

Registered number: 51491

NESTLÉ UK LTD.

ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019



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**NESTLÉ UK LTD.**

**COMPANY INFORMATION**

<b>Directors</b>	D. Hix M. McKenzie N. Stephens (resigned 6 October 2019) D. McDaniel (resigned 1 March 2020) S. Agostini M. Weber (appointed 1 March 2020)
<b>Registered number</b>	51491
<b>Registered office</b>	1 City Place Gatwick RH6 0PA
<b>Independent auditor</b>	KPMG LLP, Statutory Auditor Chartered Accountants 15 Canada Square London, E14 5GL
<b>Registered number N.Ireland</b>	NF 00340 (Belfast)

**NESTLÉ UK LTD.**

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**NESTLÉ UK LTD.**

**STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**Introduction**

The directors present the Strategic Report for the year ended 31 December 2019.

**Business review**

The performance achieved during the period is set out in the Profit and Loss Account on page 8.

The results of the Company show a pre-tax profit of £108,625,000 (2018 - £97,716,000) for the year and turnover increased year on year by 2.7% to £1,675,312,000 (2018 - £1,631,817,000).

The 2019 results include net costs arising from the movement in provisions relating to the reorganising and restructuring of the business of £7,079,000 (2018 - credit of £809,000).

The Company has net assets of £1,127,409,000 (2018 - £1,202,618,000).

**Principal risks and uncertainties**

The management of the business of the Company and the execution of its strategy are subject to a number of risks and uncertainties, including a difficult economic environment, a strong competitive environment, currency fluctuations, further trade consolidation, product innovation, employee retention and volatility in input costs.

During this unprecedented time of the COVID-19 pandemic, our purpose of enhancing quality of life and contributing to a healthier future is now more important than ever. From our supply chain, to our factories, and right through to your homes, we're working around the clock to ensure that we continue to meet the nutritional needs of your families during this difficult time.

## NESTLÉ UK LTD.

### STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

#### Stakeholder review

Under section 172 of the UK Companies Act 2006 ('Section 172') directors must act in the way that they consider, in good faith, would be most likely to promote the success of their company. In doing so, our directors must have regard to stakeholders and the other matters set out in Section 172. The following section is our Section 172 statement, which describes how the directors of this Company have had regard to these matters when performing their duty.

Nestlé stands for Good food. Good life. Quality of food and quality of life go together. What and how we eat and drink is fundamental to our health and wellness, today and for the future. Our Nutrition, Health and Wellness journey is guided by our Creating Shared Value approach to business. We live by our purpose and responsibilities to our shareholders, the communities in which we operate and the planet on which we live. We aim to be trusted and dependable. That means responsibly manufacturing our products and managing our supply chain, bringing meaningful innovations to market, and building brands that delight and do good. We do this in a way that is true to the values that our company has been built on for more than 150 years. Because Good food and Good life are good business. Creating Shared Value is fundamental to how we do business at Nestlé. We believe that our Company can only be successful in the long term by creating value both for our shareholders and for society. Our activities and products should make a positive difference to society while contributing to Nestlé's ongoing success.


In order to achieve these ambitions, Nestlé as a group have formulated a series of public commitments that we operationalize across our business. These commitments are central to this company's strategy and Nestlé Group reports on our progress every year. Particular emphasis is on global initiatives to promote healthier lives for children, help young people access economic opportunities and demonstrate our protection of water resources. We also act decisively to tackle the current plastic pollution challenge and are working to become carbon neutral.

The 2019 Nestlé SA Annual Review gives further details of how the Nestlé Group of companies enhances the quality of life and contributes to a healthier future in the following areas:

- for individuals and families - enabling healthier and happier lives
- for our communities - helping develop thriving, resilient communities
- for the planet - stewarding resources and the environment

Further information can be found on the Nestlé SA website.  
<https://www.nestle.com/>

This report was approved by the board on 15 May 2020 and signed on its behalf.

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by David Hix  
Date: 2020.05.15  
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**D. Hix**  
Director

**NESTLÉ UK LTD.**

**DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2019**

The directors present their report and the financial statements for the year ended 31 December 2019.

**Principal activity**

The Company is the principal trading company of the subsidiaries of Nestlé S.A. that are located within the United Kingdom. Nestlé S.A. is the world's leading nutrition, health and wellness company.

**Results and dividends**

The profit for the year, after taxation, amounted to £87,805,000 (2018 - £88,134,000).

The directors have not recommended the payment of a final dividend (2018 - £NIL).

An interim dividend of £85,490,000 (2018 - £455,000,00) was paid during 2019.

**Impact of Brexit**

In 2019 the main focus of Nestlé UK & Ireland's Brexit work was on preparing for a potential "no deal" exit scenario. This included putting plans in place to build import and export stocks for a period around the expected exit dates (initially 29 March 2019 and then 12 April 2019, 31 October 2019 and finally 31 January 2020), as well as preparations for using alternative supply routes into the UK to avoid anticipated congestion at the port of Dover. This work has been coordinated by a Nestlé UK & Ireland Brexit Steering Group, headed by the CEO and involving all of the key functions and business units.

The UK having left the EU with a deal on 31 January 2020, the focus of the steering group's work has now shifted to preparations for the end of the transition period on 31 December 2020. Again, uncertainty remains about the scenario the country will face at that point, so mitigation plans remain ready for activation should they be needed if the transition period ends without a free trade agreement with the EU in place.

**Impact of COVID-19**

The COVID-19 (Coronavirus) public health emergency continues to evolve. Nestlé UK & Ireland has a COVID-19 Committee in place, to coordinate local actions to safeguard employee health and initiate Business Continuity Plans (see note 29). Despite this health emergency, at the signing date, the Company continues to maintain a strong position and performance financially.

**Directors**

The directors who served during the period until the signing of the financial statements were:

D. Hix  
M. McKenzie  
N. Stephens (resigned 6 October 2019)  
D. McDaniel (resigned 1 March 2020)  
S. Agostini  
M. Weber (appointed 1 March 2020)

**Environmental matters**

The Company seeks to develop business practices and behaviour that meet the highest standards of responsibility towards the environment. The Company sees conservation and development as mutually reinforcing each other in pursuit of sustainable growth. The Company seeks to go beyond mere compliance with the law, which it willingly embraces, to achieve, in particular, savings of energy and resources, and the reduction of waste and effluent in all its forms.

**Future developments**

The external environment is expected to remain competitive and challenging in 2020. Higher commodity prices and other costs will continue to put significant pressure on the Company.

## NESTLÉ UK LTD.

### DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

#### Employee involvement

Employees are recognised as key assets of the Company and their quality and motivation are essential for the Company to compete successfully in its markets. To help achieve corporate aims and objectives the Company maintains and develops formal and informal systems of communication with its employees to discuss matters of mutual interest. Information on matters of concern to employees is given through bulletins, meetings, reports and newsletters, and includes information to enable them to gain awareness of financial and economic factors affecting the Company.

#### Business relationship engagement

The Company seeks to develop business practices and behaviour that meet the highest standards of responsibility towards all stakeholders.

Our global stakeholder network includes investors, multilateral organizations, governments, NGOs, academia, local communities, suppliers, consumers and customers. One way we engage with our stakeholders is through regular convenings, providing opportunities to highlight issues that are important to them. The outcomes of these convenings are then communicated to senior management so actions can be taken to address concerns. These actions are cascaded to the Nestlé companies in the UK & Ireland.

#### Corporate governance

Corporate governance arrangements are in place at Group level which are adopted by the Company instead of specific compliance with the Code in the Companies (Miscellaneous Reporting) Regulations 2018. Nestlé S.A. has a diverse Board of Directors who oversee Corporate Governance across the Nestlé Group. This includes a Nomination and Sustainability Committee which assesses candidates for nomination to the Board. Importantly, this Committee also reviews all aspects of our environmental and social sustainability including our responses to climate change. Our Compensation Committee sets our remuneration principles. Our Audit Committee oversees internal and external audit, financial reporting, compliance and risk management. We recognize that for our company to be successful over time and create sustainable value for shareholders, we must also create value for society. We see governance as a framework to align the interests of all our stakeholders behind our purpose of enhancing quality of life and contributing to a healthier future.

#### Matters covered in the strategic report

The business review, principal risks and uncertainties for the Company, Strategic Management and a S172 statement are included in the Strategic Report.

#### Disclosure of information to auditor

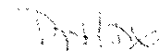
Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

#### Auditor

As a result of a tender exercise completed in 2019 by the Company's parent company, Nestlé S.A., KPMG LLP will resign after issuing the 2019 independent auditor's report and will be replaced by EY LLP, who will fill the vacancy.

This report was approved by the board on 15 May 2020 and signed on its behalf.

  
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**D. Hix**  
Director

**NESTLÉ UK LTD.**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF  
THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



## NESTLÉ UK LTD.

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NESTLÉ UK LTD.

#### Opinion

We have audited the financial statements of Nestlé UK Ltd. ("the Company") for the year ended 31 December 2019 which comprise the Profit and Loss Account, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

#### Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

#### Other information

The directors are responsible for the other information, which comprises the Strategic Report and the Directors' Report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion on, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the other information;
- in our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

**NESTLÉ UK LTD.**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NESTLÉ UK LTD.**

**Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

**Directors' responsibilities**

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities**


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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

**The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Hugh Green (Senior Statutory Auditor)  
for and on behalf of  
**KPMG LLP, Statutory Auditor**  
Chartered Accountants  
15 Canada Square  
London, E14 5GL  
15 May 2020



15 May 2020

NESTLÉ UK LTD.

PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Turnover	2	1,675,312	1,631,817
Cost of sales		(1,359,402)	(1,408,997)
<b>Gross profit</b>		<b>315,910</b>	<b>222,820</b>
Distribution costs		(115,505)	(102,895)
Administrative expenses		(61,559)	(61,083)
<b>Operating profit</b>	3	<b>138,846</b>	<b>58,842</b>
Income from shares in group companies		51,183	196,966
Income from participating interests		7,101	36
Net impairment of investment in subsidiary companies	15	(57,500)	(121,834)
Interest receivable and similar income	7	3,391	1,359
Interest payable and similar charges	8	(34,396)	(37,653)
<b>Profit on ordinary activities before taxation</b>		<b>108,625</b>	<b>97,716</b>
Taxation on profit/(loss) on ordinary activities	9	(20,820)	(9,582)
<b>Profit for the year</b>		<b>87,805</b>	<b>88,134</b>

The notes on pages 14 to 45 form part of these financial statements.

NESTLÉ UK LTD.

STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 £000	2018 £000
Profit for the financial year	87,805	88,134
<b>Other comprehensive income:</b>		
<b>Items that will not be reclassified to profit or loss:</b>		
Actuarial (loss)/gain on defined benefit schemes	(88,954)	246,876
Movement of deferred tax relating to pension surplus/(deficit)	18,389	(48,221)
Movement in hedging reserve	(8,591)	7,708
Movement of deferred tax relating to hedging reserve	1,632	(1,465)
	(77,524)	204,898
<b>Total comprehensive income for the year</b>	<b>10,281</b>	<b>293,032</b>

The notes on pages 14 to 45 form part of these financial statements.

**NESTLÉ UK LTD.**  
**REGISTERED NUMBER:51491**

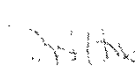
**BALANCE SHEET**  
**AS AT 31 DECEMBER 2019**

	<b>Note</b>	<b>2019</b> <b>£000</b>	<b>2018</b> <b>£000</b>
<b>Fixed assets</b>			
Intangible assets	12	473	401
Goodwill		1,146,814	1,146,814
Investments	15	958,773	873,031
Tangible Fixed Assets	14	546,068	573,168
		<u>2,652,128</u>	<u>2,593,414</u>
<b>Current assets</b>			
Stocks	16	158,296	146,654
Debtors: amounts falling due within one year	17	552,657	605,569
Bank and cash balances		848	942
		<u>711,801</u>	<u>753,165</u>
Creditors: amounts falling due within one year	18	(1,668,903)	(768,349)
<b>Net current liabilities</b>		<u>(957,102)</u>	<u>(15,184)</u>
<b>Total assets less current liabilities</b>		<u>1,695,026</u>	<u>2,578,230</u>
Creditors: amounts falling due after more than one year	19	(523,386)	(1,324,927)
		<u>1,171,640</u>	<u>1,253,303</u>
<b>Provisions for liabilities</b>			
Deferred taxation	20	(23,557)	(25,813)
Other provisions	21	(13,970)	(12,377)
		<u>(37,527)</u>	<u>(38,190)</u>
Pension liability		(6,704)	(12,495)
<b>Net assets</b>		<u>1,127,409</u>	<u>1,202,618</u>
<b>Capital and reserves</b>			
Called up share capital	22	130,000	130,000
Share premium account	23	211,446	211,446
Other reserves	23	(3,703)	3,256
Profit and loss account	23	789,666	857,916
		<u>1,127,409</u>	<u>1,202,618</u>

**NESTLÉ UK LTD.**  
**REGISTERED NUMBER:51491**

**BALANCE SHEET (CONTINUED)**  
**AS AT 31 DECEMBER 2019**

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 15 May 2020.

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by David Hix  
Date: 2020.05.15  
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**D. Hix**  
Director

The notes on pages 14 to 45 form part of these financial statements.

NESTLÉ UK LTD.

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2019

	Called up share capital	Share premium account	Other reserves	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
At 1 January 2019	130,000	211,446	3,256	857,916	1,202,618
<b>Comprehensive income for the year</b>					
Profit for the year	-	-	-	87,805	87,805
Actuarial losses on pension scheme	-	-	-	(70,565)	(70,565)
Taxation in respect of items of other comprehensive income	-	-	1,632	-	1,632
Movement on hedging reserve	-	-	(8,591)	-	(8,591)
<b>Other comprehensive income for the year</b>	-	-	(6,959)	(70,565)	(77,524)
<b>Total comprehensive income for the year</b>	-	-	(6,959)	17,240	10,281
Dividends paid	-	-	-	(85,490)	(85,490)
<b>Total transactions with owners</b>	-	-	-	(85,490)	(85,490)
<b>At 31 December 2019</b>	<b>130,000</b>	<b>211,446</b>	<b>(3,703)</b>	<b>789,666</b>	<b>1,127,409</b>

The notes on pages 14 to 45 form part of these financial statements.

NESTLÉ UK LTD.

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2018

	Called up share capital	Share premium account	Other reserves	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
At 1 January 2018 (as previously stated)	130,000	211,446	(2,987)	1,030,722	1,369,181
Prior year adjustment	-	-	-	(4,595)	(4,595)
At 1 January 2018 (as restated)	<u>130,000</u>	<u>211,446</u>	<u>(2,987)</u>	<u>1,026,127</u>	<u>1,364,586</u>
<b>Comprehensive income for the year</b>					
Profit for the year as restated	-	-	-	88,134	88,134
Actuarial gains on pension scheme	-	-	-	198,655	198,655
Taxation in respect of items of other comprehensive income	-	-	(1,465)	-	(1,465)
Movement on hedging reserve	-	-	7,708	-	7,708
<b>Other comprehensive income for the year</b>	-	-	6,243	198,655	204,898
<b>Total comprehensive income for the year</b>	-	-	6,243	286,789	293,032
Dividends paid	-	-	-	(455,000)	(455,000)
<b>Total transactions with owners</b>	-	-	-	(455,000)	(455,000)
<b>At 31 December 2018</b>	<u>130,000</u>	<u>211,446</u>	<u>3,256</u>	<u>857,916</u>	<u>1,202,618</u>

The notes on pages 14 to 45 form part of these financial statements.



## NESTLÉ UK LTD.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

#### 1. Accounting policies

##### 1.1 Basis of preparation of financial statements

Nestlé UK Ltd., (the "Company") is a company incorporated and domiciled in the United Kingdom.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2013/14 Cycle) issued in July 2015 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company is exempt from the obligation to prepare and deliver group accounts.

##### 1.2 Financial reporting standard 101 - reduced disclosure exemptions

The Company's ultimate parent undertaking, Nestlé S.A. includes the Company in its consolidated financial statements. The consolidated financial statements of Nestlé S.A. are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Nestlé Headquarters, CH11800, Vevey, Switzerland.

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based payment
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(c) of IAS 16 Property, Plant and Equipment;
  - paragraph 118(c) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

##### 1.3 Associates and joint ventures

Associates and joint ventures are valued using the equity method.

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

1.4 Going concern

The Company's business activities, together with factors likely to affect its future development, performance and position, are set out in the Strategic Report and Directors' Report on pages 1 to 3.

The Company is expected to generate positive cash flows on its own account for the foreseeable future. The Company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries.

The Company has net current liabilities of £957,102,000 including amounts payable to other Nestlé S.A. group undertakings of £1,008,420,000. The loans with the Nestlé S.A. group undertakings are reviewed monthly with the lender with automatic renewal for further periods of three years. Historically such loans have always been renewed when requested. From discussions in 2019 and 2020 with Nestlé S.A. there has been no indication that current loans will be recalled and not renewed.

Nestlé Holdings (U.K.) PLC, the parent company of Nestlé UK Ltd., has provided the Company with an undertaking that for at least twelve months from the date of the approval of these financial statements, it will continue to provide financial and other support to enable the Company to continue in operational existence for the foreseeable future and that repayment of the above loans will not be sought if it would impede the Company's ability to meet its obligations to third parties and operate as a going concern.

The directors, having assessed the responses of the directors of the Company's parent, Nestlé Holdings (U.K.) PLC to their enquires, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Company to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the Company's financial position and performance and of enquiries made to Nestlé Holdings (U.K.) PLC, the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future.

1.5 Revenue

Revenue is recognised when control is transferred to a customer. Factors that may indicate the point in time at which control is transferred include, but are not limited to:

- the Company has a present right to payment for the asset;
- the customer has legal title to the asset;
- the Company has transferred physical possession of the asset;
- the customer has the significant risks and rewards related to the ownership of the asset; and
- the customer has accepted the asset.

Revenue is measured as the amount of consideration which the Company expects to receive, based on the list price applicable to a given distribution channel after deduction of returns, sales taxes, pricing allowances, other trade discounts and couponing and price promotions to consumers.

## NESTLÉ UK LTD.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

#### 1. Accounting policies (continued)

##### 1.6 Goodwill

Goodwill represents the excess of the cost of a business combination over the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Cost comprises the fair value of assets given, liabilities assumed and equity instruments issued.

Goodwill is capitalised as an intangible asset and is not amortised. Instead it is reviewed annually for impairment with any impairment in carrying value being charged to profit or loss. The Companies Act 2006 requires acquired goodwill to be reduced by provisions for depreciation calculated to write off the amount systematically over a period chosen by the directors, not exceeding its useful economic life. It has been deemed, however, the non-amortisation of goodwill is a departure, for the overriding purpose of giving a true and fair view. The effect of this departure has not been quantified because it is impracticable and, in the opinion of the directors, would be misleading.

##### 1.7 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Freehold property	- 2% - 4%
L/Term Leasehold property	- 4%
Plant & machinery	- 6.66% - 33.33%
System development costs	- 20%

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Profit and Loss Account.

##### 1.8 Impairment of fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each balance sheet date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each balance sheet date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

1.9 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

1.10 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

1.11 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

1.12 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.13 Hedge accounting

The Company has entered into currency forward contracts to manage its exposure to fluctuations in the value of foreign currencies. In addition the Company utilises the futures market to stabilise the long term price of major raw materials.

These derivatives are measured at fair value at each balance sheet date. To the extent that the hedge is effective, movements in fair value are recognised in other comprehensive income and presented in a separate hedge reserve. The results of ineffective hedges are recognised in the Profit and Loss Account.

## NESTLÉ UK LTD.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

#### 1. Accounting policies (continued)

##### 1.14 Foreign currency translation

###### Functional and presentation currency

The Company's functional and presentational currency is GBP.

###### Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Profit and Loss Account except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Profit and Loss Account within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Profit and Loss Account within 'other operating income'.

##### 1.15 Finance costs

Finance costs are charged to the Profit and Loss Account over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

##### 1.16 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting. There will be a disclosure in the notes to the financial statements of dividends proposed or declared which were not recognised in the financial statements, if this happens prior to the financial statements being authorised for issue.

##### 1.17 Equity compensation plans

The Company has equity-settled share-based transactions. The share-based transactions are settled with shares or with reference to shares of Nestlé S.A. and not Nestlé UK Ltd.

Equity-settled share-based transactions are recognised in the Profit and Loss Account over the vesting period. They are fair valued at grant date and measured using generally accepted pricing models. The cost of equity-settled share-based transactions is adjusted annually by the expectations of vesting, for the forfeitures of the participants' rights that no longer satisfy the plan conditions as well as for early vesting.

At the end of each year the Company calculates the liability in respect equity-settled share-based transactions with the movement in the liability being recognised as a charge or credit to the Profit and Loss Account.

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

I. Accounting policies (continued)

1.18 Leases: the Company as a lessee

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

The Company recognises a right-of-use (ROU) asset and lease liability at the lease commencement date, except for short term leases of 12 months or less which are expensed in the Profit and Loss account on a straight-line basis over the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease.

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

ROU assets are included in the headings "Long term leasehold property" and "Long term leasehold plant and machinery" and the lease liability is included in the headings "Current financial debt" and "Non-current financial debt".

1.19 Pensions

Defined benefit plan

The Company operates a defined benefit plan for certain employees for the Nestlé group companies in the United Kingdom. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the Balance Sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the balance sheet date less the fair value of plan assets at the balance sheet date (if any) out of which the obligations are to be settled. The defined benefit obligation is calculated using the projected unit credit method. Annually the Company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating to the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 101 fair value hierarchy and in accordance with the Company's policy for similarly held assets. This includes the use of appropriate valuation techniques. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Remeasurement of net defined benefit liability'.

