlé Produits Frais S.A.S.	<sup>3)</sup> Laval	40%	40%	EUR	69 208 832
Nespresso France S.A.S.	Paris		100%	EUR	1 360 000
Nestlé Health Science France S.A.S.	Noisiel		100%	EUR	57 943 072
Nestlé Entreprises S.A.S.	<sup>0</sup> Noisiel	84%	100%	EUR	739 559 392
Nestlé France M.G. S.A.S.	Noisiel		100%	EUR	50 000
Nestlé France S.A.S.	Noisiel		100%	EUR	130 925 520
Nestlé Purina PetCare France S.A.S.	Noisiel		100%	EUR	21 091 872
Nestlé Waters S.A.S.	<sup>0</sup> Issy-les-Moulineaux		100%	EUR	254 893 080
Nestlé Waters France S.A.S.	<sup>0</sup> 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 Centre S.A.S.	Issy-les-Moulineaux		100%	EUR	2 577 000
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 de Bouchages Emballages					
Conditionnement Moderne S.A.S.	<sup>3)</sup> Lavardac		50%	EUR	10 200 000
Société des Produits Alimentaires de Caudry S.A.S.	Noisiel		100%	EUR	1 440 000

<sup>(a)</sup> Voting powers amount to 23.2%

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>France (continued)</b>					
Société Immobilière de Noisiel S.A.	◊ Noisiel		100%	EUR	22 753 550
Société Industrielle de Transformation de Produits Agricoles S.A.S.	Noisiel		100%	EUR	9 718 000
<b>Georgia</b>					
Nestlé Georgia LLC	° Tbilisi	100%	100%	CHF	700 000
<b>Germany</b>					
Bübchen-Werk Ewald Hermes Pharmazeutische Fabrik GmbH	Soest		100%	EUR	25 565
C.P.D. Cereal Partners Deutschland GmbH & Co. OHG	<sup>1)</sup> Frankfurt am Main		50%	EUR	511 292
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	Singen		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
Trinks GmbH	<sup>3)</sup> Goslar		25%	EUR	2 360 000
Trinks Süd GmbH	<sup>3)</sup> München		25%	EUR	260 000
<b>Greece</b>					
C.P.W. Hellas Breakfast Cereals S.A.	<sup>1)</sup> Maroussi		50%	EUR	201 070
Nespresso Hellas S.A.	Maroussi	100%	100%	EUR	500 000
Nestlé Hellas S.A.	Maroussi	100%	100%	EUR	39 119 726
<b>Hungary</b>					
Nestlé Hungária Kft.	Budapest	100%	100%	HUF	6 000 000 000
<b>Italy</b>					
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
<b>Kazakhstan</b>					
Nestlé Food Kazakhstan LLP	Almaty	100%	100%	KZT	91 900
<b>Lithuania</b>					
UAB „Nestlé Baltics“	Vilnius	100%	100%	EUR	31 856
<b>Luxembourg</b>					
Compagnie Financière du Haut-Rhin S.A.	◊ Luxembourg		100%	EUR	105 200 000
Nespresso Luxembourg Sàrl	Luxembourg	100%	100%	EUR	12 525

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Luxembourg (continued)</b>					
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
<b>Macedonia</b>					
Nestlé Adriatic Makedonija d.o.o.e.l.	Skopje-Karpos	100%	100%	MKD	31 065 780
<b>Malta</b>					
Nestlé Malta Ltd	Lija	99.9%	100%	EUR	116 470
<b>Moldova</b>					
LLC Nestlé	° Chisinau	100%	100%	USD	1 000
<b>Netherlands</b>					
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 Europe B.V.	Driebergen-Rijsenburg		100%	EUR	1 000 000
Tivall Netherlands B.V.	Zeist		100%	EUR	18 000
<b>Norway</b>					
A/S Nestlé Norge	Oslo		100%	NOK	81 250 000
<b>Poland</b>					
Cereal Partners Poland Torun-Pacific Sp. Z o.o.	<sup>1)</sup> Torun	50%	50%	PLN	14 572 838
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
<b>Portugal</b>					
Cereal Associados Portugal A.E.I.E.	<sup>1)</sup> Oeiras		50%	EUR	99 760
Nestlé Portugal S.A.	Oeiras		100%	EUR	30 000 000
Prolacto-Lacticínios de São Miguel S.A.	Ponta Delgada		100%	EUR	700 000
<b>Republic of Ireland</b>					
Nestlé (Ireland) Ltd	Dublin		100%	EUR	41 964 052
Wyeth Nutritionals Ireland Ltd	Askeaton		100%	USD	885 599 990
WyNutri Ltd	Dublin		100%	USD	152 000 105
<b>Republic of Serbia</b>					
Nestlé Adriatic S d.o.o., Beograd-Surcin	Beograd-Surcin	100%	100%	RSD	12 222 327 814
<b>Romania</b>					
Nestlé Romania S.R.L.	Bucharest	100%	100%	RON	132 906 800