The cost of the defined benefit plan, recognised in the Profit and Loss Account as 'employee costs', except where included in the cost of an asset, comprises:

- a) the increase in net pension benefit liability arising from employee service during the period; and
- b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as a 'finance expense'.

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

1.20 Interest income

Interest income is recognised in the Profit and Loss Account using the effective interest method.

1.21 Borrowing costs

All borrowing costs are recognised in the Profit and Loss Account in the year in which they are incurred.

1.22 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Profit and Loss Account in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

1.23 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Profit and Loss Account, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

2. Turnover

Analysis of turnover by country of destination:

	2019 £000	2018 £000
United Kingdom	1,300,949	1,262,629
Rest of Europe	256,527	245,857
Rest of the world	117,836	123,331
	<u>1,675,312</u>	<u>1,631,817</u>

3. Operating profit

The operating profit is stated after charging:

	2019 £000	2018 £000
Depreciation of tangible fixed assets	58,217	59,364
Impairment of tangible fixed assets	1,737	3,741
Amortisation of intangible assets, including goodwill	138	136
Defined benefit pension cost (note 27)	33,194	34,840
Loss/(profit) on sales of fixed assets	1,291	(1,155)
Business restructuring and reorganisation (note 11)	7,079	(809)
	<u>7,079</u>	<u>(809)</u>

4. Auditor's remuneration

	2019 £000	2018 £000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	194	205
	<u>194</u>	<u>205</u>

Fees payable to the Company's auditor and its associates in respect of:

All other services	241	190
	<u>241</u>	<u>190</u>



**NESTLÉ UK LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**5. Employees**

Staff costs, including directors' remuneration, were as follows:

	<b>2019</b>	2018
	<b>£000</b>	£000
Wages and salaries	<b>218,738</b>	218,155
Social security costs	<b>23,597</b>	22,907
Cost of pension schemes (note 27)	<b>32,009</b>	40,956
	<b>274,344</b>	282,018
	<b>274,344</b>	282,018

The average monthly number of employees, including the directors, during the year was as follows:

	<b>2019</b>	2018
	<b>No.</b>	No.
Production	<b>2,894</b>	3,067
Administration, distribution and sales	<b>1,765</b>	1,698
	<b>4,659</b>	4,765
	<b>4,659</b>	4,765

**6. Directors' remuneration**

	<b>2019</b>	2018
	<b>£000</b>	£000
Directors' emoluments	<b>2,392</b>	3,031
	<b>2,392</b>	3,031
	<b>2,392</b>	3,031

The highest paid director received remuneration of £891,659 (2018 - £821,010).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £43,705 (2018 - £42,024).

The value of the company's contributions paid to a defined benefit pension scheme in respect of the highest paid director amounted to £NIL (2018 - £NIL).

During the year 5 directors received shares under the long term incentive schemes (2018 - 5).

The total accrued pension provision of the highest paid director at 31 December 2019 amounted to £NIL. (2018 - £NIL).

As at 31 December 2019, 3 directors (2018 - 5) had accrued defined benefit pension obligations. Of these, no directors (2018 - no directors) accrued further amounts during the year.

The highest paid director was granted 3,503 shares awarded by Nestlé S.A. (2018 - 4,008) under a long-term incentive scheme.

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

7. Interest receivable

	2019 £000	2018 £000
Interest on cash pooling arrangement	570	873
Interest due from associate undertakings	1,195	459
Other interest receivable	28	27
Interest receivable on defined benefit pension net asset (note 27)	1,598	-
	<u>3,391</u>	<u>1,359</u>

8. Interest payable and similar expenses

	2019 £000	2018 £000
Bank interest payable	-	3
Other loan interest payable	3,190	3,190
Interest payable on cash pooling arrangement	339	268
Loans from group undertakings	29,920	27,410
Leases and hire purchase contracts	534	666
Interest paid on defined benefit pension net liability (note 27)	-	5,740
Interest paid on unfunded pension liability (note 27)	339	305
Interest payable on post retirement benefits (note 27)	74	71
	<u>34,396</u>	<u>37,653</u>

9. Taxation

	2019 £000	2018 £000
<b>Corporation tax</b>		
Current tax on profits for the year	9,103	(5,898)
Adjustments in respect of previous periods	(7,557)	(1,262)
<b>Total current tax</b>	<u>1,546</u>	<u>(7,160)</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	17,842	16,315
Changes to tax rates	776	388
Deferred tax relating to prior years	656	39
<b>Total deferred tax</b>	<u>19,274</u>	<u>16,742</u>
<b>Taxation on profit on ordinary activities</b>	<u>20,820</u>	<u>9,582</u>

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

9. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2018 - lower than) the standard rate of corporation tax in the UK of 19.00% (2018 - 19.00%). The differences are explained below:

	2019 £000	2018 £000
Profit before tax	<u>108,625</u>	<u>97,716</u>
Profit multiplied by standard rate of corporation tax in the UK of 19.00% (2018 - 19.00%)	20,639	18,566
<b>Effects of:</b>		
Expenses not deductible for tax purposes	15,882	28,458
Adjustments to tax charge in respect of prior periods	(6,901)	(1,223)
Non-taxable income	(9,893)	(37,423)
Transfer to unrecognised tax asset	317	816
Change in tax rate	776	388
<b>Total tax charge/(credit) for the year</b>	<u><u>20,820</u></u>	<u><u>9,582</u></u>

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

9. Taxation (continued)

**Factors that may affect future tax charges**

The main rate of UK corporation tax for the year is 19% effective since 1 April 2017. Legislation, to further reduce the main rate of corporation tax from 19% to 17% with effect from 1 April 2020, was included in Finance Act 2016, and the deferred tax liability as at 31 December 2019 has been calculated using this rate. In the 11 March 2020 Budget it was announced that the UK corporation tax rate will remain at 19% and not reduce to 17% from 1 April 2020. This will have a consequential effect on the Company's future tax charge.

The Company has an unrecognised temporary difference in respect of gross capital losses of £125.0 million (2018 - £235.0 million). The reduction in these losses since the prior year is due to utilisation against chargeable gains that crystallised in 2019. These were deferred gains attached to debentures which matured during the year. The available losses have not been recognised as there is considered insufficient evidence of future capital profits against which the losses can be offset. These losses have no expiry date.

10. Dividends

	2019 £000	2018 £000
Paid to Nestlé Holdings (U.K.) PLC	85,490	455,000
	<u>85,490</u>	<u>455,000</u>

11. Restructuring and reorganisation costs

Provisions in respect of factory reorganisations totalling £3,445,000 (2018 - 4,600,000) were created in 2019 and were allocated to Cost of Sales. An additional provision of £5,400,000 in respect of an onerous contract was created during 2019 and charged to distribution costs.

In addition, a surplus provision of £3,281,000 (2018 - £2,000,000) in respect of a factory restructuring project was released and credited to Cost of Sales.

Net business restructuring costs of £1,515,000 (2018 - £1,930,000) were allocated to administrative expenses.

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

12. Intangible assets

	Systems Development £000
<b>Cost</b>	
At 1 January 2019	56,175
Additions - external	210
	<hr/>
At 31 December 2019	56,385
	<hr/>
<b>Amortisation</b>	
At 1 January 2019	55,774
Charge for the year on owned assets	138
	<hr/>
At 31 December 2019	55,912
	<hr/>
<b>Net book value</b>	
At 31 December 2019	473
	<hr/> <hr/>
At 31 December 2018	401
	<hr/> <hr/>

13. Goodwill

	2019 £000
<b>Cost</b>	
At 1 January 2019 and 31 December 2019	1,146,814
	<hr/>
	1,146,814
<b>Amortisation</b>	
At 1 January 2019 and 31 December 2019	-
	<hr/>
	1,146,814
	<hr/> <hr/>

The Goodwill relates mainly to the acquisition of The Nestle Company in 1992. This included soluble coffee brands including Nescafé, Gold Blend and Blend 37 and the confectionery brands of Milky Bar, Dairy Crunch and Animal Bar. There is also goodwill relating to the acquisition of PNutri.

Management has reviewed the value of these brands and performed impairment analyses based on expected future cash flows, using discount rates derived by Nestlé SA, forecasts approved by management and terminal growth rates that have been determined to reflect the long-term view of the nominal evolution of the business. Management believes that no reasonably possible change in these key assumptions would cause the recoverable amount to fall below the carrying value.

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

14. Tangible fixed assets

	Freehold property £000	Long term Leasehold Property £000	Plant & machinery £000	Leased plant & machinery £000	Total £000
<b>Cost or valuation</b>					
At 1 January 2019	281,322	67,953	961,476	18,248	1,328,999
Additions	1,703	7,828	18,730	5,945	34,206
Disposals	(229)	(16,475)	(21,081)	(7,534)	(45,319)
Transfers between classes	118	-	(116)	(2)	-
At 31 December 2019	282,914	59,306	959,009	16,657	1,317,886
<b>Depreciation</b>					
At 1 January 2019	117,156	31,268	595,029	12,378	755,831
Charge for the year on owned assets	4,600	-	44,732	-	49,332
Charge for the year on right-of- use assets	-	5,667	-	3,218	8,885
Disposals	(112)	(16,474)	(20,050)	(7,331)	(43,967)
Impairment charge	-	-	1,737	-	1,737
At 31 December 2019	121,644	20,461	621,448	8,265	771,818
<b>Net book value</b>					
At 31 December 2019	161,270	38,845	337,561	8,392	546,068
At 31 December 2018	164,166	36,685	366,447	5,870	573,168

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

15. Fixed asset investments

	Investments in subsidiary companies £000	Investments in associates £000	Total £000
<b>Cost or valuation</b>			
At 1 January 2019	1,500,499	17,298	1,517,797
Additions	136,178	7,101	143,279
Dividends received	-	(37)	(37)
At 31 December 2019	<u>1,636,677</u>	<u>24,362</u>	<u>1,661,039</u>
<b>Impairment</b>			
At 1 January 2019	644,766	-	644,766
Charge for the period	249,500	-	249,500
Reversal of impairment losses	(192,000)	-	(192,000)
At 31 December 2019	<u>702,266</u>	<u>-</u>	<u>702,266</u>
<b>Net book value</b>			
At 31 December 2019	<u>934,411</u>	<u>24,362</u>	<u>958,773</u>
At 31 December 2018	<u>855,733</u>	<u>17,298</u>	<u>873,031</u>

The Company acquired the share capital of Nestlé Purina UK Commercial Operations Limited and Terrafertil UK Limited during 2019 for £133,900,000 and £2,277,000 respectively.

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

15. Fixed asset investments (continued)

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Registered office	Class of shares	Holding
Nespresso UK Limited	1 City Place, Gatwick, West Sussex, RH16 0PA	Ordinary	100%
Nestlé Ireland Limited	3030 Lake Drive, Citywest, Dublin 24, Ireland	Ordinary	100%
Nestlé Purina UK Manufacturing Operations Limited (formerly Nestlé Purina Petcare UK Limited)	1 City Place, Gatwick, West Sussex, RH16 0PA	Ordinary	100%
Nestlé UK Pension Reservoir Trust Limited	1 City Place, Gatwick, West Sussex, RH16 0PA	Ordinary	100%
Nestlé UK Pension Trust Limited	1 City Place, Gatwick, West Sussex, RH16 0PA	Ordinary	100%
Nestlé Waters UK Limited	1 City Place, Gatwick, West Sussex, RH16 0PA	Ordinary	100%
Raw Products Limited	1 City Place, Gatwick, West Sussex, RH16 0PA	Ordinary	100%
Vitaflo France SARL	38 Rue de Berri, 75008 Paris, France	Ordinary	100%
Vitaflo (International) Limited	Suite 1.11, South Harrington Building, 182 Sefton Street, Brunswick Business Park, Liverpool, L3 4BQ	Ordinary	100%
Vitaflo Limited	6 Moss Street, Paisley, PA1 13L	Ordinary	100%
Wyeth Nutritionals Ireland Limited	Tomdeely North, Askeaton, County Limerick, Republic of Ireland	Ordinary	100%
Wynutri Limited	3030 Lake Drive, Citywest Business Campus, Dublin 24, Republic of Ireland	Ordinary	100%
Nestlé Purina UK Commercial Operations Limited	1 City Place, Gatwick, West Sussex, RH16 0PA	Ordinary	100%
Terrafertil UK Limited	2 Eastbourne Terrace, London, W2 6LG	Ordinary	100%

Participating interests

The Company has a 50% participating interest in Cereal Partners UK. The other 50% is owned by General Mills Canada Holding Three Corporation. A share of any taxation charge or credit relating to the results of the investment is borne by the Company. The value of the investment at the balance sheet date was £24,362,000 (2018 - £17,298,000).



**NESTLÉ UK LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**16. Stocks**

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
Raw materials and consumables	<b>38,318</b>	34,878
Work in progress (goods to be sold)	<b>25,461</b>	29,298
Finished goods and goods for resale	<b>94,517</b>	82,478
	<b>158,296</b>	146,654
	<b>158,296</b>	146,654

**17. Debtors**

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
Trade debtors	<b>265,210</b>	235,417
Amounts owed by group undertakings	<b>225,438</b>	275,539
Amounts owed by joint ventures and associated undertakings	<b>34,012</b>	56,723
Other debtors	<b>14,519</b>	25,702
Prepayments and accrued income	<b>12,977</b>	8,433
Financial instruments	<b>501</b>	3,755
	<b>552,657</b>	605,569
	<b>552,657</b>	605,569

Amounts owed by group undertakings include £158,420,000 (2018 - £192,301,000) representing cash transferred to subsidiary undertakings as part of the group cash pooling arrangement which can be recovered on request.

Amounts owed to joint ventures and associated undertakings include a loan of £31,000,000 (2018 - £53,000,000) to Cereal Partners U.K.

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS  
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18. Creditors: Amounts falling due within one year

	2019 £000	2018 £000
Bank overdrafts	138	136
Trade creditors	171,689	170,684
Amounts owed to group undertakings	1,340,529	464,687
Amounts owed to associates	14,214	14,909
Lease liabilities	8,416	5,820
Other creditors	9,513	12,855
Accruals and deferred income	116,692	98,610
Financial instruments	7,712	648
	<u>1,668,903</u>	<u>768,349</u>

Amounts owed to group undertakings includes unsecured loans £1,004,437,000 (2018 - £200,000,000), cash pooling arrangements £245,937,000 (2018 - £73,761,000) and current trading balances £90,155,000 (2018 - £190,926,000).

Amounts owed to group undertakings under group cash pooling arrangement and current account balances must be repaid on request.

Loans owed to group undertakings are reviewed monthly with the lender with automatic renewal for further periods of three years and a 10 day notice period for recalling or non-renewal of the loan.

Amounts owed to group undertakings comprise the following unsecured loans:

Settlement date	Interest rate	£000
September 2020	3 month LIBOR plus 99 basis points	200,000
November 2020	4 month LIBOR plus 182 basis points	804,437
		<u>1,004,437</u>

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**NOTES TO THE FINANCIAL STATEMENTS  
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**19. Creditors: Amounts falling due after more than one year**

	2019	2018
	£000	£000
Lease liabilities	46,986	44,090
Amounts owed to group undertakings	476,400	1,280,837
	523,386	1,324,927

Loans owed to group undertakings are reviewed monthly with the lender with automatic renewal for further periods of three years and a 10 day notice period for recalling or non-renewal of the loan.

Amounts owed to group undertakings comprise the following unsecured loans:

Settlement date	Interest rate	£000
February 2021	6 month LIBOR plus 5 basis points	425,000
February 2021	3 month LIBOR plus 5 basis points	51,400
		476,400

**20. Deferred taxation**

	2019
	£000
At beginning of year	(25,813)
Charged to the Profit and Loss Account	(19,274)
Utilised in year	21,530
<b>At end of year</b>	<b>(23,557)</b>

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS  
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20. Deferred taxation (continued)

The provision for deferred taxation is made up as follows:

	2019 £000	2018 £000
Accelerated capital allowances	(29,835)	(29,995)
Movement in general provisions	3,562	3,211
Capitalised leased assets	1,180	1,397
Other timing differences	1,536	(426)
	<u>(23,557)</u>	<u>(25,813)</u>

The Company has an unrecognised deferred tax asset of £4,261,000 (2018 - £3,943,000) as at 31 December 2019. This amount has not been recognised as the directors are of the opinion that recoverability of this deferred tax asset is uncertain. This is in addition to the unrecognised deferred tax asset in respect of gross capital losses disclosed in note 9.

21. Provisions

	Post retirement benefits £000	Factory/division reorganisation £000	Business restructuring £000	Total £000
At 1 January 2019	2,591	7,200	2,586	12,377
Charged to profit or loss	74	8,845	1,515	10,434
Credited to other comprehensive income	(469)	-	-	(469)
Released to profit or loss	-	(3,281)	-	(3,281)
Utilised in year	(72)	(3,699)	(1,320)	(5,091)
<b>At 31 December 2019</b>	<u>2,124</u>	<u>9,065</u>	<u>2,781</u>	<u>13,970</u>

**Post retirement benefits**

The post retirement benefits provision relates to post retirement medical benefits of a closed scheme (see note 27).

**Factory/division restructuring**

At 31 December 2018 there was a provision of £7,200,000 remaining in respect of factory restructuring. During the year £3,246,000 of this provision was utilised and £3,281,000 released to the Profit and Loss Account. Additional provisions of £8,845,000 were charged to the Profit and Loss Account during the year, of which £453,000 was utilised. Total provisions of £9,065,000 were outstanding at 31 December 2019.

**Business restructuring**

Provisions in respect of business restructuring totalled £2,586,000 at 31 December 2018. During 2019 additional provisions of £1,515,000 were charged to the Profit and Loss Account and £1,320,000 were utilised, resulting in provisions outstanding at 31 December 2019 of £2,781,000.

**NESTLÉ UK LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**22. Share capital**

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
<b>Allotted, called up and fully paid</b>		
260,000,000 (2018 - 260,000,000) Ordinary shares of £0.50 each	<b>130,000</b>	130,000
	<u>130,000</u>	<u>130,000</u>

**23. Reserves**

**Share premium account**

The balance of the share premium account represents the premium paid in excess of the nominal value of the issued share capital of the Company.

**Other reserves**

The hedging reserve balance reflects the recognition of the results on effective hedge transactions.

**Profit & loss account**

This relates to the undistributed profits of the Company.

**24. Equity compensation plan**

Certain employees are eligible to receive long-term incentives in the form of equity compensation plans. Each unit granted gives the right to one Nestlé S.A. share.

Equity compensation plans are settled either by remittance of Nestlé S.A. shares (accounted for as equity-settled share-based payment transactions) or by the payment of an equivalent amount in cash (accounted for as cash-settled share-based payment transactions). As the shares are in Nestlé S.A. and not Nestlé UK Ltd., all charges for equity compensation plans are accrued in 'creditors due within one year' and the share value is subsequently invoiced to Nestlé UK Ltd. by Nestlé S.A.

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NOTES TO THE FINANCIAL STATEMENTS  
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24. Equity compensation plan (continued)

**Restricted Stock Unit Plan (RSUP)**

Members of senior management are awarded Restricted Stock Units (RSU) that entitle participants to receive freely disposable Nestlé S.A. shares (accounted for as equity-settled share-based payment transactions) or an equivalent amount in cash (accounted for as cash-settled share-based payment transactions) at the end of a three year restriction period subject to service conditions.

	<b>2019</b>	2018
	<b>Number</b>	Number
<b>Number of RSU in units</b>		
Outstanding at the beginning of the year	<b>38,557</b>	-
Granted during the year	<b>36,536</b>	42,535
Settled and transfers to and from other group companies	<b>(797)</b>	(3,347)
Forfeited	<b>(843)</b>	(631)
<b>Outstanding at the end of the year</b>	<b>73,453</b>	38,557

The fair value of equity-settled RSU is determined on the basis of the market price of Nestlé S.A. shares at grant date, discounted at a risk-free interest rate and adjusted for the dividends that participants are not entitled to receive during the restricted period of three years. The weighted average fair value of the equity-settled RSU granted in 2019 is CHF 81.14 (2018 - CHF 66.62).

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**NOTES TO THE FINANCIAL STATEMENTS  
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**24. Equity compensation plan (continued)**

**Performance Share Unit Plan (PSUP)**

As from 2014, members of senior management are awarded Performance Share Units (PSU) that entitle participants to receive freely disposable Nestlé S.A. shares (accounted for as equity-settled share based payment transactions) or an equivalent amount of cash (accounted for as cash-settled share based payment transactions) at the end of a three year restriction period.

Upon vesting, the number of shares to be delivered will range from 0% to 200% of the initial grant and be determined by the degree by which the performance measures of the PSUP have been met. These measures are the relative Total Shareholder Return of the Nestlé S.A. share in relation to the STOXX Global 1800 Food and Beverage Net Return Index; and the growth of the underlying earnings per share in constant currencies. Each of the two measures has equal weighting in determining the vesting level of the initial PSU award.

	<b>2019</b>	2018
	<b>Number</b>	Number
<b>Number of PSU in units</b>		
Outstanding at the beginning of the year	<b>90,794</b>	138,832
Granted during the year	<b>16,910</b>	4,008
Forfeited during the year	<b>(439)</b>	(9,843)
Settled and transfers to and from other group companies	<b>(56,493)</b>	(42,203)
<b>Outstanding at the end of the year</b>	<b>50,772</b>	90,794

The fair value of the equity-settled PSU is determined using a valuation model which reflects the probability of over-achievement or under-achievement on the Total Shareholder Return measure, which is a market condition, and based on five-year historical data. The other inputs incorporated into the valuation model comprise the market price of Nestlé S.A. shares at the grant date, discounted at a risk-free interest rate and adjusted for the dividends that participants are not entitled to receive during the restricted period of three years. The weighted average fair value of the equity-settled PSU granted in 2019 is CHF 81.14 (2018 - CHF 59.96).

**25. Contingent liabilities**

At 31 December 2019 the Company had provided indemnities given in the normal course of business totalling £40,327,000 (2018 - £39,427,000).

The Company participates in a joint venture (see note 15). Under the terms of the partnership agreement the Company acts as guarantor for its share of the partnership pension scheme deficit. At 31 December 2019 the Company's share of the pension deficit amounted to £5,253,000 (2018 - £242,000).

**26. Capital commitments**

At 31 December the Company had capital commitments as follows:

	<b>2019</b>	2018
	<b>£000</b>	£000
Contracted for but not provided in these financial statements	<b>759</b>	6,988
	<b>759</b>	6,988

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS  
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27. Pension commitments

The total pensions liability of £6,704,000 recorded on the Statement of Financial Position is made up of a funded surplus of £4,792,000 detailed in note 27(a) and an unfunded deficit of £11,496,000 detailed in note 27(b).

(a) Nestlé UK Pension Fund

Nestlé UK Ltd. participates in the Nestlé UK Pension Fund ("the Fund") which includes a defined benefit and a defined contribution section. The current defined benefit section provides career average benefits to employees on retirement based on their salary and the length of their service.

The Fund is a registered Pension scheme and is subject to the statutory scheme-specific funding requirements outlined in UK legislation, including the payment of levies to the Pension Protection Fund. It is established under trust and the responsibility for its governance lies with the trustees who also agree the funding arrangements with the Company.

The last triennial funding valuation of the fund was carried out at 31 December 2015 and deficit recovery contributions for the period 2017 to 2022 were confirmed in an agreement between the Company and the Trustees signed initially on 21 February 2017, and subsequently updated and signed on 11 December 2018.

An updated valuation of the entire scheme was prepared at 31 December 2019 by an independent qualified actuary for the purpose of IAS 19. At that date the assets exceeded the liabilities of the scheme by £5,808,000 (2018 - liabilities exceeded assets by 3,554,000).

The Company has received legal advice in respect of the Fund which confirms that it has an unconditional right to any remaining surplus once all member benefits have been paid. As such, the surplus as at 31 December 2019 has been recognised in full and there are no additional minimum funding liabilities.

The Company made contributions totalling £133,383,000 to the defined benefit section of the fund during 2019 (2018 - £139,551,000).

	2019 £000	2018 £000
<b>The amounts recognised in the balance sheet are as follows</b>		
Present value of funded obligations	(5,345,512)	(4,798,027)
Fair value of scheme assets	5,351,320	4,794,473
<b>Gross surplus/(deficit)</b>	<b>5,808</b>	<b>(3,554)</b>
Related deferred tax asset (note 20)	(1,016)	675
Net surplus/(deficit)	<b>4,792</b>	<b>(2,879)</b>



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NOTES TO THE FINANCIAL STATEMENTS  
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27. Pension commitments (continued)

	2019 £000	2018 €000
<b>Composition of plan assets</b>		
Equity investments	1,571,699	1,656,459
Debt instruments	3,882,588	3,296,868
Cash and cash equivalents	1,640,709	(1,307,301)
Real estate	235,493	245,513
Hedge funds	612,777	759,389
Other	(2,591,946)	143,545
	<u>5,351,320</u>	<u>4,794,473</u>

A breakdown of the Fund's investments is detailed below. The Fund's holding includes liability-driven investment, repurchase agreements and derivatives, such as swaps. These assets are intended to reduce key liability risks such as those in respect of interest and inflation rates. At the reporting date, the Fund's interest and inflation rate hedging ratios were approximately 90%.

	2019 £000	2018 €000
Cash	-	400
Cash collateral held elsewhere	200	6,700
Cash collateral due to/from broker	-	1,400
Exchange cleared swaps - other assets	4,000	300
Swaps	-	500
Funds - short term investments	125,600	13,600
Government bonds	306,300	258,800
Index-linked government bonds	2,867,300	2,661,200
	<u>3,303,400</u>	<u>2,942,900</u>

	2019 £000	2018 €000
Cash collateral due to/from broker	(700)	-
Repurchase agreements	(1,638,100)	(1,412,400)
Exchange cleared swap liabilities	-	(2,400)
Swap liabilities	(4,100)	-
	<u>(1,642,900)</u>	<u>(1,414,800)</u>

Total LDI funds	<u>1,660,500</u>	<u>1,528,100</u>
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NOTES TO THE FINANCIAL STATEMENTS  
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27. Pension commitments (continued)

**Net deficit in the scheme**

	2019 £000	2018 £000
At 1 January	(2,879)	(273,483)
Current service cost	(31,222)	(37,379)
Past service cost	-	(10,000)
Net interest credit/(cost)	1,598	(5,740)
Pension curtailments	1,557	5,339
Actuarial gains/(losses)	(87,762)	247,038
Deferred tax on actuarial movement	(675)	(60,075)
Contributions - special	87,500	86,000
Contributions - normal	45,883	53,551
Impact of business disposal	135	-
Transfer of liability to unfunded scheme	-	170
Administrative expenses	(8,327)	(8,300)
<b>At 31 December</b>	<b>5,808</b>	<b>(2,879)</b>

**Amounts recognised in the Profit and Loss Account to arrive at operating profit**

	2019 £000	2018 £000
Current service cost	(31,222)	(37,379)
Past service cost	-	(10,000)
Pension curtailments	1,557	5,339
Administrative expenses	(8,327)	(8,300)
<b>Defined benefit scheme</b>	<b>(37,992)</b>	<b>(50,340)</b>
Defined contribution scheme	(12,671)	(10,730)
Unfunded defined benefit scheme	(394)	(400)
Recovery from affiliate companies for the defined benefit scheme	17,863	26,630
Recognised in operating profit	<b>(33,194)</b>	<b>(34,840)</b>

**Amounts recognised in the Profit and Loss Account in interest receivable and similar income**

	2019 £000	2018 £000
Net interest on defined benefit obligations	1,598	(5,740)
	<b>1,598</b>	<b>(5,740)</b>

NESTLÉ UK LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

27. Pension commitments (continued)

Reconciliation of fair value of plan liabilities

	2019 £000	2018 £000
At 1 January	(4,798,027)	(5,224,313)
Current service cost	(31,415)	(37,779)
Past service cost	-	(10,000)
Pension curtailments	1,557	5,339
Interest expense on defined benefit obligation	(138,800)	(133,473)
Changes in demographic assumptions	30,029	115,510
Changes in financial assumptions	(657,269)	284,697
Effect of experience adjustments	26,098	864
Transfer of liability to unfunded scheme	-	170
Impact of business disposal	21,135	-
Benefits paid	201,180	200,958
<b>At 31 December</b>	<b>(5,345,512)</b>	<b>(4,798,027)</b>

Reconciliation of fair value of plan assets

	2019 £000	2018 £000
At 1 January	4,794,473	4,890,080
Interest on plan assets	140,398	127,733
Contributions by employer	133,383	139,551
Contributions by scheme participants	193	400
Administrative expenses	(8,327)	(8,300)
Remeasurements - return on scheme assets	513,380	(154,033)
Impact of business disposal	(21,000)	-
Benefits paid	(201,180)	(200,958)
<b>At 31 December</b>	<b>5,351,320</b>	<b>4,794,473</b>

The cumulative amount of actuarial losses recognised in the Statement of Comprehensive Income was £1,683,270,000 (2018 - £1,595,508,000). The Company expects to pay £131,336,000 to its defined benefit plans during 2020.

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NOTES TO THE FINANCIAL STATEMENTS  
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27. Pension commitments (continued)

The principal actuarial assumptions at the balance sheet date were as follows:

	2019	2018
Discount rate (Defined benefit obligation)	2.05%	2.95%
Discount rate (Service cost)	2.15%	3.05%
Price inflation	3.00%	3.20%
Future increases in salaries	2.25%	2.20%
Future increases in pensions	2.90%	3.05%
Life expectancy of a male member aged 65	21.2 years	21.8 years
Life expectancy of a female member aged 65	23.4 years	23.1 years

The discount rate assumption was derived using an updated methodology at 31 December 2019 and is based on a corporate bond curve with a "Single Agency" approach incorporated.

The weighted average duration of the benefit payments reflected in the fair value of the Fund's liabilities is 17 years.

Sensitivity analysis

The sensitivity of the fair value of plan liabilities to a change in the assumptions adopted in the valuation is as follows:

	2019 £000	2019 £000	2018 £000	2018 £000
	Increase by 0.5% p.a.	Decrease by 0.5% p.a.	Increase by 0.5% p.a.	Decrease by 0.5% p.a.
Change in discount rate	(4,907,747)	(5,846,121)	(4,423,480)	(5,224,509)
Change in salary increase	(5,345,512)	(5,345,512)	(4,798,027)	(4,798,027)
Change in pension increase	(5,672,180)	(5,019,531)	(5,075,230)	(4,508,780)
Change in member mortality assumption by 1 year	(5,152,934)	(5,539,634)	(4,636,870)	(4,959,632)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated.

NESTLÉ UK LTD.

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27. Pension commitments (continued)

The five year history of the defined benefit obligation and plan assets is as follows:

	2019 £000	2018 £000	2017 £000	2016 £000	2015 £000
Defined benefit obligation	(5,345,512)	(4,798,027)	(5,224,313)	(5,304,013)	(4,255,083)
Plan assets	5,351,320	4,794,473	4,890,080	4,611,723	3,838,532
<b>Scheme surplus/(deficit)</b>	<b>5,808</b>	<b>(3,554)</b>	<b>(334,233)</b>	<b>(692,290)</b>	<b>(416,551)</b>
Experience adjustments on plan liabilities	(26,098)	(864)	25,337	(57,251)	(96,949)
Experience adjustments on plan assets	513,380	(154,033)	217,922	721,134	(65,647)

(b) Other personnel obligations

The Company has the following liability in respect of the unfunded pension fund:

	2019 £000	2018 £000
Pension liability	(13,934)	(11,872)
Deferred tax (note 20)	2,438	2,256
<b>Net deficit</b>	<b>(11,496)</b>	<b>(9,616)</b>

The principal actuarial assumptions at the balance sheet date were as follows:

	2018	2017
Discount rate (Defined benefit obligation)	2.05%	2.95%
Discount rate (Service cost)	2.15%	3.05%
Price inflation	3.00%	3.20%
Future increases in salaries	2.25%	2.20%
Future increases in pensions	2.90%	3.05%
Life expectancy of a male aged 65	21.2 years	21.8 years

The amounts recognised in the Profit and Loss Account within operating profit are as follows:

	2019 £000	2018 £000
Current service cost	(394)	(400)
Past service cost	-	-
Gains/losses on settlements	-	-
	<b>(394)</b>	<b>(400)</b>

NESTLÉ UK LTD.

**NOTES TO THE FINANCIAL STATEMENTS  
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**27. Pension commitments (continued)**

The amounts recognised in interest payable and similar charges are as follows:

	<b>2019</b>	2018
	<b>£000</b>	£000
Interest on obligations	(339)	(305)
	(339)	(305)
	(339)	(305)

**(c) Post-retirement benefits**

The Company provides certain post-retirement benefits, mainly healthcare to 111 (2018 - 118) pensioned former employees. The plan is unfunded and the liability in respect of these benefits is assessed by a qualified independent actuary on a bi-annual basis.

The gross liability reported is £2,124,000 (2018 - £2,591,000) and is disclosed within "Provisions for liabilities and charges" in the Balance Sheet (see note 21).

The following table sets out the key assumptions used for the scheme:

	<b>2019</b>	2018
Core price inflation	2.95%	3.20%
Discount rate	1.95%	2.90%
Future increases in salaries	2.25%	2.20%
Future increases in pensions	2.90%	3.05%
Medical expense inflation	4.95%	5.20%
Life expectancy of a male aged 65	21.2 years	21.8 years
	21.2 years	21.8 years
	21.2 years	21.8 years

The amounts recognised in interest payable and similar charges are as follows:

	<b>2019</b>	2018
	<b>£000</b>	£000
Interest on obligations	(74)	(71)
	(74)	(71)
	(74)	(71)

Assumed medical expense inflation has an effect on the amounts reported for the Post-retirement medical Scheme. A 50 basis point change in assumed medical expense inflation would have the following effect on the Company's Post-retirement Medical Scheme:

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**27. Pension commitments (continued)**

	<b>2019</b>	<b>2019</b>	2018	2018
	<b>£000</b>	<b>£000</b>	£000	£000
	<b>Increase by</b>	<b>Decrease by</b>	Increase by	Decrease by
	<b>0.5% p.a.</b>	<b>0.5% p.a.</b>	0.5% p.a.	0.5% p.a.
Gross liability at year-end	<b>(2,256)</b>	<b>(2,033)</b>	(2,723)	(2,467)

**(d) Long term sickness and disability scheme**

The Company operates a Long Term Sickness and Disability Scheme. The reserve in respect of any liabilities is assessed by a qualified independent actuary and is included in creditors: amounts falling due within one year (note 18)

The following table sets out the key assumptions used for the scheme.

	<b>2019</b>	2018
Core price inflation	<b>2.95%</b>	3.20%
Discount rate	<b>1.95%</b>	2.90%
Benefit increases	<b>2.45%</b>	2.70%

**28. Related party transactions**

The Company pays for certain costs on behalf of the Nestlé UK Pension Fund ("NUKPF") and Cereal Partners Pension Fund. These pension funds reimburse the Company with the cost of these expenses. For the year ended 31 December 2019 the total expenses reimbursed amounted to £11,415,941 (2018 - £12,167,274). Of this figure £2,731,915 (2018 - £2,574,280) relates to salaries and other benefits of the staff and £8,684,026 (2018 - £9,592,994) to other administrative costs.

**29. Post balance sheet events**

On 11 March 2020, the World Health Organization declared the Coronavirus (COVID-19) outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 countries now affected. Many governments are taking increasingly stringent steps to help contain or delay the spread of the virus. Currently, there is a significant increase in economic uncertainty which is, for example, evidenced by more volatile asset prices and currency exchange rates.

For the Company's 31 December 2019 financial statements, the Coronavirus outbreak and the related impacts are considered non-adjusting events. Consequently, there is no impact on the recognition and measurement of assets and liabilities. Due to the uncertainty of the outcome of the current events, the Company cannot reasonably estimate the impact these events will have on the Company's financial position, results of operations or cash flows in the future.

**NESTLÉ UK LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
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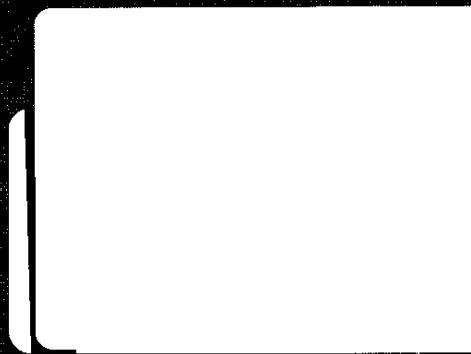
**30. Controlling party**

Nestlé Holdings (U.K.) PLC, a company registered in England and Wales, is the Company's immediate parent company and the holding company for some other Nestlé S.A. group companies based in the United Kingdom.

The largest and smallest group into which the results of this Company are consolidated is that headed by Nestlé S.A., a company incorporated in Switzerland. Copies of group accounts can be obtained from CH-1800 Vevey, Switzerland.



# Consolidated Financial Statements of the Nestlé Group 2019



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## Principal exchange rates

CHF per

		2019	2018	2019	2018
		Year ending rates		Weighted average annual rates	
1 US Dollar	USD	0.969	0.986	0.993	0.979
1 Euro	EUR	1.086	1.128	1.112	1.154
100 Chinese Yuan Renminbi	CNY	13.911	14.335	14.366	14.776
100 Brazilian Reals	BRL	24.042	25.448	25.118	26.663
100 Philippine Pesos	PHP	1.912	1.877	1.920	1.856
1 Pound Sterling	GBP	1.272	1.256	1.269	1.302
100 Mexican Pesos	MXN	5.124	5.015	5.159	5.082
1 Canadian Dollar	CAD	0.743	0.724	0.749	0.755
100 Japanese Yen	JPY	0.892	0.894	0.911	0.886
1 Australian Dollar	AUD	0.679	0.697	0.692	0.731
100 Russian Rubles	RUB	1.563	1.416	1.537	1.554

## Consolidated income statement for the year ended December 31, 2019

In millions of CHF

	Notes	2019	2018
<b>Sales</b>	3	<b>92 568</b>	<b>91 439</b>
Other revenue		297	311
Cost of goods sold		(46 647)	(46 070)
Distribution expenses		(8 496)	(8 469)
Marketing and administration expenses		(19 790)	(20 003)
Research and development costs		(1 672)	(1 687)
Other trading income	4	163	37
Other trading expenses	4	(2 749)	(1 769)
<b>Trading operating profit</b>	3	<b>13 674</b>	<b>13 789</b>
Other operating income	4	3 717	2 535
Other operating expenses	4	(1 313)	(2 572)
<b>Operating profit</b>		<b>16 078</b>	<b>13 752</b>
Financial income	5	200	247
Financial expense	5	(1 216)	(1 008)
<b>Profit before taxes, associates and joint ventures</b>		<b>15 062</b>	<b>12 991</b>
Taxes	13	(3 159)	(3 439)
Income from associates and joint ventures	14	1 001	916
<b>Profit for the year</b>		<b>12 904</b>	<b>10 468</b>
of which attributable to non-controlling interests		295	333
of which attributable to shareholders of the parent (Net profit)		12 609	10 135
<b>As percentages of sales</b>			
Trading operating profit		14.8%	15.1%
Profit for the year attributable to shareholders of the parent (Net profit)		13.6%	11.1%
<b>Earnings per share (in CHF)</b>			
Basic earnings per share	15	4.30	3.36
Diluted earnings per share	15	4.30	3.36

## Consolidated statement of comprehensive income for the year ended December 31, 2019

In millions of CHF

	Notes	2019	2018
<b>Profit for the year recognized in the income statement</b>		<b>12 904</b>	<b>10 468</b>
Currency retranslations, net of taxes	17	(1 050)	(1 004)
Fair value changes and recycling on debt instruments, net of taxes	17	—	(39)
Fair value changes and recycling on cash flow hedges, net of taxes		(66)	46
Share of other comprehensive income of associates and joint ventures	14/17	49	(21)
Items that are or may be reclassified subsequently to the income statement		(1 067)	(1 018)
Remeasurement of defined benefit plans, net of taxes	10/17	(320)	600
Fair value changes on equity instruments, net of taxes	17	(4)	4
Share of other comprehensive income of associates and joint ventures	14/17	337	117
Items that will never be reclassified to the income statement		13	721
<b>Other comprehensive income for the year</b>	17	<b>(1 054)</b>	<b>(297)</b>
<b>Total comprehensive income for the year</b>		<b>11 850</b>	<b>10 171</b>
of which attributable to non-controlling interests		317	218
of which attributable to shareholders of the parent		11 533	9 953

## Consolidated balance sheet as at December 31, 2019

before appropriations

In millions of CHF

	Notes	2019	2018
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	12/16	7 469	4 500
Short-term investments	12	2 794	5 801
Inventories	6	9 343	9 125
Trade and other receivables	7/12	11 766	11 167
Prepayments and accrued income		498	530
Derivative assets	12	254	183
Current income tax assets		768	869
Assets held for sale	2	2 771	8 828
<b>Total current assets</b>		<b>35 663</b>	<b>41 003</b>
<b>Non-current assets</b>			
Property, plant and equipment	8	28 762	29 956
Goodwill	9	28 896	31 702
Intangible assets	9	17 824	18 634
Investments in associates and joint ventures	14	11 505	10 792
Financial assets	12	2 611	2 567
Employee benefits assets	10	510	487
Current income tax assets		55	58
Deferred tax assets	13	2 114	1 816
<b>Total non-current assets</b>		<b>92 277</b>	<b>96 012</b>
<b>Total assets</b>		<b>127 940</b>	<b>137 015</b>

Consolidated balance sheet as at December 31, 2019

In millions of CHF

	Notes	2019	2018
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Financial debt	12	14 032	14 694
Trade and other payables	7/12	18 803	17 800
Accruals and deferred income		4 492	4 075
Provisions	11	802	780
Derivative liabilities	12	420	448
Current income tax liabilities		2 673	2 731
Liabilities directly associated with assets held for sale	7	393	2 502
<b>Total current liabilities</b>		<b>41 615</b>	<b>43 030</b>
<b>Non-current liabilities</b>			
Financial debt	12	23 132	25 700
Employee benefits liabilities	10	6 151	5 919
Provisions	11	1 162	1 033
Deferred tax liabilities	13	2 589	2 540
Other payables	12	429	390
<b>Total non-current liabilities</b>		<b>33 463</b>	<b>35 582</b>
<b>Total liabilities</b>		<b>75 078</b>	<b>78 612</b>
<b>Equity</b>			
Share capital	17	298	306
Treasury shares		(9 752)	(6 948)
Translation reserve		(21 526)	(20 432)
Other reserves		(45)	(183)
Retained earnings		83 060	84 620
<b>Total equity attributable to shareholders of the parent</b>		<b>52 035</b>	<b>57 363</b>
Non-controlling interests		827	1 040
<b>Total equity</b>		<b>52 862</b>	<b>58 403</b>
<b>Total liabilities and equity</b>		<b>127 940</b>	<b>137 015</b>

## Consolidated cash flow statement for the year ended December 31, 2019

In millions of CHF

	Notes	2019	2018
<b>Operating activities</b>			
Operating profit	16	16 078	13 752
Depreciation and amortization	16	3 713	3 924
Impairment		2 336	1 248
Net result on disposal of businesses	4	(3 416)	(686)
Other non-cash items of income and expense	16	(28)	137
<b>Cash flow before changes in operating assets and liabilities</b>		<b>18 683</b>	<b>18 375</b>
Decrease/(increase) in working capital	16	349	472
Variation of other operating assets and liabilities	16	(94)	(37)
<b>Cash generated from operations</b>		<b>18 938</b>	<b>18 810</b>
<b>Interest and dividends</b>			
Interest paid		(1 028)	(684)
Interest and dividend received		152	192
Taxes paid		(2 854)	(3 623)
Dividends and interest from associates and joint ventures	14	632	703
<b>Operating cash flow</b>		<b>15 850</b>	<b>15 398</b>
<b>Investing activities</b>			
Capital expenditure	8	(3 695)	(3 869)
Expenditure on intangible assets	4	(516)	(601)
Acquisition of businesses	2	(125)	(9 512)
Disposal of businesses	2	9 959	4 310
Investments (net of divestments) in associates and joint ventures	14	(540)	728
Inflows/(outflows) from treasury investments		2 978	(5 159)
Other investing activities		295	(163)
<b>Investing cash flow</b>		<b>8 356</b>	<b>(14 266)</b>
<b>Financing activities</b>			
Dividend paid to shareholders of the parent	17	(7 230)	(7 124)
Dividends paid to non-controlling interests		(463)	(319)
Acquisition (net of disposal) of non-controlling interests	2	(16)	(528)
Purchase (net of sale) of treasury shares (a)		(9 773)	(6 854)
Inflows from bonds and other non-current financial debt	12	57	9 900
Outflows from bonds and other non-current financial debt	12	(3 287)	(2 712)
Inflows/(outflows) from current financial debt	12	(444)	3 520
<b>Financing cash flow</b>		<b>(21 156)</b>	<b>(4 117)</b>
Currency retranslations		(221)	(313)
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>2 829</b>	<b>(3 298)</b>
Cash and cash equivalents at beginning of year		4 640	7 938
<b>Cash and cash equivalents at end of year</b>	16	<b>7 469</b>	<b>4 640</b>

(a) Mostly relates to the share buyback program launched in 2017.