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Russia</b>					
Cereal Partners Rus, LLC	<sup>1)</sup> Moscow	35%	50%	RUB	28 730 860
Nestlé Kuban LLC	Timashevsk	67.4%	100%	RUB	11 041 793
Nestlé Rossiya LLC	Moscow	84.1%	100%	RUB	880 154 115
ooo Galderma LLC	Moscow		100%	RUB	25 000 000
<b>Slovak Republic</b>					
Nestlé Slovensko s.r.o.	Prievidza	100%	100%	EUR	13 277 568
<b>Slovenia</b>					
Nestlé Adriatic Trgovina d.o.o.	<sup>o</sup> Ljubljana	100%	100%	EUR	8 763
<b>Spain</b>					
Cereal Partners España A.E.I.E.	<sup>1)</sup> Esplugues de Llobregat (Barcelona)		50%	EUR	120 202
Laboratorios Galderma, S.A.	Madrid		100%	EUR	432 480
Nestlé España S.A.	Esplugues de Llobregat (Barcelona)	100%	100%	EUR	100 000 000
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
<b>Sweden</b>					
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
<b>Switzerland</b>					
Beverage Partners Worldwide (Europe) AG	<sup>o 1)</sup> Zürich	50%	50%	CHF	1 000 000
CPW Operations Sàrl	<sup>1)</sup> Prilly	50%	50%	CHF	20 000
CPW S.A.	<sup>1)</sup> Prilly	50%	50%	CHF	10 000 000
DPA (Holding) S.A.	<sup>o</sup> Vevey	100%	100%	CHF	100 000
Eckes-Granini (Suisse) S.A.	<sup>2)</sup> Henniez		49%	CHF	2 000 000
Entreprises Maggi S.A.	<sup>o</sup> Cham	100%	100%	CHF	100 000
Galderma Pharma S.A.	<sup>o</sup> Lausanne		100%	CHF	48 900 000
Galderma S.A.	Cham		100%	CHF	178 100
Galderma Schweiz AG	Egerkingen		100%	CHF	100 000
Intercona Re AG	<sup>o</sup> Châtel-St-Denis		100%	CHF	35 000 000
Materna-Nestlé GmbH	<sup>o</sup> Zug	51%	51%	CHF	20 000
Nestec Ltd	Vevey	100%	100%	CHF	5 000 000
Nestlé Capital Advisers S.A.	Vevey	100%	100%	CHF	400 000
Nestlé Finance S.A.	<sup>o</sup> Cham		100%	CHF	30 000 000
Nestlé Health Science S.A.	<sup>o</sup> 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

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Switzerland (continued)</b>					
Nestlé Skin Health S.A.	° Lausanne	100%	100%	CHF	100 000
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 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
<b>Turkey</b>					
Cereal Partners Gıda Ticaret Limited Şirketi	1) İstanbul		50%	TRY	25 020 000
Erikli Dağıtım ve Pazarlama A.Ş.	Bursa		100%	TRY	3 849 975
Erikli Su ve Mesrubat Sanayi ve Ticaret A.Ş.	Bursa		100%	TRY	12 700 000
Nestlé Türkiye Gıda Sanayi A.Ş.	İstanbul	99.9%	99.9%	TRY	35 000 000
Nestlé Waters Gıda ve Mesrubat Sanayi Ticaret A.Ş.	Bursa		100%	TRY	8 000 000
<b>Ukraine</b>					
LLC Nestlé Ukraine	Kyiv	100%	100%	USD	150 000
LLC Technocom	Kharkiv		100%	UAH	119 658 066
PJSC „Lviv Confectionery Factory Svitoch“	Lviv	97%	97%	UAH	88 111 060
PRJSC Volynholding	Torchyn	90.5%	100%	UAH	100 000
<b>United Kingdom</b>					
Cereal Partners UK	1) Herts		50%	GBP	—
Froneri Ltd	(b) 1) Northallerton	22.8%	46.1%	EUR	12 670
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
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
Nestlé Waters (UK) Holdings Ltd	◊ Gatwick		100%	GBP	6 500 000
Osem UK Ltd	London		100%	GBP	2 000
Phagenesis Ltd	3)° Manchester	5.6%	5.6%	GBP	16 146
Vitafo (International) Ltd	Liverpool		100%	GBP	625 379

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

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Africa</b>					
<b>Algeria</b>					
Nestlé Algérie SpA	Alger	<0.1%	49%	DZD	2 600 000 000
Nestlé Industrie Algérie SpA	Alger	49%	49%	DZD	100 000 000
Nestlé Waters Algérie SpA	Blida		49%	DZD	377 606 250
<b>Angola</b>					
Nestlé Angola Lda	Luanda	99%	100%	AOA	24 000 000
<b>Burkina Faso</b>					
Nestlé Burkina Faso S.A.	Ouagadougou		100%	XOF	50 000 000
<b>Cameroon</b>					
Nestlé Cameroun S.A.	Douala	100%	100%	XAF	4 323 960 000
<b>Chad</b>					
Nestlé Chad S.A.	N'Djamena	100%	100%	XAF	50 000 000
<b>Côte d'Ivoire</b>					
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 58.5 billion, quotation code (ISIN) CI0009240728</i>					
<b>Democratic Republic of the Congo</b>					
Nestlé Congo S.A.R.L	Kinshasa	99.5%	100%	USD	33 200 000
<b>Egypt</b>					
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
<b>Gabon</b>					
Nestlé Gabon, S.A.	Libreville	90%	90%	XAF	344 000 000
<b>Ghana</b>					
Nestlé Central and West Africa Ltd	Accra	100%	100%	GHS	95 796 000
Nestlé Ghana Ltd	Accra	76%	76%	GHS	20 100 000
<b>Guinea</b>					
Nestlé Guinée S.A.	Conakry	99%	99%	GNF	3 424 000 000
<b>Kenya</b>					
Nestlé Equatorial African Region Ltd	Nairobi	100%	100%	KES	132 000 000
Nestlé Kenya Ltd	Nairobi	100%	100%	KES	226 100 400



Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Mali</b>					
Nestlé Mali S.A.U.	Bamako		100%	XOF	10 000 000
<b>Mauritius</b>					
Nestlé's Products (Mauritius) Ltd	Port Louis	100%	100%	BSD	71 500
<b>Morocco</b>					
Nestlé Maghreb S.A.	Casablanca	100%	100%	MAD	300 000
Nestlé Maroc S.A.	El Jadida	94.7%	94.7%	MAD	156 933 000
<b>Mozambique</b>					
Nestlé Moçambique Lda	Maputo	100%	100%	MZN	1 678 194 900
<b>Niger</b>					
Nestlé Niger S.A.	Niamey		99.6%	XOF	50 000 000
<b>Nigeria</b>					
Nestlé Nigeria Plc	<sup>Δ</sup> Ilupeju	63.5%	63.5%	NGN	396 328 126
<i>Listed on the Nigerian Stock Exchange, market capitalisation NGN 642.0 billion, quotation code (ISIN) NGNESTLE0006</i>					
<b>Senegal</b>					
Nestlé Sénégal S.A.	Dakar	100%	100%	XOF	1 620 000 000
<b>South Africa</b>					
Clover Waters Proprietary Limited	<sup>3)</sup> Johannesburg		30%	ZAR	56 021 890
Galderma Laboratories South Africa (Pty) Ltd	Bryanston		100%	ZAR	375 000
Nestlé (South Africa) (Pty) Ltd	Johannesburg	100%	100%	ZAR	553 400 000
<b>Togo</b>					
Nestlé Togo S.A.U.	Lome		100%	XOF	50 000 000
<b>Tunisia</b>					
Nestlé Tunisie Distribution S.A.	Tunis	<0.1%	99.5%	TND	100 000
Nestlé Tunisie S.A.	Tunis	99.5%	99.5%	TND	8 438 280
<b>Zambia</b>					
Nestlé Zambia Trading Ltd	Lusaka	99.8%	100%	ZMW	2 317 500
<b>Zimbabwe</b>					
Nestlé Zimbabwe (Private) Ltd	Harare	100%	100%	USD	2 100 000

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Americas</b>					
<b>Argentina</b>					
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
Nestlé Waters Argentina S.A.	Buenos Aires		100%	ARS	18 791 615
<b>Bolivia</b>					
Industrias Alimenticias Fagal S.R.L.	Santa Cruz	98%	100%	BOB	133 100 000
Nestlé Bolivia S.A.	Santa Cruz	99%	100%	BOB	191 900
<b>Brazil</b>					
Chocolates Garoto S.A.	Vila Velha		100%	BRL	161 450 000
CPW Brasil Ltda	<sup>1)</sup> Caçapava		50%	BRL	7 885 520
Dairy Partners Americas Brasil Ltda	<sup>3)</sup> São Paulo	49%	49%	BRL	27 606 368
Dairy Partners Americas Manufacturing Brasil Ltda	São Paulo		100%	BRL	39 468 974
Dairy Partners Americas Nordeste – Produtos Alimentícios Ltda	<sup>3)</sup> Garanhuns		49%	BRL	100 000
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	<sup>o</sup> Ribeirão Preto	100%	100%	BRL	17 976 826
SOCOPAL – Sociedade Comercial de Corretagem de Seguros e de Participações Ltda	<sup>o</sup> São Paulo	100%	100%	BRL	2 155 600
<b>Canada</b>					
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	<sup>o</sup> Toronto (Ontario)		100%	CAD	1 010
<b>Cayman Islands</b>					
Hsu Fu Chi International Limited	<sup>o</sup> Grand Cayman	60%	60%	SGD	7 950 000
<b>Chile</b>					
Aguas CCU – Nestlé Chile S.A.	<sup>3)</sup> Santiago de Chile		49.8%	CLP	49 799 375 321
Cereales CPW Chile Ltda	<sup>1)</sup> Santiago de Chile		50%	CLP	3 026 156 114
Nestlé Chile S.A.	Santiago de Chile	99.7%	99.7%	CLP	11 832 926 000
<b>Colombia</b>					
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

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Colombia (continued)</b>					
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
<b>Costa Rica</b>					
Compañía Nestlé Costa Rica S.A.	Heredia	100%	100%	CRC	18 000 000
<b>Cuba</b>					
Coralac S.A.	La Habana		60%	USD	6 350 000
Los Portales S.A.	La Habana		50%	USD	24 110 000
<b>Dominican Republic</b>					
Nestlé Dominicana S.A.	Santo Domingo	98.7%	99.9%	DOP	1 657 445 000
Silsa Dominicana S.A.	Santo Domingo		99.9%	USD	50 000
<b>Ecuador</b>					
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
<b>El Salvador</b>					
Nestlé El Salvador, S.A. de C.V.	San Salvador	100%	100%	USD	4 457 200
<b>Guatemala</b>					
Compañía de Servicios de Distribucion, 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 S.A.	Guatemala City	100%	100%	GTQ	100 000 000
Malher Export S.A.	° Guatemala City	100%	100%	GTQ	5 000
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
<b>Honduras</b>					
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
<b>Jamaica</b>					
Nestlé Jamaica Ltd	Kingston	100%	100%	JMD	49 200 000
<b>Mexico</b>					
CPW México, S. de R.L. de C.V.	<sup>1)</sup> México, D.F.		50%	MXN	43 138 000
Galderma México, S.A. de C.V.	México, D.F.		100%	MXN	2 385 000
Malhemex, S.A. de C.V.	° México, D.F.	98%	100%	MXN	50 000