## Consolidated statement of changes in equity for the year ended December 31, 2019

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 January 1, 2018</b>	<b>311</b>	<b>(4 537)</b>	<b>(19 612)</b>	<b>(181)</b>	<b>84 962</b>	<b>60 943</b>	<b>1 271</b>	<b>62 214</b>
Profit for the year	—	—	—	—	10 135	10 135	333	10 468
Other comprehensive income for the year	—	—	(893)	(12)	723	(182)	(115)	(297)
<b>Total comprehensive income for the year</b>	<b>—</b>	<b>—</b>	<b>(893)</b>	<b>(12)</b>	<b>10 858</b>	<b>9 953</b>	<b>218</b>	<b>10 171</b>
Dividends	—	—	—	—	(7 124)	(7 124)	(319)	(7 443)
Movement of treasury shares	—	(6 677)	—	—	(49)	(6 726)	—	(6 726)
Equity compensation plans	—	153	—	—	(3)	150	3	153
Changes in non-controlling interests	—	—	—	—	181	181	(133)	48
Reduction in share capital <sup>(a)</sup>	(5)	4 113	—	—	(4 108)	—	—	—
<b>Total transactions with owners</b>	<b>(5)</b>	<b>(2 411)</b>	<b>—</b>	<b>—</b>	<b>(11 103)</b>	<b>(13 519)</b>	<b>(449)</b>	<b>(13 968)</b>
Other movements	—	—	73	10	(97)	(14)	—	(14)
<b>Equity as at December 31, 2018</b>	<b>306</b>	<b>(6 948)</b>	<b>(20 432)</b>	<b>(183)</b>	<b>84 620</b>	<b>57 363</b>	<b>1 040</b>	<b>58 403</b>
<b>Equity as at January 1, 2019</b>	<b>306</b>	<b>(6 948)</b>	<b>(20 432)</b>	<b>(183)</b>	<b>84 620</b>	<b>57 363</b>	<b>1 040</b>	<b>58 403</b>
Profit for the year	—	—	—	—	12 609	12 609	295	12 904
Other comprehensive income for the year	—	—	(1 094)	(7)	25	(1 076)	22	(1 054)
<b>Total comprehensive income for the year</b>	<b>—</b>	<b>—</b>	<b>(1 094)</b>	<b>(7)</b>	<b>12 634</b>	<b>11 533</b>	<b>317</b>	<b>11 850</b>
Dividends	—	—	—	—	(7 230)	(7 230)	(463)	(7 693)
Movement of treasury shares	—	(9 946)	—	—	175	(9 771)	—	(9 771)
Equity compensation plans	—	280	—	—	(142)	138	(1)	137
Changes in non-controlling interests	—	—	—	—	4	4	(68)	(64)
Reduction in share capital <sup>(a)</sup>	(8)	6 862	—	—	(6 854)	—	—	—
<b>Total transactions with owners</b>	<b>(8)</b>	<b>(2 804)</b>	<b>—</b>	<b>—</b>	<b>(14 047)</b>	<b>(16 859)</b>	<b>(532)</b>	<b>(17 391)</b>
Other movements	—	—	—	145	(147)	(2)	2	—
<b>Equity as at December 31, 2019</b>	<b>298</b>	<b>(9 752)</b>	<b>(21 526)</b>	<b>(45)</b>	<b>83 060</b>	<b>52 035</b>	<b>827</b>	<b>52 862</b>

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

# Notes

## 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 a historical cost basis, unless stated otherwise. All significant consolidated companies, joint arrangements and associates have a December 31 accounting year-end.

The Consolidated Financial Statements 2019 were approved for issue by the Board of Directors on February 12, 2020, and are subject to approval by the Annual General Meeting on April 23, 2020.

### 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. The estimates and underlying assumptions are reviewed on an ongoing basis. Actual results may differ from these estimates.

Those areas that involved a higher degree of judgement or uncertainty are explained further in the relevant notes, including classification and measurement of assets held for sale (see Note 2), recognition and estimation of revenue (see Note 3), presentation of additional line items and sub-totals in the income statement (see Note 4), identification of a lease and lease term (see Note 8), identification of cash generating units (CGUs) and estimation of recoverable amount for impairment tests (see Note 9), assessment of useful lives of intangible assets as finite or indefinite (see Note 9), measurement of employee benefit obligations (see Note 10), recognition and measurement of provisions (see Note 11) and estimation of current and deferred 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 recognized in Other comprehensive income.

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

### Hyperinflationary economies

Several factors are considered when evaluating whether an economy is hyperinflationary, including the cumulative three-year inflation, and the degree to which the population's behaviors and government policies are consistent with such a condition.

The balance sheet and 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. The hyperinflationary economies in which the Group operates are listed in Note 20.

## 1. Accounting policies

### **Other revenue**

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

### **Expenses**

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

### **Changes in presentation – analyses by segment**

Starting in 2019, following a change of allocation methodology used to determine segment profit or loss, some Marketing and administration expenses previously included under Unallocated items have been allocated to Operating segments. This was done to better reflect the use of central overheads by each Zone and Globally Managed Business.

2018 comparatives have been adjusted (see Note 3). An amount of CHF 102 million has been reallocated from Unallocated items to Operating segments.

### **Changes in accounting standards**

A number of existing standards have been modified on miscellaneous points with effect from January 1, 2019. Such changes include Prepayment Features with Negative Compensation (Amendments to IFRS 9), Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28), Annual Improvements to IFRSs 2015–2017 Cycle (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23), and Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).

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

The Group early adopted IFRS 16 – Leases and IFRIC 23 – Uncertainty over Income Tax Treatments on January 1, 2018 with the impacts already disclosed in the 2018 Consolidated Financial Statements.

### **Changes in IFRS that may affect the Group after December 31, 2019**

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

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

### **Scope of consolidation**

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

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

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

### **Business combinations**

Where not all of the equity of a subsidiary is acquired the non-controlling interests are recognized at the non-controlling interest's share of the acquiree's net identifiable assets. Upon obtaining control in a business combination achieved in stages, the Group remeasures its previously held equity interest at fair value and recognizes a gain or a loss in the income statement.

### **2.1 Modification of the scope of consolidation**

#### **Acquisitions**

There were no significant acquisitions in 2019.

In 2018, the significant acquisitions were:

- perpetual global license of Starbucks Consumer Packaged Goods and Foodservice products ('Starbucks Alliance'), worldwide – roast and ground coffee, whole beans as well as instant and portioned coffee (Powdered and Liquid Beverages) – end of August.
- Atrium Innovations, mainly North America – nutritional health products (Nutrition and Health Science) – 100%, March.

None of the other acquisitions of 2018 were significant.

#### **Disposals**

In 2019, there were several disposals but only one was significant:

- Nestlé Skin Health, worldwide – science-based skincare solutions (Nutrition and Health Science) – 100%, beginning of October.

In 2018, the disposals included:

- US Confectionery business, North America – chocolate and sugar products (Confectionery) – 100%, end of March.
- Gerber Life Insurance, North America – insurance (Nutrition and Health Science) – 100%, end of December.

None of the other disposals of 2018 were significant.

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

**2.2 Acquisitions of businesses**

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

In millions of CHF

	2019				2018
	<b>Total</b>	Starbucks Alliance	Atrium Innovations	Other	<b>Total</b>
Property, plant and equipment	131	4	58	62	124
Intangible assets <sup>(a)</sup>	31	4 794	1 133	66	5 993
Inventories, prepaid inventories and other assets	17	176	301	59	536
Financial debt	(134)	—	(32)	(36)	(68)
Employee benefits, deferred taxes and provisions	—	—	(167)	—	(167)
Other liabilities	(53)	—	(109)	(38)	(147)
<b>Fair value of identifiable net assets/(liabilities)</b>	<b>(8)</b>	<b>4 974</b>	<b>1 184</b>	<b>113</b>	<b>6 271</b>

(a) Mainly intellectual property rights, operating rights, customer lists, trademarks and trade names

The goodwill arising on acquisitions and the cash outflow are:

In millions of CHF

	2019				2018
	<b>Total</b>	Starbucks Alliance	Atrium Innovations	Other	<b>Total</b>
Fair value of consideration transferred	102	7 068	2 193	341	9 602
Non-controlling interests	—	—	23	6	29
Subtotal	102	7 068	2 216	347	9 631
Fair value of identifiable net (assets)/liabilities	8	(4 974)	(1 184)	(113)	(6 271)
<b>Goodwill</b>	<b>110</b>	<b>2 094</b>	<b>1 032</b>	<b>234</b>	<b>3 360</b>

In millions of CHF

	2019				2018
	<b>Total</b>	Starbucks Alliance	Atrium Innovations	Other	<b>Total</b>
Fair value of consideration transferred	102	7 068	2 193	341	9 602
Cash and cash equivalents acquired	—	—	(47)	(12)	(59)
Consideration payable	(8)	—	—	(31)	(31)
Payment of consideration payable on prior years acquisitions	31	—	—	—	—
<b>Cash outflow on acquisitions</b>	<b>125</b>	<b>7 068</b>	<b>2 146</b>	<b>298</b>	<b>9 512</b>

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

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

### **Starbucks Alliance**

At the end of August 2018, the Group acquired the perpetual rights to market, sell and distribute certain Starbucks' consumer and foodservice products globally ('Starbucks Alliance'), which transferred control over the existing businesses mainly in North America and Europe. It excludes Ready-to-Drink products and all sales of any products within Starbucks coffee shops. Consumer and foodservice products include *Starbucks*, *Seattle's Best Coffee*, *Teavana*, *Starbucks VIA Instant*, *Torrefazione Italia* coffee and Starbucks branded *K-Cup* pods. Through the Starbucks Alliance, the Group and Starbucks will work closely together on the existing Starbucks range of roast and ground coffee, whole beans as well as instant and portioned coffee with the goal of enhancing its product offerings for coffee lovers globally. This partnership with Starbucks significantly strengthens the Group's coffee portfolio in the North American premium roast and ground and portioned coffee business. It also unlocks global expansion in grocery and foodservice for the Starbucks brand, utilizing the global reach of Nestlé. This creates synergies that result in goodwill being recognized, which is expected to be deductible for tax purposes.

### **Atrium Innovations**

At the beginning of March 2018, the Group acquired Atrium Innovations, a global leader in nutritional health products with sales mainly in North America and Europe. Atrium's brands are a natural complement to Nestlé Health Science's Consumer Care portfolio and its portfolio extends Nestlé's product range with value-added solutions such as probiotics, plant-based protein nutrition and multivitamins. Atrium's largest brands are *Garden of Life*, the number one brand in the natural products industry in the US; and *Pure Encapsulations*, a full line of hypoallergenic, research-based dietary supplements and the number one recommended brand in the US practitioner market. The goodwill arising on this acquisition includes elements such as distribution synergies and strong growth potential and is not expected to be deductible for tax purposes.

### **Acquisition-related costs**

Acquisition-related costs have been recognized under other operating expenses in the income statement (see Note 4.2) for an amount of CHF 11 million (2018: CHF 35 million).

### **Acquisition planned after December 31, 2019**

On January 27, 2020, the Group announced that it has entered into an asset purchase agreement with Allergan to acquire the gastrointestinal medication Zenpep. This move aims to expand Nestlé Health Science's medical nutrition business and complement its portfolio of therapeutic products. Zenpep, available in the United States, is a medication for people who cannot digest food properly because their pancreas does not provide enough enzymes to break down fat, protein, and carbohydrates.

The transaction is expected to close in the first half of 2020 concurrent and dependent upon the merger of Allergan and AbbVie.

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

### 2.3 Disposals of businesses

In 2019, the gain on disposals of businesses is mainly composed of the disposal of the Nestlé Skin Health business (part of the Other businesses segment and classified as held for sale as of December 31, 2018).

In 2018, the gain on disposals of businesses was mainly composed of the disposal at end of March 2018 of the US Confectionery business (part of the Zone AMS operating segment and classified as held for sale as of December 31, 2017). The loss on disposals was mainly composed of the disposal at end of December 2018 of the Gerber Life Insurance business (part of the Other businesses segment).

In millions of CHF

	2019			2018			
	Nestlé Skin Health	Other	Total	Gerber Life Insurance	US Confectionery	Other	Total
Property, plant and equipment	435	177	612	8	201	73	282
Goodwill and intangible assets	6 754	19	6 773	1 441	—	257	1 698
Cash, cash equivalents and short-term investments	376	25	401	—	—	8	8
Inventories	247	23	270	—	127	29	156
Trade and other receivables, prepayments, accrued income and other assets	774	117	891	3 644	—	24	3 668
Deferred tax assets	267	8	275	—	—	—	—
Financial liabilities	(88)	(37)	(125)	(4)	—	(1)	(5)
Employee benefits and provisions	(336)	(9)	(345)	—	—	(11)	(11)
Other liabilities	(1 177)	(92)	(1 269)	(2 449)	—	(28)	(2 477)
Deferred tax liabilities	(729)	(3)	(732)	—	—	—	—
Non-controlling interests	(70)	—	(70)	—	—	—	—
<b>Net assets disposed of or impaired after classification as held for sale</b>	<b>6 453</b>	<b>228</b>	<b>6 681</b>	<b>2 640</b>	<b>328</b>	<b>351</b>	<b>3 319</b>
Cumulative other comprehensive income items, net, reclassified to income statement	132	—	132	226	37	—	263
Profit/(loss) on disposals, net of disposal costs and impairments of assets held for sale	3 452	(36)	3 416	(1 343)	2 241	(212)	686
<b>Total disposal consideration, net of disposal costs</b>	<b>10 037</b>	<b>192</b>	<b>10 229</b>	<b>1 523</b>	<b>2 606</b>	<b>139</b>	<b>4 268</b>
Cash and cash equivalents disposed of	(376)	(25)	(401)	—	—	(8)	(8)
Disposal costs not yet paid	113	15	128	—	52	—	52
Consideration receivable	—	(21)	(21)	—	—	(4)	(4)
Receipt of consideration receivable on prior years' disposals	—	24	24	—	—	2	2
<b>Cash inflow on disposals, net of disposal costs</b>	<b>9 774</b>	<b>185</b>	<b>9 959</b>	<b>1 523</b>	<b>2 658</b>	<b>129</b>	<b>4 310</b>

## 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, it is available for immediate sale in its current condition, an active plan of sale has commenced, and in the judgement of Group Management it is highly probable that the sale will 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 costs of disposal. Assets held for sale are no longer amortized or depreciated.

As of December 31, 2019, assets held for sale and liabilities directly associated with assets held for sale are mainly composed of the US Ice Cream business, the DSD network assets in the USA for Frozen Pizza and Ice Cream (see Note 9.1.2 legend <sup>23)</sup>) and the *Herta* charcuterie business.

Building on the experience of 2016 with the creation of the joint-venture Froneri, the US Ice Cream business (part of the Zone AMS operating segment) has been sold at end of January 2020 to Froneri to create a global leader in ice cream. The US Ice Cream business has been therefore disclosed as held for sale as at December 31, 2019. The estimated result on disposal, to be recognized under the heading Other operating income in the income statement in 2020, amounts to a gain of around CHF 1 billion including a cumulative currency translation loss currently recognized in other comprehensive income of about CHF 0.6 billion.

As of December 31, 2018, assets held for sale were mainly composed of the Nestlé Skin Health business.



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

The composition of assets held for sale and liabilities directly associated with assets held for sale at the end of 2019 and of 2018 are the following:

In millions of CHF

	2019			2018		
	US Ice Cream	Other	Total	Nestlé Skin Health	Other	Total
Cash, cash equivalents and short-term investments	—	—	—	140	—	140
Inventories	162	33	195	214	16	230
Trade and other receivables, prepayments, accrued income and other assets	36	115	151	756	91	847
Deferred taxes	—	12	12	298	16	314
Property, plant and equipment	442	301	743	395	100	495
Goodwill and intangible assets	1 670	—	1 670	6 787	15	6 802
<b>Assets held for sale</b>	<b>2 310</b>	<b>461</b>	<b>2 771</b>	<b>8 590</b>	<b>238</b>	<b>8 828</b>
Financial liabilities	(21)	(17)	(38)	(174)	(25)	(199)
Trade and other payables, accruals and deferred income	(11)	(172)	(183)	(1 026)	(67)	(1 093)
Employee benefits and provisions	—	(42)	(42)	(360)	(2)	(362)
Deferred taxes	(100)	(26)	(126)	(722)	—	(722)
Other liabilities	—	(4)	(4)	(126)	—	(126)
<b>Liabilities directly associated with assets held for sale</b>	<b>(132)</b>	<b>(261)</b>	<b>(393)</b>	<b>(2 408)</b>	<b>(94)</b>	<b>(2 502)</b>
<b>Net assets held for sale</b>	<b>2 178</b>	<b>200</b>	<b>2 378</b>	<b>6 182</b>	<b>144</b>	<b>6 326</b>

### 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.

There were several non-significant transactions with non-controlling interests in 2019.

In 2018, the Group increased its ownership interests in certain subsidiaries, the most significant one was in China. For China and other countries, the consideration paid to non-controlling interests in cash amounted to CHF 528 million and the decrease of non-controlling interests amounted to CHF 162 million. Part of the consideration was recorded as a liability in previous years for CHF 510 million. The equity attributable to shareholders of the parent was positively impacted by CHF 144 million.

### 3. Analyses by segment

Nestlé is organized 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 (until beginning of October 2019). The Group has factories in 84 countries and sales in 187 countries and employs around 291 000 people.

#### Segment reporting

##### Basis for segmentation

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.

Other business activities and operating segments, including GMB that do not meet the threshold, like Nespresso, Nestlé Health Science and Nestlé Skin Health, are combined and presented in Other businesses.

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.

##### Revenue and results by segment

Segment results (Trading operating profit) represent the contribution of the different segments to central overheads, unallocated research and development costs and the trading operating profit of the Group. Specific corporate expenses as well as specific research and development costs are allocated to the corresponding segments. In addition to the Trading operating profit, Underlying Trading operating profit is shown on a voluntary basis because it is one of the key metrics used by Group Management to monitor the Group.

Depreciation and amortization includes depreciation of property, plant and equipment (including right-of-use assets under leases) and amortization of intangible assets.

### 3. Analyses by segment

#### **Invested capital and other information by segment**

No segment assets and liabilities are regularly provided to the CODM to assess segment performance or to allocate resources and therefore segment assets and liabilities are not disclosed. However the Group discloses the invested capital, goodwill and intangible assets by segment and by product on a voluntary basis.

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

Goodwill and intangible assets are not included in invested capital since the amounts recognized are not comparable between segments due to differences in the intensity of acquisition activity and changes in accounting standards which were applicable at various points in time when the 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 (including right-of-use assets under leases), intangible assets and goodwill, including those arising from business combinations.

#### **Unallocated items**

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.

#### **Revenue**

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

Revenue is measured as the amount of consideration which the Group expects to receive, based on the list price applicable to a given distribution channel after deduction of returns, sales taxes, pricing allowances, other trade discounts and couponing and price promotions to consumers. The level of discounts, allowances and promotional rebates is recognized as a deduction from revenue at the time that the related sales are recognized or when the rebate is offered to the customer (or consumer if applicable). They are estimated using judgements based on historical experience and the specific terms of the agreements with the customers. Payments made to customers for commercial services received are expensed. The Group has a range of credit terms which are typically short term, in line with market practice and without any financing component.

### 3. Analyses by segment

The Group does not generally accept sales returns, except in limited cases mainly in the Infant Nutrition business. Historical experience is used to estimate such returns at the time of sale. No asset is recognized for products to be recoverable from these returns, as they are not anticipated to be resold.

Trade assets (mainly coffee machines, water coolers and freezers) may be sold or leased separately to customers.

Arrangements where the Group transfers substantially all the risks and rewards incidental to ownership to the customer are treated as finance lease arrangements. Operating lease revenue for trade asset rentals is recognized on a straight-line basis over the lease term.

Sales are disaggregated by product group and geography in Notes 3.2 and 3.4.

### 3. Analyses by segment

#### 3.1 Operating segments

##### Revenue and results

In millions of CHF

							2019
	Sales <sup>(a)</sup>	Underlying Trading operating profit <sup>(b)</sup>	Trading operating profit	Net other trading income/(expenses) <sup>(c)</sup>	of which impairment of property, plant and equipment	of which restructuring costs	Depreciation and amortization
Zone EMENA	18 834	3 557	3 394	(173)	(37)	(133)	(742)
Zone AMS	33 154	6 998	6 159	(839)	(199)	(216)	(1 047)
Zone AOA	21 602	4 908	3 658	(1 250)	(517)	(79)	(741)
Nestlé Waters	7 821	922	740	(182)	(21)	(87)	(453)
Other businesses <sup>(d)</sup>	11 157	2 089	2 026	(63)	7	(18)	(527)
Unallocated items <sup>(e)</sup>	—	(2 224)	(2 303)	(79)	(16)	(20)	(203)
<b>Total</b>	<b>92 568</b>	<b>16 260</b>	<b>13 674</b>	<b>(2 586)</b>	<b>(783)</b>	<b>(553)</b>	<b>(3 713)</b>

In millions of CHF

							2018 *
	Sales <sup>(a)</sup>	Underlying Trading operating profit <sup>(b)</sup>	Trading operating profit	Net other trading income/(expenses) <sup>(c)</sup>	of which impairment of property, plant and equipment	of which restructuring costs	Depreciation and amortization
Zone EMENA	18 932	3 545	3 206	(339)	(41)	(250)	(769)
Zone AMS	30 975	6 496	6 053	(443)	(117)	(142)	(1 033)
Zone AOA	21 331	4 834	4 482	(352)	(215)	(70)	(771)
Nestlé Waters	7 878	865	683	(182)	(54)	(96)	(435)
Other businesses <sup>(d)</sup>	12 323	2 036	1 794	(242)	(59)	(14)	(716)
Unallocated items <sup>(e)</sup>	—	(2 255)	(2 429)	(174)	(14)	(79)	(200)
<b>Total</b>	<b>91 439</b>	<b>15 521</b>	<b>13 789</b>	<b>(1 732)</b>	<b>(500)</b>	<b>(651)</b>	<b>(3 924)</b>

\* 2018 comparatives adjusted, see Note 1 Accounting policies, Changes in presentation – analyses by segment

(a) Inter-segment sales are not significant

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

(c) Included in Trading operating profit.

(d) Mainly Nespresso, Nestlé Health Science, Nestlé Skin Health (until beginning of October 2019) and in 2018 Gerber Life Insurance

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

### 3. Analyses by segment

#### Invested capital and other information

In millions of CHF

2019

	Invested capital	Goodwill and intangible assets	Impairment of goodwill and non-commercialized intangible assets (c)	Impairment of intangible assets (d)	Capital additions
Zone EMENA	7 227	5 008	(38)	—	1 083
Zone AMS	10 158	23 306	(64)	(155)	1 804
Zone AOA	4 044	12 027	(575)	(565)	862
Nestlé Waters	3 487	1 387	(102)	(34)	848
Other businesses (a)	1 781	5 949	—	(5)	606
Unallocated items (b) and inter-segment eliminations	1 587	713	—	(15)	279
<b>Total</b>	<b>28 284</b>	<b>48 390</b>	<b>(779)</b>	<b>(774)</b>	<b>5 482</b>

In millions of CHF

2018

	Invested capital	Goodwill and intangible assets	Impairment of goodwill and non-commercialized intangible assets (c)	Impairment of intangible assets (d)	Capital additions
Zone EMENA	6 696	5 105	(138)	(16)	1 422
Zone AMS	10 051	23 849	(43)	(14)	7 356
Zone AOA	4 930	13 258	(297)	—	1 103
Nestlé Waters	3 382	1 481	(59)	(3)	884
Other businesses (a)	2 792	12 822	(89)	(53)	3 593
Unallocated items (b) and inter-segment eliminations	1 572	623	—	(36)	353
<b>Total</b>	<b>29 423</b>	<b>57 138</b>	<b>(626)</b>	<b>(122)</b>	<b>14 711</b>

(a) Mainly Nespresso, Nestlé Health Science, Nestlé Skin Health (until beginning of October 2019) and in 2018 Gerber Life Insurance.

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

(c) Included in Operating profit.

(d) Included in Trading operating profit.

### 3. Analyses by segment

#### 3.2 Products Revenue and results

In millions of CHF

				2019		
	Sales	Underlying Trading operating profit <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
Powdered and Liquid Beverages	23 221	5 197	4 701	(496)	(180)	(63)
Water	7 391	846	667	(179)	(21)	(85)
Milk products and Ice cream	13 268	2 706	1 678	(1 028)	(415)	(106)
Nutrition and Health Science	14 990	3 314	3 092	(222)	(32)	(70)
Prepared dishes and cooking aids	12 188	2 170	1 857	(313)	(107)	(124)
Confectionery	7 888	1 332	1 241	(91)	(18)	(47)
PetCare	13 622	2 919	2 741	(178)	6	(38)
Unallocated items <sup>(c)</sup>	—	(2 224)	(2 303)	(79)	(16)	(20)
<b>Total</b>	<b>92 568</b>	<b>16 260</b>	<b>13 674</b>	<b>(2 586)</b>	<b>(783)</b>	<b>(553)</b>

In millions of CHF

				2018 *		
	Sales	Underlying Trading operating profit <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
Powdered and Liquid Beverages	21 620	4 879	4 553	(326)	(108)	(100)
Water	7 409	775	603	(172)	(49)	(92)
Milk products and Ice cream	13 217	2 506	2 397	(109)	(21)	(42)
Nutrition and Health Science	16 188	3 306	2 795	(511)	(239)	(79)
Prepared dishes and cooking aids	12 065	2 161	2 029	(132)	(27)	(83)
Confectionery	8 123	1 391	1 279	(112)	(17)	(50)
PetCare	12 817	2 758	2 562	(196)	(25)	(126)
Unallocated items <sup>(c)</sup>	—	(2 255)	(2 429)	(174)	(14)	(79)
<b>Total</b>	<b>91 439</b>	<b>15 521</b>	<b>13 789</b>	<b>(1 732)</b>	<b>(500)</b>	<b>(651)</b>

\* 2018 comparatives adjusted, see Note 1 Accounting policies, Changes in presentation – analyses by segment

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

(b) Included in Trading operating profit

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

### 3. Analyses by segment

#### Invested capital and other information

In millions of CHF

		2019		
	Invested capital	Goodwill and intangible assets	Impairment of goodwill and non-commercialized intangible assets (b)	Impairment of intangible assets (c)
Powdered and Liquid Beverages	6 223	8 300	(34)	(182)
Water	3 342	1 464	(102)	(34)
Milk products and Ice cream	3 295	2 818	(33)	(394)
Nutrition and Health Science	5 445	23 960	—	—
Prepared dishes and cooking aids	3 258	5 345	(10)	(4)
Confectionery	2 693	1 242	(595)	—
PetCare	4 244	10 202	—	(145)
Unallocated items (a) and intra-group eliminations	1 679	2 015	(5)	(15)
<b>Total</b>	<b>30 179</b>	<b>55 346</b>	<b>(779)</b>	<b>(774)</b>

In millions of CHF

		2018		
	Invested capital	Goodwill and intangible assets	Impairment of goodwill and non-commercialized intangible assets (b)	Impairment of intangible assets (c)
Powdered and Liquid Beverages	6 745	4 224	(25)	(21)
Water	3 199	1 461	(59)	(3)
Milk products and Ice cream	3 585	2 886	(22)	—
Nutrition and Health Science	6 732	25 762	(89)	(39)
Prepared dishes and cooking aids	3 299	5 560	(134)	(21)
Confectionery	2 449	1 623	(250)	—
PetCare	4 349	10 172	—	(2)
Unallocated items (a) and intra-group eliminations	1 916	1 968	(47)	(36)
<b>Total</b>	<b>32 274</b>	<b>53 656</b>	<b>(626)</b>	<b>(122)</b>

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

(b) Included in Operating profit

(c) Included in Trading operating profit



### 3. Analyses by segment

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

In millions of CHF

	2019	2018
<b>Underlying Trading operating profit (a)</b>	<b>16 260</b>	<b>15 521</b>
Net other trading income/(expenses)	(2 586)	(1 732)
<b>Trading operating profit</b>	<b>13 674</b>	<b>13 789</b>
Impairment of goodwill and non-commercialized intangible assets	(779)	(626)
Net other operating income/(expenses) excluding impairment of goodwill and non-commercialized intangible assets	3 183	589
<b>Operating profit</b>	<b>16 078</b>	<b>13 752</b>
Net financial income/(expense)	(1 016)	(761)
<b>Profit before taxes, associates and joint ventures</b>	<b>15 062</b>	<b>12 991</b>

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

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

In millions of CHF

	2019	2018
Invested capital as per Note 3.1	28 284	29 423
Liabilities included in invested capital	23 364	24 230
<b>Subtotal</b>	<b>51 648</b>	<b>53 653</b>
Intangible assets and goodwill as per Note 3.1 (a)	48 390	57 138
Other assets	27 902	26 224
<b>Total assets</b>	<b>127 940</b>	<b>137 015</b>

(a): Including Intangible assets and goodwill classified as assets held for sale of CHF 1670 million (2018: CHF 680 million); see Note 2.4.

### 3. Analyses by segment

#### 3.4 Disaggregation of sales by geographic area (country and type of market)

The Group disaggregates revenue from the sale of goods by major product group as shown in Note 3.2. Disaggregation of sales by geographic area is based on customer location and is therefore not a view by management responsibility as disclosed by operating segments in Note 3.1.

In millions of CHF

	2019	2018
<b>EMENA</b>	<b>26 499</b>	<b>26 890</b>
France	4 423	4 561
United Kingdom	2 917	2 930
Germany	2 632	2 752
Russia	1 703	1 595
Italy	1 674	1 819
Spain	1 512	1 552
Switzerland	1 164	1 241
Rest of EMENA	10 474	10 440
<b>AMS</b>	<b>42 281</b>	<b>41 063</b>
United States	28 831	27 618
Brazil	3 647	3 683
Mexico	2 934	2 813
Canada	2 182	2 064
Rest of AMS	4 687	4 885
<b>AOA</b>	<b>23 788</b>	<b>23 486</b>
Greater China Region	6 913	7 004
Philippines	2 643	2 476
Japan	1 816	1 782
India	1 667	1 529
Australia	1 468	1 552
Rest of AOA	9 281	9 143
<b>Total sales</b>	<b>92 568</b>	<b>91 439</b>
of which developed markets	53 732	53 040
of which emerging markets	38 836	38 399

### 3. Analyses by segment

#### 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 (including right-of-use assets under leases), 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

	2019		2018	
	Sales	Non-current assets	Sales	Non-current assets
United States	28 831	30 344	27 618	32 925
Switzerland	1 164	15 251	1 241	10 847
Rest of the world	62 573	29 887	62 580	36 520
<b>Total</b>	<b>92 568</b>	<b>75 482</b>	<b>91 439</b>	<b>80 292</b>

#### 3.6 Customers

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

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

### Other trading income/(expenses)

These comprise restructuring costs, impairment of property, plant and equipment and intangible assets (other than goodwill and non-commercialized 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 reorganization of a business or function. It does not include dismissal indemnities paid for normal attrition, poor performance, professional misconduct, etc.

### Other operating income/(expenses)

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

### 4.1 Net other trading income/(expenses)

In millions of CHF

	Notes	2019	2018
<b>Other trading income</b>		<b>163</b>	<b>37</b>
Restructuring costs		(553)	(651)
Impairment of property, plant and equipment and intangible assets <sup>(a)</sup>	8/9	(1 557)	(622)
Litigations and onerous contracts		(483)	(438)
Miscellaneous trading expenses		(156)	(58)
<b>Other trading expenses</b>		<b>(2 749)</b>	<b>(1 769)</b>
<b>Total net other trading income/(expenses)</b>		<b>(2 586)</b>	<b>(1 732)</b>

(a) Excluding non-commercialized intangible assets.

In 2019, other trading expenses are mainly composed of:

- CHF 1024 million of impairment of property, plant and equipment (CHF 459 million) and intangible assets (CHF 565 million) related to the Yinlu cash generating unit (see Note 9); and
- CHF 461 million of one-off costs representing impairment charges related to property, plant, restructuring costs, and onerous contracts and other expenses related to the decision taken by the Group in the second quarter of 2019 to exit of Direct-Store-Delivery (DSD) network in the USA for Frozen Pizza and Ice Cream.

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

#### 4.2 Net other operating income/(expenses)

In millions of CHF

	Notes	2019	2018
Profit on disposal of businesses	2	3 591	2 344
Miscellaneous operating income		126	191
<b>Other operating income</b>		<b>3 717</b>	<b>2 535</b>
Loss on disposal of businesses	2	(175)	(1 658)
Impairment of goodwill and non-commercialized intangible assets	9	(779)	(626)
Miscellaneous operating expenses		(359)	(288)
<b>Other operating expenses</b>		<b>(1 313)</b>	<b>(2 572)</b>
<b>Total net other operating income/(expenses)</b>		<b>2 404</b>	<b>(37)</b>

In 2019, profit on disposal of business mainly relates to the result of disposal of the Nestlé Skin Health business of CHF 3452 million (see Note 2.3).

In 2019, impairment of goodwill and non-commercialized intangible assets mainly includes a goodwill impairment of the Hsu Fu Chi cash generating unit of CHF 502 million (see Note 9).

#### 5. Net financial income/(expense)

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

Net financing cost comprises the interest income earned on cash and cash equivalents and short-term investments, as well as the interest expense on financial debt (including leases), collectively termed "net financial debt" (see Note 16.5). These headings also include other income and expense such as exchange differences on net financial debt and results on related foreign currency and interest rate hedging instruments. Certain borrowing costs are capitalized as explained under the section on Property, plant and equipment.

In millions of CHF

	Notes	2019	2018
Interest income		161	212
Interest expense		(1 026)	(820)
<b>Net financing cost of net financial debt</b>		<b>(865)</b>	<b>(608)</b>
Interest income on defined benefit plans		39	35
Interest expense on defined benefit plans		(188)	(186)
<b>Net interest income/(expense) on defined benefit plans</b>	10	<b>(149)</b>	<b>(151)</b>
Other		(2)	(2)
<b>Net financial income/(expense)</b>		<b>(1 016)</b>	<b>(761)</b>

## 6. Inventories

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

In millions of CHF

	2019	2018
Raw materials, work in progress and sundry supplies	4 116	3 889
Finished goods	5 472	5 435
Allowance for write-down to net realizable value	(245)	(199)
	<b>9 343</b>	<b>9 125</b>

Inventories amounting to CHF 278 million (2018: CHF 260 million) are pledged as security for financial liabilities.

## 7. Trade and other receivables/payables

### 7.1 Trade and other receivables

#### Recognition and measurement

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

#### Expected credit losses

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

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

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

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

## 7. Trade and other receivables/payables

In millions of CHF

	2019			2018		
	Gross carrying amount	Expected credit loss allowance	Total	Gross carrying amount	Expected credit loss allowance	Total
Trade receivables (not credit impaired)	9 463	(55)	9 408	9 141	(50)	9 091
Other receivables (not credit impaired)	2 375	(34)	2 341	2 098	(41)	2 057
Credit impaired trade and other receivables	238	(221)	17	239	(220)	19
<b>Total</b>	<b>12 076</b>	<b>(310)</b>	<b>11 766</b>	<b>11 478</b>	<b>(311)</b>	<b>11 167</b>

The five major customers represent 13% (2018: 12%) of trade and other receivables, none of them individually exceeding 7% (2018: 6%).

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

### 7.2 Trade and other payables by type

#### Recognition and measurement

Trade and other payables are recognized initially at their transaction price and subsequently measured at amortized cost.

#### Supplier finance arrangements

The Group participates in supplier finance arrangements under which suppliers may elect to receive early payment by factoring their receivables from the Group. The due dates of the payments by the Group are based on the agreed trade terms with the suppliers, are compliant with the applicable regulations and remain consistent with the normal operating cycle of its business.

The Group continues to present invoices eligible to be settled through these programs as Trade payables considering that the original liability is neither legally released nor substantially modified on entering into such arrangements. Related payments are included within operating cash flows because they remain operational in nature.

In millions of CHF

	2019	2018
Due within one year		
Trade payables	14 017	13 045
Social security and sundry taxes and levies	1 900	1 934
Other payables	2 886	2 821
	<b>18 803</b>	<b>17 800</b>

## 8. Property, plant and equipment

Property, plant and equipment comprises owned and leased assets.

In millions of CHF

	Notes	2019	2018
Property, plant and equipment – owned	8 *	25 552	26 837
Right-of-use assets – leased	8 2b	3 210	3 119
		<b>28 762</b>	<b>29 956</b>

### 8.1 Owned assets

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

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

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

Land is not depreciated.

Useful lives, components and residual amounts are reviewed annually. Such a review takes into consideration the nature of the assets, their intended use including but not limited to the closure of facilities and the evolution of the technology and competitive pressures that may lead to technical obsolescence.

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

Borrowing costs incurred during the course of construction are capitalized if the assets under construction are significant and if their construction requires a substantial period to complete (typically more than one year). The capitalization rate is determined on the basis of the short-term borrowing rate for the period of construction.

Government grants are recognized as deferred income which is released to the income statement over the useful life of the related assets.



## 8. Property, plant and equipment

In millions of CHF

	Land and buildings	Machinery and equipment	Tools, furniture and other equipment	Vehicles	Total
<b>Net carrying amount</b>					
At January 1, 2019	11 469	12 959	2 248	161	26 837
Capital expenditure <sup>(a)</sup>	1 066	1 929	654	43	3 692
Acquisitions through business combinations	—	(5)	1	1	(3)
Depreciation	(433)	(1 505)	(736)	(58)	(2 732)
Impairments <sup>(b)</sup>	(358)	(265)	(36)	(1)	(660)
Disposals	(67)	(47)	(28)	(9)	(151)
Classification (to)/from held for sale and disposals of businesses	(371)	(361)	(54)	3	(783)
Currency retranslations	(411)	(278)	42	(1)	(648)
<b>At December 31, 2019</b>	<b>10 895</b>	<b>12 427</b>	<b>2 091</b>	<b>139</b>	<b>25 552</b>
Gross value	17 395	30 904	7 352	427	56 078
Accumulated depreciation and impairments	(6 500)	(18 477)	(5 261)	(288)	(30 526)
<b>Net carrying amount</b>					
At January 1, 2018	11 717	13 461	2 292	196	27 666
Capital expenditure <sup>(a)</sup>	1 025	2 013	782	40	3 860
Acquisitions through business combinations	34	38	8	1	81
Depreciation	(484)	(1 581)	(742)	(51)	(2 858)
Impairments	(138)	(269)	(18)	(7)	(432)
Disposals	(61)	(56)	(28)	(13)	(158)
Classification (to)/from held for sale and disposals of businesses	(232)	(166)	(48)	(1)	(447)
Currency retranslations	(392)	(481)	2	(4)	(875)
<b>At December 31, 2018</b>	<b>11 469</b>	<b>12 959</b>	<b>2 248</b>	<b>161</b>	<b>26 837</b>
Gross value	17 747	31 293	8 069	560	57 669
Accumulated depreciation and impairments	(6 278)	(18 334)	(5 821)	(399)	(30 832)

<sup>(a)</sup> Including borrowing costs.

<sup>(b)</sup> Total includes CHF 459 million related to the Yinlu CGU (see Note 4.1 and 9.1.1).

At December 31, 2019, property, plant and equipment include CHF 1988 million of assets under construction (2018: CHF 1528 million). Net property, plant and equipment of CHF 163 million are pledged as security for financial liabilities (2018: CHF 208 million).

At December 31, 2019, the Group was committed to expenditure amounting to CHF 695 million (2018: CHF 797 million).

## 8. Property, plant and equipment

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

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

In assessing value in use, the estimated future cash flows are discounted to their present value, based on the time value of money and 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 optimize industrial manufacturing capacities by closing or selling inefficient production facilities as well as underperforming businesses (see Note 9.1.1).

### **8.2 Leases – Group as a lessee**

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

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

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

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

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

## 8. Property, plant and equipment

### 8.2a Description of lease activities

#### Real estate leases

The Group leases land and buildings for its office and warehouse space and retail stores. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leases are typically made for a fixed period of 5–15 years and may include extension options which provide operational flexibility. If the Group exercised all extension options not currently included in the lease liability, the additional payments would amount to CHF 0.8 billion (undiscounted) at December 31, 2019.

#### Vehicles leases

The Group leases trucks for distribution in specific businesses and cars for management and sales functions. The average contract duration is 6 years for trucks and 3 years for cars.

#### Other leases

The Group also leases Machinery and equipment and Tools, furniture and other equipment that combined are insignificant to the total leased asset portfolio.