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Mexico (continued)</b>						
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.	<0.1%	100%	MXN	9 257 112
Waters Partners Services México, S.A.P.I. de C.V.	(c)	México, D.F.		40%	MXN	620 000
<b>Nicaragua</b>						
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
<b>Panama</b>						
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
<b>Paraguay</b>						
Nestlé Paraguay S.A.		Asunción	100%	100%	PYG	100 000 000
<b>Peru</b>						
Nestlé Marcas Perú, S.A.C.		Lima	50%	100%	PEN	1 000
Nestlé Perú, S.A.		Lima	99.5%	99.5%	PEN	88 998 365
<b>Puerto Rico</b>						
Nestlé Puerto Rico, Inc.		San Juan	100%	100%	USD	500 000
Payco Foods Corporation		Bayamon		100%	USD	890 000
<b>Trinidad and Tobago</b>						
Nestlé Caribbean, Inc.		Valsayn	95%	100%	USD	100 000
Nestlé Trinidad and Tobago Ltd		Valsayn	100%	100%	TTD	35 540 000
<b>United States</b>						
Aimmune Therapeutics, Inc.	3)	Wilmington (Delaware)		15.1%	USD	4 993
Beverage Partners Worldwide (North America)	1)	Wilmington (Delaware)		50%	USD	—
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

(c) Voting powers amount to 51%

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>United States (continued)</b>					
Gerber Products Company	Fremont (Michigan)		100%	USD	1 000
Lieberman Productions, LLC	Sacramento (California)		75%	USD	—
Malher, Inc.	Stafford (Texas)		100%	USD	1 000
Merrick Pet Care, Inc.	Dallas (Texas)		100%	USD	1 000 000
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 HealthCare Nutrition, Inc.	Wilmington (Delaware)		100%	USD	50 000
Nestlé Health Science US Holdings, Inc.	◊ Wilmington (Delaware)		100%	USD	1
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
NSH Services Inc.	Fort Worth (Texas)		100%	USD	981
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
Osem USA Inc.	New York		100%	USD	200
Prometheus Laboratories Inc.	Los Angeles (California)		100%	USD	100
Red Maple Insurance Company	◊ Williston (Vermont)		100%	USD	1 200 000
Seres Therapeutics, Inc.	3) Cambridge (Massachusetts)		16.8%	USD	40 935
Sweet Leaf Tea Company	Austin (Texas)		100%	USD	10
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
Tradewinds Beverage Company	Cincinnati (Ohio)		100%	USD	0
Tribe Mediterranean Foods, Inc.	Wilmington (Delaware)		100%	USD	10 500
TSC Holdings, Inc.	◊ 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
<b>Uruguay</b>					
Nestlé del Uruguay S.A.	Montevideo	100%	100%	UYU	9 495 189
<b>Venezuela</b>					
Nestlé Cadipiro, 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
<b>Asia</b>					
<b>Bahrain</b>					
Nestlé Bahrain Trading WLL	Manama	49%	49%	BHD	200 000
Al Manhal Water Factory (Bahrain) WLL	Manama		63%	BHD	300 000
<b>Bangladesh</b>					
Nestlé Bangladesh Limited	Dhaka	100%	100%	BDT	100 000 000
<b>Greater China Region</b>					
Anhui Yinlu Foods Co., Limited	Chuzhou	60%	60%	CNY	303 990 000
Chengdu Hsu Chi Foods Co., Limited	Chengdu		60%	CNY	40 000 000
Chengdu Yinlu Foods Co., Limited	Chengdu	60%	60%	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	Wanchai		60%	USD	100 000
Hubei Yinlu Foods Co., Limited	Hanchuan	60%	60%	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	30 000 000
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	60%	60%	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
The Waterman Co., Limited (Shanghai)	Shanghai	100%	100%	USD	25 414 500
Wyeth (Hong Kong) Holding Co., Limited	Hong Kong	100%	100%	HKD	3 554 107 000