### 8.2b Right-of-use assets

In millions of CHF

	Land and buildings	Vehicles	Other	Total
<b>Net carrying amount</b>				
<b>At January 1, 2019</b>	2 523	428	168	3 119
Additions	710	176	116	1 002
Depreciation	(535)	(142)	(79)	(756)
Impairments	(21)	(102)	—	(123)
Classification (to)/from held for sale and change of scope of consolidation, net	91	(66)	(8)	17
Currency retranslations and others	(41)	(3)	(5)	(49)
<b>At December 31, 2019</b>	<b>2 727</b>	<b>291</b>	<b>192</b>	<b>3 210</b>
<b>Net carrying amount</b>				
<b>At January 1, 2018</b>	2 547	415	149	3 111
Additions	511	181	83	775
Depreciation	(512)	(156)	(78)	(746)
Impairments	(67)	—	—	(67)
Classification (to)/from held for sale and change of scope of consolidation, net	(54)	(10)	(4)	(68)
Currency retranslations and others	98	(2)	18	114
<b>At December 31, 2018</b>	<b>2 523</b>	<b>428</b>	<b>168</b>	<b>3 119</b>

## 8. Property, plant and equipment

### 8.2c Other lease disclosures

A maturity analysis of lease liabilities is shown in Note 12.2b.

The Group incurred interest expense on lease liabilities of CHF 98 million (2018: CHF 98 million). The expense relating to short-term leases and variable lease payments not included in the measurement of lease liabilities is not significant. The total cash outflow for leases amounted to CHF 1141 million (2018: CHF 994 million).

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

## 9. Goodwill and intangible assets

### Goodwill

Goodwill is initially recognized 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 capitalized 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 capitalized as non-commercialized intangible assets, as they are separately identifiable and are expected to generate future benefits.

Non-commercialized intangible assets are not amortized, but tested for impairment (see Impairment of goodwill and intangible assets below). Any impairment charge is recorded in the consolidated income statement under Other operating expenses. They are reclassified as commercialized intangible assets once development is complete, usually when approval for sales has been granted by the relevant regulatory authority.

Indefinite life intangible assets mainly comprise certain brands, trademarks, operating rights and intellectual property rights which can be renewed without significant cost and are supported by ongoing marketing activities. They are not amortized but tested for impairment annually or more frequently if an impairment indicator is triggered. Any impairment charge is recorded in the consolidated income statement under Other trading expenses. The assessment of the classification of intangible assets as indefinite is reviewed annually.

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## 9. Goodwill and intangible assets

Finite life intangible assets are amortized 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 amortized on a straight-line basis assuming a zero residual value: management information systems over a period ranging from 3 to 8 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. Amortization of finite life intangible assets starts when they are available for use and is allocated to the appropriate headings of expenses by function in the income statement. Any impairment charge is recorded in the consolidated income statement under Other trading expenses.

### **Research and development**

Internal research costs are charged to the income statement in the year in which they are incurred. Development costs are only recognized 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.

Capitalized 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>Net carrying amount</b>						
At January 1, 2019	31 702	12 195	5 349	1 090	18 634	913
Expenditure	—	50	112	354	516	321
Acquisitions through business combinations	110	3	27	1	31	—
Amortization	—	(2)	(44)	(179)	(225)	(141)
Impairments <sup>(a)</sup>	(779)	(705)	(14)	(55)	(774)	(54)
Disposals	—	(3)	(13)	(1)	(17)	(1)
Classification (to)/from held for sale and disposals of businesses	(1 713)	(40)	3	(13)	(50)	(7)
Currency retranslations	(424)	(192)	(92)	(7)	(291)	49
<b>At December 31, 2019</b>	<b>28 896</b>	<b>11 306</b>	<b>5 328</b>	<b>1 190</b>	<b>17 824</b>	<b>1 080</b>
of which indefinite useful life <sup>(b)</sup>	—	11 276	4 690	—	15 966	—
of which non-commercialized intangible assets	—	25	187	—	212	—
<b>At December 31, 2019</b>						
Gross value	33 596	12 109	5 717	5 301	23 127	4 872
Accumulated amortization and impairments	(4 700)	(803)	(389)	(4 111)	(5 303)	(3 792)
<b>Net carrying amount</b>						
At January 1, 2018	29 746	17 125	2 420	1 070	20 615	886
Expenditure	—	8	220	373	601	301
Acquisitions through business combinations	3 360	1 037	4 930	25	5 992	—
Amortization	—	(76)	(79)	(166)	(320)	(122)
Impairments <sup>(a)</sup>	(592)	(56)	(29)	(71)	(156)	(61)
Disposals	—	—	—	—	—	—
Classification (to)/from held for sale and disposals of businesses	(645)	(5 620)	(2 096)	(137)	(7 853)	(86)
Currency retranslations	(167)	(223)	(17)	(5)	(245)	(5)
<b>At December 31, 2018</b>	<b>31 702</b>	<b>12 195</b>	<b>5 349</b>	<b>1 090</b>	<b>18 634</b>	<b>913</b>
of which indefinite useful life <sup>(b)</sup>	—	12 172	4 700	—	16 872	—
of which non-commercialized intangible assets	—	18	190	—	208	—
<b>At December 31, 2018</b>						
Gross value	36 021	12 320	5 693	5 054	23 067	4 581
Accumulated amortization and impairments	(4 319)	(125)	(344)	(3 964)	(4 433)	(3 668)

(a) Total impairment of goodwill of CHF 779 million includes CHF 502 million related to the Hsu Fu Chi cash generating unit in Zone AOA (see Note 4.2).

Total impairment of brands and intellectual property rights of CHF 705 million includes CHF 565 million related to the Yulu cash generating unit (see Note 4.1 and 9.1.1).

(b) Of which CHF 465 million (2018: CHF 460 million) are perpetual rights to market, sell and distribute certain Starbucks' consumer and foodservice products globally, classified under the caption Operating rights and others.

(c) Of which CHF 34 million of non-commercialized intangible assets

## 9. Goodwill and intangible assets

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

As of December 31, 2019, the Group's committed payments (undiscounted and not risk-adjusted) and their estimated timing are:

In millions of CHF

	2019			2018		
	Unconditional commitments	Potential milestone payments	Total	Unconditional commitments	Potential milestone payments	Total
Within one year	—	74	74	55	47	102
In the second year	—	33	33	—	77	77
In the third and fourth year	—	91	91	—	40	40
Thereafter	—	557	557	—	726	726
<b>Total</b>	<b>—</b>	<b>755</b>	<b>755</b>	<b>55</b>	<b>890</b>	<b>945</b>
of which related parties	—	487	487	—	655	655

### Impairment of goodwill and intangible assets (including non-commercialized intangible assets)

Goodwill and intangible assets with an indefinite life or not yet available for use are tested for impairment at least annually and when there is an indication of impairment. Finite life intangible assets are tested when there is an indication of impairment.

The annual impairment tests are performed at the same time each year and at the cash generating unit (CGU) level. The Group defines its CGU for goodwill impairment testing based on the way that it monitors and derives economic benefits from the acquired goodwill. For indefinite life intangible assets, the Group defines its CGU as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Finally, the CGU for impairment testing of non-commercialized intangible assets is defined at the level of the intangible asset itself. The impairment tests are performed by comparing the carrying value of the assets of these CGU with their recoverable amount, usually 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. Goodwill and intangible assets

### 9.1 Impairment

#### 9.1.1 Impairment charge during the year

The 2019 impairment charge mainly relates to Zone AOA and more specifically the Yinlu (peanut milk and canned rice porridge) business in China. The Yinlu CGU is composed mainly of intangible assets with indefinite useful life (brand), and property, plant and equipment.

Despite various improvement projects and re-organizations, the business of the Yinlu CGU has continued to underperform for a number of years. The strategy, portfolio and business plans were reviewed due to a challenging competitive environment and results below expectations in the second half of 2019, including the mid-autumn festival season.

The annual impairment test performed during the second half considered these economic conditions and revised business plans to determine the higher of the "value in use" and the "fair value less costs of disposal", in accordance with IAS 36.

The recoverable amount of CHF 305 million for the CGU was based on management's estimates of the "fair value less costs of disposal" and was allocated to property, plant and equipment of CHF 205 million and a residual of CHF 100 million was allocated to intangible assets. As a result of this test, an impairment of CHF 1024 million has been recognized under the heading Other trading expenses in the income statement (see Note 4.1).

Other 2019 impairment charge relates to various non-significant impairments of goodwill (mainly in Zone AOA) and intangible assets (mainly in Zone AMS).

The impairment charge in 2018 related to various impairments of goodwill (predominantly in Zone AOA) and intangible assets. None of them were individually significant.



## 9. Goodwill and intangible assets

### 9.1.2 Annual impairment tests

Impairment reviews have been conducted for more than 50 Cash Generating Units (CGU).

The following table sets out the key assumptions for those CGUs that have significant Goodwill or Intangible assets with an indefinite useful life allocated to them.

	Carrying amount	Period of cash flow projections	Annual sales growth	Annual margin evolution	Terminal growth rate	Pre-tax discount rate
<b>2019</b>						
<b>Goodwill CGU</b>						
PetCare Zone AMS	7 749	5 years	4% to 7%	Declining	2.7%	8.4%
Nutrition Zone AOA	5 886	5 years	4% to 5%	Stable	3.6%	9.9%
<b>Subtotal</b>	<b>13 635</b>					
Other CGUs	15 261					
<b>Total Goodwill</b>	<b>28 896</b>					
<b>Intangible assets with indefinite useful life CGU</b>						
Nestlé Nutrition Worldwide	5 593	5 years	3% to 4%	Improvement	3.4%	10.3%
Nestlé Starbucks North America	4 251	5 years	5%	Improvement	2.3%	7.5%
<b>Subtotal</b>	<b>9 844</b>					
Other CGUs	6 122					
<b>Total Intangible assets with indefinite useful life</b>	<b>15 966</b>					
<b>2018</b>						
<b>Goodwill CGU</b>						
PetCare Zone AMS	7 887	5 years	5% to 7%	Declining	2.7%	8.6%
Nutrition Zone AOA	5 964	5 years	2% to 5%	Stable	3.7%	10.3%
DSD for Frozen Pizza and Ice Cream – USA <sup>(a)</sup>	2 509	5 years	0% to 1%	Improvement	1.7%	8.4%
<b>Subtotal</b>	<b>16 360</b>					
Other CGUs	15 342					
<b>Total Goodwill</b>	<b>31 702</b>					
<b>Intangible assets with indefinite useful life CGU</b>						
Nestlé Nutrition Worldwide	5 677	5 years	2% to 4%	Improvement	3.4%	10.4%
Nestlé Starbucks North America	4 321	5 years	3% to 5%	Improvement	2.5%	8.1%
<b>Subtotal</b>	<b>9 998</b>					
Other CGUs	6 874					
<b>Total Intangible assets with indefinite useful life</b>	<b>16 872</b>					

(a) In the second quarter of 2019, the Group decided to exit the Direct-Store-Delivery (DSD) network in the USA for Frozen Pizza and Ice Cream. As a consequence, the assets formerly allocated to the cash generating unit of DSD for Frozen Pizza and Ice Cream – USA, including CHF 2481 million of goodwill, have been allocated between the Frozen Pizza – USA business and the Ice Cream – USA business, which have been tested as separate CGUs with no impairment identified. None of the goodwills of the Frozen Pizza business and the Ice Cream business CGU are significant.

## 9. Goodwill and intangible assets

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

Finally, the following has been taken into account in the impairment tests:

- 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.

## 10. Employee benefits

### 10.1 Employee remuneration

The Group's salaries of CHF 11 811 million (2018: CHF 12 196 million) and welfare expenses of CHF 3983 million (2018: CHF 4234 million) represent a total of CHF 15 794 million (2018: CHF 16 430 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 307 million (2018: CHF 227 million). Employee remuneration is allocated to the appropriate headings of expenses by function.

### 10.2 Post-employment benefits

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

Pension cost charged to the income statement consists of service cost (current and past service cost, gains and losses arising from curtailment and settlement) and administration costs (other than costs of managing plan assets), which are allocated to the appropriate heading by function, and net interest expense or income, which is presented as part of net financial income/(expense). The actual return less interest income on plan assets, changes in actuarial assumptions, and differences between actuarial assumptions and what has actually occurred are reported in other comprehensive income.

## 10. Employee benefits

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

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

### **Pensions and retirement benefits**

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

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

In Switzerland, Nestlé's pension plan is a cash balance plan where contributions are expressed as a percentage of the pensionable salary. The pension plan guarantees the amount accrued on the members' savings accounts, as well as a minimum interest on those savings accounts. At retirement date, the savings accounts are converted into pensions. However, members may opt to receive a part of the pension as a lump sum. Increases of pensions in payment are granted on a discretionary basis by the Board of Trustees, subject to the financial situation of the plan. To be noted that there is also a defined benefit plan that has been closed to new entrants in 2013 and whose members below age 55 as of that date were transferred to the cash balance plan. This heritage plan is a hybrid between a cash balance plan and a plan based on a final pensionable salary. Finally, the Group has committed to make additional contributions up to a maximum of CHF 440 million, of which CHF 129 million had been contributed as at December 31, 2019, in coordination with a decrease in conversion rates applicable since July 1, 2018.

In the United Kingdom, Nestlé's pension plan is a hybrid arrangement combining a defined benefit career average section plus a defined contribution section. The defined benefit section was closed to new entrants during 2016. In the defined benefit section, from August 2017 onwards, members accrue a pension defined on their capped salary each year, plus defined contribution provision above the capped salary. Accrued pensions are automatically revalued according to inflation, subject to caps. Similarly, pensions in payment are increased annually in line with inflation, subject to caps as applicable. At retirement, there is a lump sum option. Finally, the funding of the shortfall of the Nestlé UK Pension Fund is defined on the basis of a triennial independent actuarial valuation in accordance with local regulations. As a result, an amount of GBP 87.5 million has been paid by Nestlé UK Ltd during the year in accordance with the agreed schedule of contributions. The undiscounted future payments after December 31, 2019, related to the shortfall, amount to GBP 322.5 million (GBP 173.5 million between 2020 to 2021 and GBP 149 million in 2022).

Nestlé's pension plan in Germany is a cash balance plan, where members benefit from a guarantee on their savings accounts. Contributions to the plan are expressed as a percentage of the pensionable salary. Increases to pensions in payment are granted

in accordance with legal requirements. There is also a heritage plan, based on final pensionable salary, which has been closed to new entrants since 2006.

In the USA, Nestlé's primary pension 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 and members do not contribute to the plan. This plan was closed to new entrants at the end of 2015 and replaced by a defined contribution scheme. The pension plan is sufficiently funded on a local statutory basis such that no contributions were required in 2019.

#### **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:

- market and liquidity risks: these are the risks that the investments do not meet the expected returns over the medium to long-term. This also encompasses the mismatch between assets and liabilities. In order to minimize the risks, the structure of the portfolios is reviewed and asset-liability matching analyses are performed on a regular basis.
- 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 minimize this risk, mortality assumptions are reviewed on a regular basis.

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

#### **Plan amendments and restructuring events**

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

During the year, there were individually non-significant plan amendments and restructuring activities leading to curtailments and settlements. The negative related past service costs (income) of CHF 121 million have been recognized in the income statement primarily under Marketing and administration expenses.

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

Plan trustees or General Assemblies are responsible for determining the mix of asset classes and target allocations of the Nestlé's plans with the support of investment advisors. Periodic reviews of the asset mix are made by mandating external consultants to perform

## 10. Employee benefits

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 recognized in the balance sheet

In millions of CHF

	2019			2018		
	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	26 176	66	26 242	24 364	58	24 422
Fair value of plan assets	(24 498)	(32)	(24 530)	(22 625)	(33)	(22 658)
Excess of liabilities/(assets) over funded obligations	1 678	34	1 712	1 739	25	1 764
Present value of unfunded obligations	772	2 078	2 850	737	1 874	2 611
Unrecognized assets	30	—	30	29	—	29
<b>Net defined benefit liabilities/(assets)</b>	<b>2 480</b>	<b>2 112</b>	<b>4 592</b>	<b>2 505</b>	<b>1 899</b>	<b>4 404</b>
Other employee benefit liabilities			1 049			1 028
<b>Net liabilities</b>			<b>5 641</b>			<b>5 432</b>
Reflected in the balance sheet as follows:						
Employee benefit assets			(510)			(487)
Employee benefit liabilities			6 151			5 919
<b>Net liabilities</b>			<b>5 641</b>			<b>5 432</b>

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

In millions of CHF

	2019				2018			
	EMENA	AMS	AOA	Total	EMENA	AMS	AOA	Total
Present value of funded obligations	19 899	5 091	1 252	<b>26 242</b>	18 201	4 703	1 518	<b>24 422</b>
Fair value of plan assets	(18 024)	(5 356)	(1 150)	<b>(24 530)</b>	(16 361)	(4 968)	(1 329)	<b>(22 658)</b>
Excess of liabilities/(assets) over funded obligations	1 875	(265)	102	<b>1 712</b>	1 840	(265)	189	<b>1 764</b>
Present value of unfunded obligations	376	2 099	375	<b>2 850</b>	377	1 920	314	<b>2 611</b>

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

In millions of CHF

	2019			2018		
	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 January 1</b>	25 101	1 932	<b>27 033</b>	28 209	2 080	<b>30 289</b>
of which funded defined benefit plans	24 364	58	<b>24 422</b>	27 347	62	<b>27 409</b>
of which unfunded defined benefit plans	737	1 874	<b>2 611</b>	862	2 016	<b>2 880</b>
Currency retranslations	(185)	(73)	<b>(258)</b>	(572)	(103)	<b>(675)</b>
Service cost	534	26	<b>560</b>	680	30	<b>710</b>
of which current service cost	631	50	<b>681</b>	735	53	<b>788</b>
of which past service cost and (gains)/losses arising from settlements	(97)	(24)	<b>(121)</b>	(55)	(23)	<b>(78)</b>
Interest expense	622	104	<b>726</b>	595	99	<b>694</b>
Actuarial (gains)/losses	2 778	316	<b>3 094</b>	(1 872)	26	<b>(1 846)</b>
Benefits paid on funded defined benefit plans	(1 424)	(10)	<b>(1 434)</b>	(1 432)	(7)	<b>(1 439)</b>
Benefits paid on unfunded defined benefit plans	(63)	(136)	<b>(199)</b>	(58)	(162)	<b>(220)</b>
Modification of the scope of consolidation	(10)	(4)	<b>(14)</b>	(3)	(1)	<b>(4)</b>
Classification to/(from) held for sale	(75)	(8)	<b>(83)</b>	(211)	(30)	<b>(241)</b>
Transfer from/(to) defined contribution plans	(330)	(3)	<b>(333)</b>	(235)	—	<b>(235)</b>
<b>At December 31</b>	<b>26 948</b>	<b>2 144</b>	<b>29 092</b>	<b>25 101</b>	<b>1 932</b>	<b>27 033</b>
of which funded defined benefit plans	26 176	66	<b>26 242</b>	24 361	58	<b>24 422</b>
of which unfunded defined benefit plans	772	2 076	<b>2 850</b>	737	1 874	<b>2 611</b>

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

In millions of CHF

	2019			2018		
	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 January 1</b>	(22 625)	(33)	<b>(22 658)</b>	(24 656)	(35)	<b>(24 691)</b>
Currency retranslations	127	—	127	503	7	505
Interest income	(577)	(1)	(578)	(544)	(1)	(545)
Actual return on plan assets, excluding interest income	(2 635)	(1)	(2 636)	1 142	—	1 142
Employees' contributions	(126)	—	(126)	(127)	—	(127)
Employer contributions	(476)	(7)	(483)	(736)	(6)	(742)
Benefits paid on funded defined benefit plans	1 424	10	1 434	1 432	7	1 439
Administration expenses	24	—	24	24	—	24
Modification of the scope of consolidation	10	—	10	1	—	1
Classification to/(from) held for sale	31	—	31	125	—	125
Transfer (from)/to defined contribution plans	325	—	325	211	—	211
<b>At December 31</b>	<b>(24 498)</b>	<b>(32)</b>	<b>(24 530)</b>	<b>(22 625)</b>	<b>(33)</b>	<b>(22 658)</b>

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

	2019	2018
<b>Equities</b>	25%	27%
of which US equities	6%	6%
of which European equities	14%	16%
of which other equities	5%	5%
<b>Debts</b>	49%	49%
of which government debts	35%	34%
of which corporate debts	14%	14%
<b>Real estate</b>	11%	12%
<b>Alternative investments</b>	7%	10%
of which hedge funds	5%	6%
of which private equities	2%	4%
<b>Cash/Deposits</b>	8%	2%

Equities and government debts represent 60% (2018: 62%) of the plan assets. Almost all of them are quoted in an active market. Corporate debts, real estate, hedge funds and private equities represent 32% (2018: 36%) of the plan assets. Almost all of them are either not quoted or quoted in a market which is not active.

## 10. Employee benefits

The plan assets of funded defined benefit plans include property occupied by subsidiaries with a fair value of CHF 22 million (2018: CHF 23 million). Furthermore, funded defined benefit plans may invest in Nestlé S.A. (or related) shares. There was no direct investment at end of 2019 and 2018. 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 433 million to its funded defined benefit plans in 2020.

### 10.2e Expenses recognized in the income statement

In millions of CHF

	2019			2018		
	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	534	26	560	680	30	710
Employees' contributions	(126)	—	(126)	(127)	—	(127)
Net interest (income)/expense	46	103	149	53	98	151
Administration expenses	24	—	24	24	—	24
<b>Defined benefit expenses</b>	<b>478</b>	<b>129</b>	<b>607</b>	<b>630</b>	<b>128</b>	<b>758</b>
<b>Defined contribution expenses</b>			<b>330</b>			<b>330</b>
<b>Total</b>			<b>937</b>			<b>1 088</b>



10. Employee benefits

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

In millions of CHF

	2019			2018		
	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	2 635	1	2 636	(1 142)	—	(1 142)
Experience adjustments on plan liabilities	(49)	(29)	(78)	331	(10)	321
Change in demographic assumptions on plan liabilities	82	47	129	526	(59)	467
Change in financial assumptions on plan liabilities	(2 811)	(334)	(3 145)	1 015	43	1 058
Transfer from/(to) unrecognized assets and other	(1)	1	—	(4)	—	(4)
<b>Remeasurement of defined benefit plans</b>	<b>(144)</b>	<b>(314)</b>	<b>(458)</b>	<b>726</b>	<b>(26)</b>	<b>700</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.