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Greater China Region (continued)</b>					
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	60%	60%	CNY	496 590 000
Yunnan Dashan Drinks Co., Limited	Kunming	100%	100%	CNY	35 000 000
<b>India</b>					
Galderma India Private Ltd	Mumbai		100%	INR	24 156 000
Nestlé R&D Centre India Private Ltd	New Delhi	100%	100%	INR	2 101 380 000
Nestlé India Ltd	<sup>Δ</sup> New Delhi	34.3%	62.8%	INR	964 157 160
<i>Listed on the Bombay stock exchange, market capitalisation INR 581.4 billion, quotation code (ISIN) INE239A01016</i>					
SMA Nutrition India Private Limited	<sup>°</sup> New Delhi	97%	100%	INR	22 000 000
<b>Indonesia</b>					
P. T. Nestlé Indofood Citarasa Indonesia	<sup>1)</sup> Jakarta	50%	50%	IDR	200 000 000 000
P. T. Nestlé Indonesia	Jakarta	90.2%	90.2%	IDR	152 753 440 000
P. T. Wyeth Nutrition Sduaenam	Jakarta		90%	IDR	2 000 000 000
<b>Iran</b>					
Nestlé Waters Iranian	Tehran		100%	IRR	35 300 000 000
Nestlé Iran (Private Joint Stock Company)	Tehran	89.7%	89.7%	IRR	358 538 000 000
<b>Israel</b>					
Assamim Gift Parcels Ltd	Shoam		73.8%	ILS	103
Beit Hashita-Asis, Food Industries Ltd	Kibbutz Beit Hashita		100%	ILS	100
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
Noga Ice Cream Ltd	Shoam		100%	ILS	100
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
The Joint Company for Bread and Bakery Products Ltd	Shoam		51%	ILS	100 000
Tivall Food Industries Ltd	Kiryat Gat		100%	ILS	41 861 167
<b>Japan</b>					
Galderma K.K.	Tokyo		100%	JPY	10 000 000
GRJ Co., Ltd	Tokyo		75%	JPY	3 000 000
Guthy-Renker Japan Co., Ltd	Tokyo		75%	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

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Jordan</b>					
Ghadeer Mineral Water Co. WLL	Amman		75%	JOD	1 785 000
Nestlé Jordan Trading Company Ltd	Amman	77.8%	77.8%	JOD	410 000
<b>Kuwait</b>					
Nestlé Kuwait General Trading Company WLL	Safat	49%	49%	KWD	300 000
<b>Lebanon</b>					
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
<b>Malaysia</b>					
Cereal Partners (Malaysia) Sdn. Bhd.	<sup>1)</sup> Petaling Jaya	50%	50%	MYR	2 500 000
Nestlé (Malaysia) Bhd.	<sup>Δ</sup> Petaling Jaya	72.6%	72.6%	MYR	234 500 000
<i>Listed on the Kuala Lumpur stock exchange, market capitalisation MYR 18.3 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.	<sup>°</sup> 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
<b>Myanmar</b>					
Nestlé Myanmar Limited	<sup>°</sup> Yangon	95%	95%	USD	5 000 000
<b>Oman</b>					
Nestlé Oman Trading LLC	Muscat	49%	49%	OMR	300 000
<b>Pakistan</b>					
Nestlé Pakistan Ltd	<sup>Δ</sup> Lahore	59%	59%	PKR	453 495 840
<i>Listed on the Pakistan Stock Exchange, market capitalisation PKR 408.1 billion, quotation code (ISIN) PK0025101012</i>					
<b>Palestinian Territories</b>					
Nestlé Trading Private Limited Company	Bethlehem	97.5%	97.5%	JOD	200 000
<b>Philippines</b>					
CPW Philippines, Inc.	<sup>1)</sup> Makati City	50%	50%	PHP	7 500 000
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.	<sup>(d) ∅</sup> Makati City		88.5%	PHP	630 000 000
Wyeth Philippines, Inc.	Manila	100%	100%	PHP	610 418 100

<sup>(d)</sup> Voting powers amount to 40%



Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Qatar</b>					
Al Manhal Water Factory Co. Ltd WLL	Doha		51%	QAR	5 500 000
Nestlé Qatar Trading LLC	Doha	49%	49%	QAR	1 680 000
<b>Republic of Korea</b>					
Galderma Korea Ltd	Seoul		100%	KRW	500 000 000
LOTTE-Nestlé (Korea) Co., Ltd	<sup>1)</sup> Cheongju	50%	50%	KRW	52 783 120 000
Nestlé Korea Yuhan Chaegim Hoesa	Seoul	100%	100%	KRW	10 100 000 000
Pulmuone Waters Co., Ltd	Gyeonggi-Do		51%	KRW	6 778 760 000
<b>Saudi Arabia</b>					
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
<b>Singapore</b>					
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	<sup>ø</sup> Singapore	100%	100%	JPY	10 000 000 000
				SGD	2
Wyeth Nutritionals (Singapore) Pte Ltd	Singapore	100%	100%	SGD	2 059 971 715
<b>Sri Lanka</b>					
Nestlé Lanka PLC	<sup>Δ</sup> Colombo	90.8%	90.8%	LKR	537 254 630
<i>Listed on the Colombo stock exchange, market capitalisation LKR 107.5 billion, quotation code (ISIN) LK0128N00005</i>					
<b>Syria</b>					
Nestlé Syria S.A.	Damascus	99.9%	100%	SYP	800 000 000
<b>Thailand</b>					
Galderma (Thailand) Ltd	Bangkok		100%	THB	100 000 000
Nestlé (Thai) Ltd	Bangkok	100%	100%	THB	880 000 000
Nestlé Trading (Thailand) Ltd	<sup>°</sup> 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	500 000 000