	2019				2018			
	EMENA	AMS	AOA	Total	EMENA	AMS	AOA	Total
Discount rates	1.0%	4.0%	4.4%	1.9%	1.8%	5.1%	4.3%	2.9%
Expected rates of salary increases	1.9%	2.7%	5.5%	2.3%	1.8%	2.7%	5.0%	2.6%
Expected rates of pension adjustments	1.2%	0.4%	1.7%	1.0%	1.2%	0.4%	1.4%	1.0%
Medical cost trend rates		6.7%		6.7%		6.9%		6.9%

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

Expressed in years

Country	Mortality table	2019		2018	
		Life expectancy at age 65 for a male member currently aged 65	Life expectancy at age 65 for a female member currently aged 65	Life expectancy at age 65 for a male member currently aged 65	Life expectancy at age 65 for a female member currently aged 65
<b>EMENA</b>					
Switzerland	LPP 2015	21.6	23.2	21.6	23.1
United Kingdom	S2NA	21.2	23.4	21.5	23.1
Germany	Heubeck-Richttafeln 2005	20.6	24.1	20.6	24.1
<b>AMS</b>					
USA	Pri-2012	20.7	22.7	20.9	23.0

## 10. Employee benefits

Life expectancy is reflected in the defined benefit obligations by using the best estimate of the mortality of plan members. When appropriate, base tables are adjusted to take into consideration expected changes in mortality e.g. allowing for future longevity improvements.

### 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

	2019				2018			
	EMENA	AMS	AOA	Total	EMENA	AMS	AOA	Total
<b>As reported</b>	20 275	7 190	1 627	<b>29 092</b>	18 578	6 623	1 832	<b>27 033</b>
<b>Discount rates</b>								
Increase of 50 basis points	18 777	6 770	1 544	<b>27 091</b>	17 294	6 265	1 731	<b>25 290</b>
Decrease of 50 basis points	21 977	7 665	1 732	<b>31 374</b>	20 036	7 023	1 947	<b>29 006</b>
<b>Expected rates of salary increases</b>								
Increase of 50 basis points	20 420	7 242	1 661	<b>29 323</b>	18 705	6 672	1 863	<b>27 240</b>
Decrease of 50 basis points	20 144	7 138	1 597	<b>28 879</b>	18 461	6 574	1 802	<b>26 837</b>
<b>Expected rates of pension adjustments</b>								
Increase of 50 basis points	21 405	7 225	1 688	<b>30 318</b>	19 569	6 650	1 898	<b>28 117</b>
Decrease of 50 basis points	19 211	7 180	1 604	<b>27 995</b>	17 633	6 614	1 814	<b>26 061</b>
<b>Medical cost trend rates</b>								
Increase of 50 basis points	20 276	7 266	1 628	<b>29 170</b>	18 579	6 676	1 833	<b>27 088</b>
Decrease of 50 basis points	20 274	7 121	1 625	<b>29 020</b>	18 577	6 581	1 830	<b>26 988</b>
<b>Mortality assumption</b>								
Setting forward the tables by 1 year	19 574	7 023	1 594	<b>28 191</b>	17 992	6 484	1 798	<b>26 274</b>
Setting back the tables by 1 year	20 989	7 357	1 667	<b>30 013</b>	19 171	6 758	1 866	<b>27 795</b>

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

	2019				2018			
	EMENA	AMS	AOA	Total	EMENA	AMS	AOA	Total
At December 31	15.9	13.1	11.2	<b>15.0</b>	14.8	12.1	12.2	<b>14.0</b>

## 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 recognized when a legal or constructive obligation stemming from a past event exists and when the future cash outflows can be reliably estimated. Provisions are measured at the present value of the expenditures unless the impact of discounting is immaterial. Obligations arising from restructuring plans are recognized when detailed formal plans have been established and when there is a valid expectation that such plans will be carried out by either starting to implement them or announcing their main features. Obligations under litigation reflect Group Management's best estimate of the outcome based on the facts known at the balance sheet date.

### Contingent assets and liabilities

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

### 11.1 Provisions

In millions of CHF

	Restructuring	Environmental	Legal and Tax	Other	Total
<b>At January 1, 2019</b>	<b>835</b>	<b>29</b>	<b>573</b>	<b>376</b>	<b>1 813</b>
Currency retranslations	(17)	(1)	(24)	(7)	(49)
Provisions made during the year <sup>(a)</sup>	596	5	347	230	1 178
Amounts used	(586)	(3)	(195)	(165)	(949)
Reversal of unused amounts	(88)	—	(102)	(83)	(273)
Classification (to)/from held for sale	71	—	(1)	12	82
Modification of the scope of consolidation	5	—	98	59	162
<b>At December 31, 2019</b>	<b>816</b>	<b>30</b>	<b>696</b>	<b>422</b>	<b>1 964</b>
of which expected to be settled within 12 months					802
<b>At January 1, 2018</b>	<b>929</b>	<b>25</b>	<b>544</b>	<b>468</b>	<b>1 966</b>
Currency retranslations	(19)	1	(53)	(6)	(77)
Provisions made during the year <sup>(a)</sup>	590	5	322	185	1 102
Amounts used	(410)	(1)	(98)	(87)	(596)
Reversal of unused amounts	(101)	(1)	(139)	(134)	(375)
Classification (to)/from held for sale	(154)	—	(3)	(46)	(203)
Modification of the scope of consolidation	—	—	—	(4)	(4)
<b>At December 31, 2018</b>	<b>835</b>	<b>29</b>	<b>573</b>	<b>376</b>	<b>1 813</b>
of which expected to be settled within 12 months					780

(a) Including discounting of provisions

## 11. Provisions and contingencies

### **Restructuring**

Restructuring provisions arise from a number of projects across the Group. These include plans to optimize production, sales and administration structures, mainly in the geographies 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).

### **Legal and tax**

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

### **Other**

Other provisions are mainly constituted by onerous contracts and various damage claims having occurred during the year but not covered by insurance companies. Onerous contracts result from termination 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 1352 million (2018: CHF 1860 million) representing potential litigations of CHF 1256 million (2018: CHF 1788 million) and other items of CHF 96 million (2018: CHF 71 million). Potential litigations relate mainly to labor, civil and tax litigations in Latin America.

Contingent assets for litigation claims in favor of the Group amount to a maximum potential recoverable amount of CHF 534 million (2018: CHF 453 million), mainly in Latin America.

## 12. Financial instruments

### Financial assets – Classes and categories

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

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

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

### Financial assets – Recognition and derecognition

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

### Financial assets – Measurement

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

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

Investments in equities, debt funds, equity funds as well as other financial assets not giving rise on specified dates to cash flows that are solely payments of principal and interest are classified at FVTPL. These investments are mainly related to self-insurance activities.

### Financial assets – Impairment

The Group assesses whether its financial assets carried at amortized cost and FVOCI are impaired on the basis of expected credit losses (ECL). This analysis requires the identification of significant increases in the credit risk of the counterparties. Considering that the majority of the Group's financial assets are trade receivables, the analysis also integrates statistical data reflecting the past experience of losses incurred due to default. See Note 7.1 for impairments related to trade receivables.

## 12. Financial instruments

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

The Group considers a debt security to have low credit risk when the credit rating is 'investment grade' according to internationally recognized rating agencies. To assess whether there is a significant increase in credit risk since initial recognition, the Group considers available reasonable and supportive information such as changes in the credit rating of the counterparty. If there is a significant increase in credit risk the loss allowance is measured at an amount equal to lifetime expected losses.

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

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

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

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

### **Financial liabilities at amortized cost**

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

Subsequent to initial measurement, financial liabilities are recognized at amortized cost. The difference between the initial carrying amount of the financial liabilities and their redemption value is recognized in the 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; lease liabilities and other financial liabilities.

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

Financial liabilities are derecognized (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. Financial instruments

### 12.1 Financial assets and liabilities

#### 12.1a By class and by category

In millions of CHF

Classes	2019				2018			
	At amortized cost <sup>(a)</sup>	At fair value to income statement	At fair value to Other comprehensive income	Total categories	At amortized cost <sup>(a)</sup>	At fair value to income statement	At fair value to Other comprehensive income	Total categories
Cash at bank and in hand	2 884	—	—	2 884	2 552	—	—	2 552
Commercial paper	4 999	—	—	4 999	4 777	—	—	4 777
Time deposits	1 951	—	—	1 951	1 426	—	—	1 426
Bonds and debt funds	164	1 070	2	1 176	122	2 084	3	2 215
Equity and equity funds	—	458	71	529	—	439	50	489
Other financial assets	602	733	—	1 335	604	805	—	1 409
<b>Liquid assets <sup>(b)</sup> and non-current financial assets</b>	<b>10 540</b>	<b>2 261</b>	<b>73</b>	<b>12 874</b>	<b>9 487</b>	<b>3 328</b>	<b>53</b>	<b>12 868</b>
Trade and other receivables	11 766	—	—	11 766	11 167	—	—	11 167
Derivative assets <sup>(c)</sup>	—	254	—	254	—	183	—	183
<b>Total financial assets</b>	<b>22 306</b>	<b>2 515</b>	<b>73</b>	<b>24 894</b>	<b>20 654</b>	<b>3 511</b>	<b>53</b>	<b>24 218</b>
Trade and other payables	(19 232)	—	—	(19 232)	(18 190)	—	—	(18 190)
Financial debt	(37 164)	—	—	(37 164)	(40 394)	—	—	(40 394)
Derivative liabilities <sup>(c)</sup>	—	(420)	—	(420)	—	(448)	—	(448)
<b>Total financial liabilities</b>	<b>(56 396)</b>	<b>(420)</b>	<b>—</b>	<b>(56 816)</b>	<b>(58 584)</b>	<b>(448)</b>	<b>—</b>	<b>(59 032)</b>
<b>Net financial position</b>	<b>(34 090)</b>	<b>2 095</b>	<b>73</b>	<b>(31 922)</b>	<b>(37 930)</b>	<b>3 063</b>	<b>53</b>	<b>(34 814)</b>
of which at fair value	—	2 095	73	2 168	—	3 063	53	3 116

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

(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 (categorized as held-for-trading), see Note 12.2d.

## 12. Financial instruments

### 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:

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

In millions of CHF

	2019	2018
Derivative assets	135	36
Bonds and debt funds	573	1 681
Equity and equity funds	211	211
Other financial assets	3	9
Derivative liabilities	(22)	(71)
<b>Prices quoted in active markets (Level 1)</b>	<b>900</b>	<b>1 866</b>
Derivative assets	119	147
Bonds and debt funds	488	396
Equity and equity funds	248	224
Other financial assets	720	695
Derivative liabilities	(398)	(377)
<b>Valuation techniques based on observable market data (Level 2)</b>	<b>1 177</b>	<b>1 085</b>
<b>Valuation techniques based on unobservable input (Level 3)</b>	<b>91</b>	<b>165</b>
<b>Total financial instruments at fair value</b>	<b>2 168</b>	<b>3 116</b>

There have been no significant transfers between the different hierarchy levels in 2019 and in 2018.



## 12. Financial instruments

### 12.1c Changes in liabilities arising from financing activities

In millions of CHF

	2019	2018
<b>At January 1</b>	<b>(40 630)</b>	<b>(29 962)</b>
Currency retranslations and exchange differences	767	692
Changes in fair values	67	132
Changes arising from acquisition and disposal of businesses	(109)	(62)
(Inflows)/outflows on interest derivatives	(153)	(159)
Increase in lease liabilities	(1 006)	(762)
Inflows from bonds and other non-current financial debt	(57)	(9 900)
Outflows from bonds and other non-current financial debt	3 287	2 712
(Inflows)/outflows from current financial debt	444	(3 520)
Classification to liabilities held for sale	(11)	199
<b>At December 31</b>	<b>(37 401)</b>	<b>(40 630)</b>
of which current financial debt	(14 032)	(14 694)
of which non-current financial debt	(23 132)	(25 700)
of which derivatives hedging financial debt	(237)	(236)

## 12. Financial instruments

### 12.1d Bonds

In millions of CHF

Issuer		Face value in millions	Coupon	Effective interest rate	Year of issue/ maturity	Comments	2019	2018
Nestlé S.A., Switzerland	CHF	600	0.75%	0.69%	2018–2028		603	603
	CHF	900	0.25%	0.26%	2018–2024		900	899
Nestlé Holdings, Inc., USA	USD	500	2.00%	2.17%	2013–2019		—	492
	USD	500	2.25%	2.41%	2013–2019		—	493
	USD	400	2.00%	2.06%	2014–2019		—	394
	USD	650	2.13%	2.27%	2014–2020		630	640
	AUD	250	4.25%	4.43%	2014–2020	(a)	169	177
	AUD	175	3.63%	3.77%	2014–2020	(a)	121	125
	NOK	1 000	2.75%	2.85%	2014–2020	(a)	110	115
	GBP	500	1.75%	1.79%	2015–2020	(b)	637	628
	USD	550	1.88%	2.03%	2016–2021		532	541
	USD	600	1.38%	1.52%	2016–2021		580	589
	GBP	500	1.00%	1.17%	2017–2021	(c)	635	625
	USD	800	2.38%	2.55%	2017–2022		771	784
	USD	650	2.38%	2.50%	2017–2022		628	639
	USD	300	2.25%	2.35%	2017–2022		290	295
	EUR	850	0.88%	0.92%	2017–2025	(c)	921	956
	CHF	550	0.25%	0.24%	2017–2027	(c)	551	551
	CHF	150	0.55%	0.54%	2017–2032	(c)	150	150
USD	600	3.13%	3.28%	2018–2023		579	588	
USD	1 000	3.10%	3.17%	2018–2021	(d)	968	984	
USD	1 500	3.35%	3.41%	2018–2023	(d)	1 451	1 475	
USD	900	3.50%	3.59%	2018–2025	(d)	868	883	
USD	1 250	3.63%	3.72%	2018–2028	(d)	1 203	1 223	
USD	1 250	3.90%	4.01%	2018–2038	(d)	1 193	1 213	
USD	2 100	4.00%	4.11%	2018–2048	(d)	1 996	2 031	
<b>Subtotal</b>							<b>16 486</b>	<b>18 093</b>

## 12. Financial instruments

In millions of CHF

Issuer		Face value in millions	Coupon	Effective interest rate	Year of issue/ maturity	Comments	2019	2018
<b>Subtotal from previous page</b>							<b>16 486</b>	<b>18 093</b>
Nestlé Finance International Ltd., Luxembourg	EUR	500	1.50%	1.61%	2012–2019		—	564
	EUR	500	1.25%	1.30%	2013–2020		543	564
	EUR	500	2.13%	2.20%	2013–2021		542	563
	EUR	500	0.75%	0.90%	2014–2021		541	562
	EUR	850	1.75%	1.89%	2012–2022		920	954
	GBP	400	2.25%	2.34%	2012–2023	(e)	527	515
	EUR	500	0.75%	0.92%	2015–2023	(f)	551	570
	EUR	500	0.38%	0.54%	2017–2024		539	559
	EUR	750	1.25%	1.32%	2017–2029		809	840
	EUR	750	1.75%	1.83%	2017–2037		805	836
<b>Other bonds</b>							<b>242</b>	<b>249</b>
<b>Total carrying amount (*)</b>							<b>22 505</b>	<b>24 869</b>
of which due within one year							2 210	1 943
of which due after one year							20 295	22 926
<b>Fair value (†) of bonds, based on prices quoted (level 2)</b>							<b>23 941</b>	<b>25 119</b>

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

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

(b) 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.

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

(d) Sold in the United States only to qualified institutional buyers and outside the United States to non-US persons.

(e) Subject to an interest rate swap.

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

Several bonds are hedged by currency and/or interest derivatives. The fair value of these derivatives is shown under derivative assets for CHF 33 million (2018: CHF 41 million) and under derivative liabilities for CHF 264 million (2018: CHF 248 million).

## 12.2 Financial risks

In the course of its business, the Group is exposed to a number of financial risks: credit risk, liquidity risk, market risk (including foreign currency risk and interest rate risk, commodity price risk and equity price risk). This note presents the Group's objectives, policies and processes for managing its financial risk and capital.

Financial risk management is an integral part of the way the Group is managed. The Board of Directors determines the financial control principles as well as the principles of financial planning. The Chief Executive Officer organizes, 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 Center Treasury, the Regional Treasury Centers 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 Centers are monitored by an independent Middle Office, which verifies the compliance of the strategies and/or operations with the approved guidelines and decisions taken by the ALMC.

### 12.2a Credit risk

#### Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises on financial assets (liquid, non-current and derivative) and on trade and other receivables.

The Group aims to minimize the credit risk of liquid assets, non-current financial assets and derivative assets through the application of risk management policies. Credit limits are set based on each counterparty's size and risk of default. The methodology used to set the credit limit considers the counterparty's balance sheet, credit ratings, risk ratios and default probabilities. Counterparties are monitored regularly, taking into consideration the evolution of the above parameters, as well as their share prices and credit default swaps. As a result of this review, changes on credit limits and risk allocation are carried out. The 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 7.1). 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.

## 12. Financial instruments

### Credit rating of financial assets

This includes liquid assets, non-current financial assets and derivative assets. The credit risk of the financial assets is assessed based on the risk of the counterparties including the associated country risk. The Group uses an internationally recognized credit scale to present the information. The Group deals mainly with financial institutions located in Switzerland, the European Union and North America.

In millions of CHF

	2019	2018
Investment grade A– and above	10 165	9 988
Investment grade BBB+, BBB and BBB–	984	1 095
Non-investment grade (BB+ and below)	1 002	805
Not rated <sup>(a)</sup>	977	1 163
	<b>13 128</b>	<b>13 051</b>

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

### 12.2b Liquidity risk

#### Liquidity risk management

Liquidity risk is the risk that a company may encounter difficulties in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. Such risk may result from inadequate market depth or disruption or refinancing problems. The Group's objective is to manage this risk by limiting exposures in financial instruments that may be affected by liquidity problems and by maintaining sufficient back-up facilities. The Group does not expect any refinancing issues and in October 2019 successfully extended the tenor of both its revolving credit facilities by around one year:

- A new USD 4.1 billion and EUR 2.8 billion revolving credit facility with an initial maturity date of October 2020. The Group has the ability to convert the facility into a one year term loan.
- A USD 2.7 billion and EUR 2.0 billion revolving credit facility with a new maturity date of October 2024.

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

12. Financial instruments

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>2019</b>						
<b>Trade and other payables</b>	<b>(18 803)</b>	<b>(154)</b>	<b>(248)</b>	<b>(32)</b>	<b>(19 237)</b>	<b>(19 232)</b>
Commercial paper <sup>(a)</sup>	(8 072)	—	—	—	(8 072)	(8 053)
Bonds <sup>(a)</sup>	(2 726)	(4 336)	(7 342)	(13 223)	(27 627)	(22 505)
Lease liabilities	(709)	(610)	(1 101)	(1 376)	(3 796)	(3 375)
Other financial debt	(3 167)	(101)	(30)	(13)	(3 311)	(3 231)
<b>Total financial debt</b>	<b>(14 674)</b>	<b>(5 047)</b>	<b>(8 473)</b>	<b>(14 612)</b>	<b>(42 806)</b>	<b>(37 164)</b>
<b>Financial liabilities (excluding derivatives)</b>	<b>(33 477)</b>	<b>(5 201)</b>	<b>(8 721)</b>	<b>(14 644)</b>	<b>(62 043)</b>	<b>(56 396)</b>
Non-currency derivative assets	145	10	14	—	169	169
Non-currency derivative liabilities	(37)	(5)	—	—	(42)	(42)
Gross amount receivable from currency derivatives	14 830	653	30	1 642	17 155	17 127
Gross amount payable from currency derivatives	(15 118)	(701)	(147)	(1 755)	(17 721)	(17 420)
<b>Net derivatives</b>	<b>(180)</b>	<b>(43)</b>	<b>(103)</b>	<b>(113)</b>	<b>(439)</b>	<b>(166)</b>
of which derivatives under cash flow hedges <sup>(b)</sup>	58	(5)	—	—	53	53
<b>2018</b>						
<b>Trade and other payables</b>	<b>(17 800)</b>	<b>(58)</b>	<b>(303)</b>	<b>(29)</b>	<b>(18 190)</b>	<b>(18 190)</b>
Commercial paper <sup>(a)</sup>	(9 193)	—	—	—	(9 193)	(9 165)
Bonds <sup>(a)</sup>	(2 510)	(2 771)	(11 099)	(14 293)	(30 673)	(24 869)
Lease liabilities	(788)	(637)	(1 146)	(1 105)	(3 676)	(3 253)
Other financial debt	(3 013)	(109)	(80)	(12)	(3 214)	(3 107)
<b>Total financial debt</b>	<b>(15 504)</b>	<b>(3 517)</b>	<b>(12 325)</b>	<b>(15 410)</b>	<b>(46 756)</b>	<b>(40 394)</b>
<b>Financial liabilities (excluding derivatives)</b>	<b>(33 304)</b>	<b>(3 575)</b>	<b>(12 628)</b>	<b>(15 439)</b>	<b>(64 946)</b>	<b>(58 584)</b>
Non-currency derivative assets	45	6	12	—	63	62
Non-currency derivative liabilities	(83)	(6)	(2)	—	(91)	(90)
Gross amount receivable from currency derivatives	14 448	1 080	667	1 689	17 884	17 765
Gross amount payable from currency derivatives	(14 501)	(1 370)	(812)	(1 835)	(18 518)	(18 002)
<b>Net derivatives</b>	<b>(91)</b>	<b>(290)</b>	<b>(135)</b>	<b>(146)</b>	<b>(662)</b>	<b>(265)</b>
of which derivatives under cash flow hedges <sup>(b)</sup>	(39)	(6)	(2)	—	(47)	(46)

(a) Commercial paper of CHF 7 022 million (2018: CHF 7698 million) and bonds of CHF 1011 million (2018: CHF 720 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.