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>United Arab Emirates</b>					
CP Middle East FZCO	<sup>1)</sup> Dubai	50%	50%	AED	600 000
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	<sup>o</sup> Dubai	49%	49%	AED	300 000
Nestlé Middle East Marketing FZE	Dubai		100%	AED	1 000 000
Nestlé Treasury Centre-Middle East & Africa Ltd	<sup>o</sup> 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
<b>Uzbekistan</b>					
Uzbek-Swiss JV Nestlé Uzbekistan LLC	Namangan	96.4%	100%	USD	38 715 463
Namangansut-Nafosat MCHJ LLC	<sup>o</sup> Namangan	53.9%	99.9%	USZ	46 227 969
<b>Vietnam</b>					
La Vie Limited Liability Company	Long An		65%	USD	2 663 400
Nestlé Vietnam Ltd	Bien Hoa	100%	100%	VND	1 261 151 497 610
<b>Oceania</b>					
<b>Australia</b>					
Cereal Partners Australia Pty Ltd	<sup>1)</sup> Sydney		50%	AUD	107 800 000
Galderma Australia Pty Ltd	Belrose		100%	AUD	2 500 300
Nestlé Australia Ltd	Sydney	100%	100%	AUD	274 000 000
<b>Fiji</b>					
Nestlé (Fiji) Ltd	Lami	33%	100%	FJD	3 000 000
<b>French Polynesia</b>					
Nestlé Polynésie S.A.S.	Papeete	100%	100%	XPF	5 000 000
<b>New Caledonia</b>					
Nestlé Nouvelle-Calédonie S.A.S.	Nouméa	100%	100%	XPF	64 000 000
<b>New Zealand</b>					
CPW New Zealand	<sup>1)</sup> Auckland		50%	NZD	—
Nestlé New Zealand Limited	Auckland	100%	100%	NZD	300 000
<b>Papua New Guinea</b>					
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
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		
<b>Switzerland</b>			
Clinical Development Unit	Lausanne		R
CPW R&D Centre	<sup>1)</sup> Orbe		R&D
Galderma R&D Centre	Egerkingen		R&D
Nestec Ltd	Vevey		TA
Nestlé Institute of Health Sciences S.A.	Ecublens		R
Nestlé Product Technology Centre	Konolfingen		PTC
Nestlé Product Technology Centre	Orbe		PTC
Nestlé R&D Centre	Broc		R&D
Nestlé R&D Centre	Orbe		R&D
Nestlé Research Centre	Lausanne		R
Nestlé System Technology Centre	Orbe		PTC
<b>Australia</b>			
CPW R&D Centre	<sup>1)</sup> Rutherglen		R&D
<b>Chile</b>			
Nestlé R&D Centre	Santiago de Chile		R&D
<b>Côte d'Ivoire</b>			
Nestlé R&D Centre	Abidjan		R&D
<b>France</b>			
Galderma R&D Centre	Biot		R&D
Froneri Development Center Glaces S.A.S.	<sup>1)</sup> Beauvais		PTC
Nestlé Product Technology Centre	Lisieux		PTC
Nestlé Product Technology Centre	Vittel		PTC
Nestlé R&D Centre	Aubigny		R&D
Nestlé R&D Centre	Tours		R&D

City of operations			
<b>Germany</b>			
Nestlé Product Technology Centre	Singen	PTC	
<b>Greater China Region</b>			
Nestlé R&D Centre	Beijing	R&D	
Nestlé R&D Centre	Shanghai	R&D	
<b>India</b>			
Nestlé R&D Centre	Gurgaon	R&D	
<b>Israel</b>			
Nestlé R&D Centre	Sderot	R&D	
<b>Italy</b>			
Nestlé R&D Centre	Sansepolcro	R&D	
<b>Japan</b>			
Galderma R&D Centre	Tokyo	R&D	
<b>Mexico</b>			
Nestlé R&D Centre	Queretaro	R&D	
<b>Republic of Ireland</b>			
Nestlé R&D Centre	Askeaton	R&D	
<b>Singapore</b>			
Nestlé R&D Centre	Singapore	R&D	
<b>Sweden</b>			
Galderma R&D Centre	Uppsala	R&D	
<b>United Kingdom</b>			
Nestlé Product Technology Centre	York	PTC	
<b>United States</b>			
Galderma R&D Centre	Fort Worth (Texas)	R&D	
Nestlé Product Technology Centre	Fremont (Michigan)	PTC	
Nestlé Product Technology Centre	Marysville (Ohio)	PTC	
Nestlé Product Technology Centre	St. Louis (Missouri)	PTC	
Nestlé R&D Centre	Bakersfield (California)	R&D	
Nestlé R&D Centre	Minneapolis (Minnesota)	R&D	
Nestlé R&D Centre	San Diego (California)	R&D	
Nestlé R&D Centre	Solon (Ohio)	R&D	
Nestlé R&D Centre	St. Joseph (Missouri)	R&D	
Nestlé R&D Centre	King of Prussia (Pennsylvania)	R&D	

# 150th Financial Statements of Nestlé S.A.



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# Income statement for the year ended 31 December 2016

In millions of CHF

	Notes	2016	2015
Income from Group companies	2	10 626	12 315
Profit on disposal of assets	3	716	59
Other income		114	107
Financial income	4	220	174
<b>Total income</b>		<b>11 676</b>	<b>12 655</b>
Expenses recharged from Group companies	5	(2 501)	(2 470)
Personnel expenses		(120)	(122)
Other expenses		(195)	(322)
Write-downs and amortisation	6	(1 835)	(1 156)
Financial expense	7	(35)	(362)
Taxes	8	(542)	(398)
<b>Total expenses</b>		<b>(5 228)</b>	<b>(4 830)</b>
<b>Profit for the year</b>		<b>6 448</b>	<b>7 825</b>

# Balance sheet

## as at 31 December 2016

before appropriations

In millions of CHF

	Notes	2016	2015
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	1 115	100
Other current receivables	10	737	875
Prepayments and accrued income		77	14
<b>Total current assets</b>		<b>1 929</b>	<b>989</b>
<b>Non-current assets</b>			
Financial assets	11	8 763	8 459
Shareholdings	12	31 175	32 488
Property, plant and equipment		1	1
Intangible assets		142	189
<b>Total non-current assets</b>		<b>40 081</b>	<b>41 137</b>
<b>Total assets</b>		<b>42 010</b>	<b>42 126</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Interest-bearing liabilities	13	2 050	—
Other current liabilities	14	1 645	4 224
Accruals and deferred income		48	3
Provisions	15	760	827
<b>Total current liabilities</b>		<b>4 503</b>	<b>5 054</b>
<b>Non-current liabilities</b>			
Interest-bearing liabilities	13	132	154
Provisions	15	501	498
<b>Total non-current liabilities</b>		<b>633</b>	<b>652</b>
<b>Total liabilities</b>		<b>5 136</b>	<b>5 706</b>
<b>Equity</b>			
Share capital	16/17	311	319
Legal retained earnings			
– General legal reserve	17	1 924	1 917
Voluntary retained earnings			
– Special reserve	17	23 288	28 711
– Profit brought forward	17	5 821	4 998
– Profit for the year	17	6 448	7 825
Treasury shares	17/18	(918)	(7 350)
<b>Total equity</b>		<b>36 874</b>	<b>36 420</b>
<b>Total liabilities and equity</b>		<b>42 010</b>	<b>42 126</b>



# 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.

### 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.

### Prepayments and accrued income

Prepayments and accrued income are comprised of payments made in advance relating to the following year, and income relating to the current year which will not be received until after the balance sheet date (such as interest accruals on loans or deposits). The positive fair values of forward exchange contracts and interest rate swaps are also included in this caption.

**Accruals and deferred income**

Accruals and deferred income comprise expenses relating to the current year which will not be paid until after the balance sheet date and income received in advance, relating to the following year. The negative fair values of forward exchange contracts and interest rate swaps are also included in this caption.

## 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

	2016	2015
Income on loans to Group companies	220	151
Other financial income	—	23
	220	174

## 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

	2016	2015
Shareholdings and loans	1 429	1 082
Trademarks and other industrial property rights	406	74
	1 835	1 156

## 7. Financial expense

In millions of CHF

	2016	2015
Expenses related to loans from Group companies	5	7
Other financial expenses	30	355
	<b>35</b>	<b>362</b>

## 8. Taxes

In millions of CHF

	2016	2015
Direct taxes	171	116
Prior year's adjustments	—	(110)
Withholding taxes on income from foreign sources	371	392
	<b>542</b>	<b>398</b>

## 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

	2016	2015
Amounts owed by Group companies (current accounts)	707	846
Other receivables	30	29
	<b>737</b>	<b>875</b>

## 11. Financial assets

In millions of CHF

	2016	2015
Loans to Group companies	8 757	8 416
Other investments	6	43
	<b>8 763</b>	<b>8 459</b>

## 12. Shareholdings

In millions of CHF

	2016	2015
At 1 January	32 488	31 390
Net increase/(decrease)	103	1 950
Write-downs	(1 416)	(852)
<b>At 31 December</b>	<b>31 175</b>	<b>32 488</b>

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

	2016	2015
Amounts owed to Group companies	1 605	4 189
Other liabilities	40	35
	<b>1 645</b>	<b>4 224</b>

## 15. Provisions

In millions of CHF

	2016				2015	
	Uninsured risks	Exchange risks	Swiss and foreign taxes	Other	Total	Total
At 1 January	475	536	166	148	1 325	1 335
Provisions made in the period	—	—	171	61	232	183
Amounts used	—	—	(163)	(47)	(210)	(199)
Unused amounts reversed	—	(85)	—	(1)	(86)	6
At 31 December	475	451	174	161	1 261	1 325
of which expected to be settled within 12 months					760	827

## 16. Share capital

	2016	2015
Number of registered shares of nominal value CHF 0.10 each	3 112 160 000	3 188 400 000
In millions of CHF	311	319

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 2016, the share register showed 163 187 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 2016	319	1 917	28 711	12 823	(7 350)	36 420
Cancellation of 76 240 000 shares (ex-Share Buy-Back Programme)	(8)	8	(5 489)	—	5 489	—
Profit for the year	—	—	—	6 448	—	6 448
Dividend for 2015	—	—	—	(6 937)	—	(6 937)
Movement of treasury shares	—	—	—	—	943	943
Dividend on treasury shares held on the payment date of 2015 dividend	—	—	66	(66)	—	—
<b>At 31 December 2016</b>	<b>311</b>	<b>1 924</b>	<b>23 288</b>	<b>12 268</b>	<b>(918)</b>	<b>36 874</b>

## 18. Treasury shares

In millions of CHF

	2016		2015	
	Number	Amount	Number	Amount
Share Buy-Back Programme	—	—	76 240 000	5 489
Long-term incentive plans	9 900 885	608	9 655 655	542
For trading purposes	4 238 445	310	18 038 445	1 319
	<b>14 139 330</b>	<b>918</b>	<b>103 934 100</b>	<b>7 350</b>

The share capital has been reduced by 76 240 000 shares from CHF 319 million to CHF 311 million through the cancellation of shares purchased as part of the Share Buy-Back Programme. The purchase value of those cancelled shares amounts to CHF 5489 million.

The Company held 9 900 885 shares to cover long-term incentive plans. During the year 3 754 770 shares were delivered as part of the Nestlé Group remuneration plans for a total value of CHF 216 million. In addition, 4 000 000 shares have been acquired at a cost of CHF 282 million and 13 800 000 shares have been sold for a total amount of CHF 1009 million. All treasury shares are valued at acquisition cost.

The total of own shares of 14 139 330 held by Nestlé S.A. at 31 December 2016 represents 0.5% of the Nestlé S.A. share capital (103 934 100 own shares held at 31 December 2015 by Nestlé S.A. representing 3.3% of the Nestlé S.A. share capital).

## 19. Contingencies

At 31 December 2016, 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 43 155 million (2015: CHF 41 057 million).

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

In millions of CHF

	2016		2015	
	Number	Amount	Number	Amount
Performance Share Units granted to Nestlé S.A. employees <sup>(a)</sup>	484 488	32	291 688	21
Share plan for short-term bonus Executive Board <sup>(b)</sup>	100 451	6	124 359	7
Share plan for Board members <sup>(c)</sup>	91 255	5	97 504	6
	<b>676 194</b>	<b>43</b>	<b>513 551</b>	<b>34</b>

(a) Performance Share Units are disclosed at fair value at grant which corresponds to CHF 65.85 in 2016 (2015: CHF 71.03). Includes 219 020 Performance Share Units granted to Executive Board (2015: 216 708).

(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% to 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

	2016		2015	
	Number of shares held <sup>(a)</sup>	Number of options held <sup>(b)</sup>	Number of shares held <sup>(a)</sup>	Number of options held <sup>(b)</sup>
Peter Brabeck-Letmathe, Chairman	3 581 827	127 000	3 422 107	477 600
Andreas Koopmann, Vice Chairman	97 176	—	92 536	—
Beat Hess	37 262	—	32 765	—
Renato Fassbind	18 754	—	14 257	—
Steven G. Hoch	164 475	—	166 516	—
Naïna Lal Kidwai	14 442	—	19 077	—
Jean-Pierre Roth	12 216	—	9 717	—
Ann M. Veneman	14 844	—	12 559	—
Henri de Castries	14 442	—	11 729	—
Eva Cheng	10 255	—	7 542	—
Ruth K. Oniang'o	3 891	—	1 892	—
Patrick Aebischer	—	—	—	—
Members who retired from the Board during 2016	—	—	236 728	—
<b>Total as at 31 December</b>	<b>3 969 584</b>	<b>127 000</b>	<b>4 027 425</b>	<b>477 600</b>

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

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

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

	2016		2015	
	Number of shares held <sup>(a)</sup>	Number of options held <sup>(b)</sup>	Number of shares held <sup>(a)</sup>	Number of options held <sup>(b)</sup>
Paul Bulcke	897 204	781 000	728 472	1 079 500
Luis Cantarell	199 170	143 170	169 510	143 170
Laurent Freixe	48 805	—	81 195	—
Chris Johnson	51 072	125 400	35 723	125 400
Patrice Bula	136 487	101 800	108 818	101 800
Wan Ling Martello	71 522	121 100	54 332	121 100
Stefan Catsicas	5 400	—	—	—
Marco Settembri	21 750	—	16 810	—
François-Xavier Roger	3 604	—	—	—
Magdi Batato	9 330	—	6 765	—
Peter R. Vogt	46 681	—	31 265	—
Martial Rolland	26 679	—	33 803	—
Heiko Schipper	2 800	—	—	—
David P. Frick	48 586	—	44 157	—
<b>Total as at 31 December</b>	<b>1 569 090</b>	<b>1 272 470</b>	<b>1 310 850</b>	<b>1 570 970</b>

(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

	2016	2015
<b>Retained earnings</b>		
Profit brought forward	5 820 737 716	4 997 707 777
Profit for the year	6 448 462 989	7 825 389 939
	<b>12 269 200 705</b>	<b>12 823 097 716</b>
<b>We propose the following appropriation:</b>		
Dividend for 2016, CHF 2.30 per share on 3 112 160 000 shares <sup>(a)</sup>		
(2015: CHF 2.25 on 3 112 160 000 shares) <sup>(b)</sup>	7 157 968 000	7 002 360 000
	<b>7 157 968 000</b>	<b>7 002 360 000</b>
<b>Profit to be carried forward</b>	<b>5 111 232 705</b>	<b>5 820 737 716</b>

(a) Depending on the number of shares issued as of the last trading day with entitlement to receive the dividend (7 April 2017). 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 65 468 057, representing the dividend on 29 096 914 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 2.30 per share, representing a net amount of CHF 1.4950 per share after payment of the Swiss withholding tax of 35%. The last trading day with entitlement to receive the dividend is 7 April 2017. The shares will be traded ex-dividend as of 10 April 2017. The net dividend will be payable as from 12 April 2017.

The Board of Directors

Cham and Vevey, 15 February 2017



# 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 2016, 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 165 to 176) for the year ended 31 December 2016 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

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, 15 February 2017

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

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