## 12. Financial instruments

### 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 81 million in 2019 (2018: loss of CHF 54 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 2019 and 2018.

The Group cannot predict the future movements in exchange rates, therefore the above VaR number neither represents actual losses nor considers the effects of favorable 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 60% (2018: 62%).

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 44 million (2018: CHF 42 million).

### Price risk

#### Commodity price risk

Commodity price risk arises from transactions on the world commodity markets to secure 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 minimize the impact of commodity price fluctuations and this exposure is hedged in accordance with the Nestlé Group policy on commodity price risk management. The Global Procurement Organization is responsible for managing commodity price risk based on internal directives and centrally determined limits, generally using 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. This activity is monitored by an independent Middle Office. Given the short product business cycle of the Group, the majority of the anticipated future raw material transactions outstanding at the balance sheet date are expected to occur in the next year.

#### Equity price risk

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

## 12.2d Derivative assets and liabilities and hedge accounting

### Derivative financial instruments

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

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

### Hedge accounting

The Group designates and documents the use of certain derivatives and other financial assets or financial liabilities as hedging instruments against changes in fair values of recognized assets and liabilities (fair value hedges) and highly probable forecast transactions (cash flow hedges). The effectiveness of such hedges is assessed at inception and verified at regular intervals and at least on a quarterly basis to ensure that an economic relationship exists between the hedged item and hedging instrument.

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

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

### Fair value hedges

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

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

### Cash flow hedges

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

The effective part of the changes in fair value of hedging instruments is recognized in other comprehensive income, while any ineffective part is recognized immediately in the income statement. Ineffectiveness for hedges of foreign currency and commodity price risk may result from changes in the timing of the forecast transactions than was originally foreseen. When the hedged item results in the recognition of a non-financial asset or liability, including acquired businesses, the gains or losses previously recognized 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 recognized in other comprehensive income are recognized in the income statement at the same time as the hedged transaction.



## 12. Financial instruments

### 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.

### Derivatives by hedged risks

In millions of CHF

	2019			2018		
	Contractual or notional amounts	Fair value assets	Fair value liabilities	Contractual or notional amounts	Fair value assets	Fair value liabilities
<b>Fair value hedges <sup>(a)</sup></b>						
Foreign currency and interest rate risk on net financial debt	8 045	57	278	9 435	56	273
<b>Cash flow hedges</b>						
Foreign currency risk on future purchases or sales	8 009	47	88	7 284	85	78
Commodity price risk on future purchases	1 798	135	26	2 044	37	73
Interest rate risk on net financial debt	8 / 2	—	15	1 380	—	1 /
<b>Designated in a hedging relationship</b>	<b>18 724</b>	<b>239</b>	<b>407</b>	<b>20 143</b>	<b>178</b>	<b>441</b>
<b>Undesignated derivatives</b>		<b>15</b>	<b>13</b>		<b>5</b>	<b>7</b>
		<b>254</b>	<b>420</b>		<b>183</b>	<b>448</b>
<b>Conditional offsets <sup>(b)</sup></b>						
Derivative assets and liabilities		(35)	(35)		(34)	(34)
Use of cash collateral received or deposited		(35)	(122)		(21)	(124)
<b>Balances after conditional offsets</b>		<b>186</b>	<b>263</b>		<b>128</b>	<b>290</b>

(a) The carrying amount of the hedged item recognized in the statement of financial position is approximately equal to the notional of the hedging instruments.

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

A description of the types of hedging instruments by risk category is included in Note 12.2c Market risk.

The majority of hedge relationships are established to ensure a hedge ratio of 1:1.

## 12. Financial instruments

### Impact on the income statement of fair value hedges

The majority of fair value hedges are related to financing activities and are presented in Net financing cost.

In millions of CHF

	2019	2018
on hedged items	(47)	(145)
on hedging instruments	49	138

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 (see Note 16.5 for the definition of net financial debt).

The operating cash flow-to-net financial debt ratio highlights the ability of a business to repay its debts. As at December 31, 2019, the ratio was 58.4% (2018: 50.8%). 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 recognized 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 recognized 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 recognized against equity or other comprehensive income.

Deferred taxes are based on the temporary differences that arise when taxation authorities recognize and measure assets and liabilities with rules that differ from the principles of the Consolidated Financial Statements. 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 recognized in the income statement unless related to items directly recognized against equity or other comprehensive income. Deferred tax liabilities are recognized on all taxable temporary differences excluding non-deductible goodwill. Deferred tax assets are recognized on all deductible temporary differences provided that it is probable that future taxable income will be available.

## 13. Taxes

### 13.1 Taxes recognized in the income statement

In millions of CHF

	2019	2018
<b>Components of taxes</b>		
Current taxes <sup>(a)</sup>	(3 084)	(4 003)
Deferred taxes	35	545
Taxes reclassified to other comprehensive income	(134)	22
Taxes reclassified to equity	24	(3)
<b>Total taxes</b>	<b>(3 159)</b>	<b>(3 439)</b>
<b>Reconciliation of taxes</b>		
Expected tax expense at weighted average applicable tax rate	(2 726)	(2 925)
Tax effect of non-deductible or non-taxable items <sup>(b)</sup>	251	(110)
Prior years' taxes	(84)	108
Transfers to unrecognized deferred tax assets	(292)	(129)
Transfers from unrecognized deferred tax assets	123	95
Changes in tax rates	(60)	(6)
Withholding taxes levied on transfers of income	(371)	(472)
<b>Total taxes</b>	<b>(3 159)</b>	<b>(3 439)</b>

(a) Current taxes related to prior years include a tax income of CHF 5 million (2018: tax income of CHF 250 million).

(b) In 2019, these items mainly include the impact of the non-taxable profit on disposal of Nestlé Skin Health.

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. Taxes

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

In millions of CHF

	Property, plant and equipment	Goodwill and intangible assets	Employee benefits	Working capital, provisions and other	Unused tax losses and unused tax credits	Total
At January 1, 2019	(1 362)	(1 951)	1 372	901	316	(724)
Currency retranslations	53	51	(35)	(55)	(12)	2
Deferred tax (expense)/income	(174)	(256)	123	341	1	35
Classification (to)/from held for sale	84	82	(2)	19	17	200
Modification of the scope of consolidation	(1)	—	—	13	—	12
<b>At December 31, 2019</b>	<b>(1 400)</b>	<b>(2 074)</b>	<b>1 458</b>	<b>1 219</b>	<b>322</b>	<b>(475)</b>
At January 1, 2018	(1 245)	(2 895)	1 482	889	380	(1 389)
Currency retranslations	37	4	(46)	(80)	(34)	(119)
Deferred tax (expense)/income	(130)	431	(45)	186	103	545
Classification (to)/from held for sale	—	6/8	(19)	(110)	(141)	408
Modification of the scope of consolidation	(2)	(169)	—	10	8	(153)
Other movements	(22)	—	—	6	—	(16)
<b>At December 31, 2018</b>	<b>(1 362)</b>	<b>(1 951)</b>	<b>1 372</b>	<b>901</b>	<b>316</b>	<b>(724)</b>

In millions of CHF

	2019	2018
Reflected in the balance sheet as follows:		
Deferred tax assets	2 114	1 816
Deferred tax liabilities	(2 589)	(2 540)
<b>Net assets/(liabilities)</b>	<b>(475)</b>	<b>(724)</b>

#### 13.3 Unrecognized deferred taxes

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

In millions of CHF

	2019	2018
Within one year	111	69
Between one and five years	396	381
More than five years	2 229	2 383
	<b>2 736</b>	<b>2 833</b>

### 13. Taxes

At December 31, 2019, the unrecognized deferred tax assets amount to CHF 587 million (2018: CHF 579 million). In addition, the Group has not recognized deferred tax liabilities in respect of unremitted earnings that are considered indefinitely reinvested in foreign subsidiaries. At December 31, 2019, these earnings amount to CHF 26.8 billion (2018: CHF 26.3 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

	2019				2018			
	L'Oréal	Other associates	Joint ventures	Total	L'Oréal	Other associates	Joint ventures	Total
<b>At January 1</b>	8 459	1 183	1 150	<b>10 792</b>	8 184	1 198	2 246	<b>11 628</b>
Currency retranslations	(318)	(87)	(30)	<b>(435)</b>	(271)	(32)	(54)	<b>(357)</b>
Investments	—	563	—	<b>563</b>	—	204	46	<b>250</b>
Divestments	—	(4)	(23)	<b>(27)</b>	—	(3)	(978)	<b>(981)</b>
Share of results	968	(31)	68	<b>1 005</b>	1 044	(152)	27	<b>919</b>
Share of other comprehensive income	399	(9)	(4)	<b>386</b>	127	1	(32)	<b>96</b>
Dividends and interest received	(571)	(31)	(30)	<b>(632)</b>	(553)	(33)	(117)	<b>(703)</b>
Other	(146)	—	(1)	<b>(147)</b>	(72)	—	12	<b>(60)</b>
<b>At December 31</b>	<b>8 791</b>	<b>1 584</b>	<b>1 130</b>	<b>11 505</b>	<b>8 459</b>	<b>1 183</b>	<b>1 150</b>	<b>10 792</b>

Investments in other associates in 2019 mainly relate to the acquisition of a 20% stake in IVC Evidensia (see Note 14.2).

Divestments in joint ventures in 2018 mainly related to the repayment of a loan granted to Froneri (see Note 14.3).

As part of the investment, loans granted by the Group to joint ventures amount to CHF 958 million at December 31, 2019 (2018: CHF 932 million).

## 14. Associates and joint ventures

### Income from associates and joint ventures

In millions of CHF

	2019	2018
Share of results	1 005	919
Loss on disposals	(4)	(3)
<b>Total</b>	<b>1 001</b>	<b>916</b>

#### 14.1 Associate – L'Oréal

The Group holds 129 881 021 shares in L'Oréal (whose ultimate parent company is domiciled in France), the world leader in cosmetics, representing a 23.3% participation in its equity after elimination of its treasury shares (2018: 129 881 021 shares representing a 23.2% participation).

At December 31, 2019, the market value of the shares held amounts to CHF 37.2 billion (2018: CHF 29.5 billion).

#### Summarized financial information of L'Oréal

In billions of CHF

	2019	2018
Total current assets	15.1	14.0
Total non-current assets	32.5	29.3
<b>Total assets</b>	<b>47.6</b>	<b>43.3</b>
Total current liabilities	11.8	11.4
Total non-current liabilities	3.8	1.6
<b>Total liabilities</b>	<b>15.6</b>	<b>13.0</b>
<b>Total equity</b>	<b>32.0</b>	<b>30.3</b>
<b>Total sales</b>	<b>33.2</b>	<b>31.1</b>
Profit from continuing operations	4.2	4.5
Profit from discontinued operations	–	–
Other comprehensive income	1.7	0.5
<b>Total comprehensive income</b>	<b>5.9</b>	<b>5.0</b>

#### Reconciliation of the carrying amount

In billions of CHF

	2019	2018
Share held by the Group in the equity of L'Oréal	7.4	7.1
Goodwill and other adjustments	1.4	1.4
<b>Carrying amount of L'Oréal</b>	<b>8.8</b>	<b>8.5</b>

## 14. Associates and joint ventures

### 14.2 Other associates

The Group holds a number of other associates that are individually not material, the main ones being IVC Evidensia (veterinary services provider in Europe), an associate acquired in 2019, and Lactalis Nestlé Produits Frais (chilled dairy business in Europe).

### 14.3 Joint ventures

The Group holds a number of joint ventures operating in the food and beverage sectors. These joint ventures are individually not significant to the Group, the main ones being Froneri and Cereal Partners Worldwide.

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

	2019	2018
Basic earnings per share (in CHF)	4.30	3.36
Net profit (in millions of CHF)	12 609	10 135
Weighted average number of shares outstanding (in millions of units)	2 929	3 014
Diluted earnings per share (in CHF)	4.30	3.36
Net profit, net of effects of dilutive potential ordinary shares (in millions of CHF)	12 609	10 135
Weighted average number of shares outstanding, net of effects of dilutive potential ordinary shares (in millions of units)	2 934	3 019
Reconciliation of weighted average number of shares outstanding (in millions of units)		
Weighted average number of shares outstanding used to calculate basic earnings per share	2 929	3 014
Adjustment for share-based payment schemes, where dilutive	5	5
Weighted average number of shares outstanding used to calculate diluted earnings per share	2 934	3 019



## 16. Cash flow statement

### 16.1 Operating profit

In millions of CHF

	2019	2018
Profit for the year	12 904	10 468
Income from associates and joint ventures	(1 001)	(916)
Taxes	3 159	3 439
Financial income	(200)	(247)
Financial expense	1 216	1 008
	<b>16 078</b>	<b>13 752</b>

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

In millions of CHF

	2019	2018
Depreciation of property, plant and equipment	3 488	3 604
Impairment of property, plant and equipment	783	500
Impairment of goodwill	779	592
Amortization of intangible assets	225	320
Impairment of intangible assets	774	156
Net result on disposal of businesses	(3 416)	(686)
Net result on disposal of assets	2	53
Non-cash items in financial assets and liabilities	(150)	(42)
Equity compensation plans	124	140
Other	(4)	(14)
	<b>2 605</b>	<b>4 623</b>

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

In millions of CHF

	2019	2018
Inventories	(712)	(450)
Trade and other receivables	(1 028)	(547)
Prepayments and accrued income	(47)	132
Trade and other payables	1 651	1 043
Accruals and deferred income	475	294
	<b>349</b>	<b>472</b>

## 16. Cash flow statement

### 16.4 Variation of other operating assets and liabilities

In millions of CHF

	2019	2018
Variation of employee benefits assets and liabilities	(100)	(430)
Variation of provisions	(42)	127
Other	48	266
	<b>(94)</b>	<b>(37)</b>

### 16.5 Reconciliation of free cash flow and net financial debt

In millions of CHF

	2019	2018
Operating cash flow	15 850	15 398
Capital expenditure	(3 695)	(3 869)
Expenditure on intangible assets	(516)	(601)
Other investing activities	295	(163)
<b>Free cash flow</b>	<b>11 934</b>	<b>10 765</b>
Acquisition of businesses	(125)	(9 512)
Financial liabilities and short-term investments acquired in business combinations	(134)	(67)
Disposal of businesses	9 959	4 310
Financial liabilities and short-term investments transferred on disposal of businesses	25	5
Acquisition (net of disposal) of non-controlling interests	(16)	(528)
Investments (net of divestments) in associates and joint ventures	(540)	728
Dividend paid to shareholders of the parent	(7 230)	(7 124)
Dividends paid to non-controlling interests	(463)	(319)
Purchase (net of sale) of treasury shares	(9 773)	(6 854)
Increase in lease liabilities	(1 006)	(762)
Currency retranslations and exchange differences	513	389
Other movements	48	8
<b>(Increase)/decrease of net financial debt</b>	<b>3 192</b>	<b>(8 961)</b>
Net financial debt at beginning of year	(30 330)	(21 369)
<b>Net financial debt at end of year</b>	<b>(27 138)</b>	<b>(30 330)</b>
of which		
Current financial debt	(14 032)	(14 694)
Non-current financial debt	(23 132)	(25 700)
Cash and cash equivalents	7 169	4 500
Short-term investments	2 794	5 801
Derivatives <sup>(a)</sup>	(237)	(237)

(a) Related to Net debt and included in Derivative assets and Derivative liabilities balances of the Consolidated balance sheet

## 16. Cash flow statement

### 16.6 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

	2019	2018
Cash at bank and in hand	2 884	2 552
Time deposits	1 935	1 408
Commercial paper	2 650	540
<b>Cash and cash equivalents as per balance sheet</b>	<b>7 469</b>	<b>4 500</b>
Cash and cash equivalents classified as held for sale	—	140
<b>Cash and cash equivalents as per cash flow statement</b>	<b>7 469</b>	<b>4 640</b>

## 17. Equity

### 17.1 Share capital issued

The ordinary share capital of Nestlé S.A. issued and fully paid is composed of 2 976 000 000 registered shares with a nominal value of CHF 0.10 each (2018: 3 063 000 000 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 in 2019 and 2018 as a consequence of a share buyback program of up to CHF 20 billion launched in July 2017 and completed in 2019. The cancellation of shares was approved at the Annual General Meetings on April 11, 2019 and April 12, 2018. The share capital was reduced by 87 000 000 shares from CHF 306 million to CHF 298 million in 2019 and by 49 160 000 shares from CHF 311 million to CHF 306 million in 2018.

On December 30, 2019, the Group announced a new share buyback program of up to CHF 20 billion to commence on or after January 3, 2020 and to be completed by the end of December 2022. It is subject to market conditions and strategic opportunities.

### 17.2 Conditional share capital

The conditional capital of Nestlé S.A. amounts to CHF 10 million as in the preceding year. It confers the right to increase the ordinary share capital, through the exercise of conversion or option rights granted in connection with convertible debentures or debentures with option rights or 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. Equity

### 17.3 Treasury shares

Number of shares in millions of units

	2019	2018
Purpose of holding		
Share buyback program	88.9	78.7
Long-Term Incentive Plans	7.1	9.8
	<b>96.0</b>	<b>88.5</b>

At December 31, 2019, the treasury shares held by the Group represent 3.2% of the share capital (2018: 2.9%). Their market value amounts to CHF 10 054 million (2018: CHF 7064 million).

### 17.4 Number of shares outstanding

Number of shares in millions of units

	Shares issued	Treasury shares	Outstanding shares
<b>At January 1, 2019</b>	<b>3 063.0</b>	<b>(88.5)</b>	<b>2 974.5</b>
Purchase of treasury shares	—	(97.7)	(97.7)
Treasury shares delivered in respect of options exercised	—	0.2	0.2
Treasury shares delivered in respect of equity compensation plans	—	3.0	3.0
Treasury shares cancelled	(87.0)	87.0	—
<b>At December 31, 2019</b>	<b>2 976.0</b>	<b>(96.0)</b>	<b>2 880.0</b>
<b>At January 1, 2018</b>	<b>3 112.2</b>	<b>(54.6)</b>	<b>3 057.6</b>
Purchase of treasury shares	—	(86.3)	(86.3)
Treasury shares delivered in respect of options exercised	—	1.2	1.2
Treasury shares delivered in respect of equity compensation plans	—	2.0	2.0
Treasury shares cancelled	(49.2)	49.2	—
<b>At December 31, 2018</b>	<b>3 063.0</b>	<b>(88.5)</b>	<b>2 974.5</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 mainly comprise the Group's share in the items that may be reclassified subsequently to the income statement by the associates and joint ventures (reserves equity accounted for).

The other reserves also comprise the hedging reserve of the subsidiaries. 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.

17. Equity

**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
2019								
Currency retranslations								
– Recognized	(1 217)	—	4	3	—	(1 210)	37	(1 173)
– Reclassified to income statement	129	—	—	—	—	129	—	129
– Taxes	(6)	—	—	—	—	(6)	—	(6)
	(1 094)	—	4	3	—	(1 087)	37	(1 050)
Fair value changes on debt and equity instruments								
– Recognized	—	—	—	—	(4)	(4)	—	(4)
– Reclassified to income statement	—	—	—	—	—	—	—	—
– Taxes	—	—	—	—	—	—	—	—
	—	—	—	—	(4)	(4)	—	(4)
Fair value changes on cash flow hedges								
– Recognized	—	—	(90)	—	—	(90)	(2)	(92)
– Reclassified to income statement	—	—	27	—	—	27	(2)	25
– Taxes	—	—	—	—	—	—	1	1
	—	—	(63)	—	—	(63)	(3)	(66)
Remeasurement of defined benefit plans								
– Recognized	—	—	—	—	(443)	(443)	(15)	(458)
– Taxes	—	—	—	—	135	135	3	138
	—	—	—	—	(308)	(308)	(12)	(320)
Share of other comprehensive income of associates and joint ventures								
– Recognized	—	—	—	49	337	386	—	386
– Reclassified to income statement	—	—	—	—	—	—	—	—
	—	—	—	49	337	386	—	386
<b>Other comprehensive income for the year</b>	<b>(1 094)</b>	<b>—</b>	<b>(59)</b>	<b>52</b>	<b>25</b>	<b>(1 076)</b>	<b>22</b>	<b>(1 054)</b>

## 17. Equity

In millions of CHF

	Translation reserve	Fair value reserves	Hedging reserves	Reserves of associates and joint ventures	Retained earnings	Total equity attributable to shareholders of the parent	Non-controlling interests	Total equity
2018								
Currency retranslations								
- Recognized	(1 092)	(1)	2	3	—	(1 088)	(115)	(1 203)
- Reclassified to income statement	108	—	—	—	—	108	—	108
- Taxes	91	—	—	—	—	91	—	91
	(893)	(1)	2	3	—	(889)	(115)	(1 004)
Fair value changes on debt and equity instruments								
- Recognized	—	(203)	—	—	4	(199)	—	(199)
- Reclassified to income statement	—	153	—	—	—	153	—	153
- Taxes	—	11	—	—	—	11	—	11
	—	(39)	—	—	4	(35)	—	(35)
Fair value changes on cash flow hedges								
- Recognized	—	—	26	—	—	26	6	32
- Reclassified to income statement	—	—	40	—	—	40	(4)	36
- Taxes	—	—	(22)	—	—	(22)	—	(22)
	—	—	44	—	—	44	2	46
Remeasurement of defined benefit plans								
- Recognized	—	—	—	—	703	703	(3)	700
- Taxes	—	—	—	—	(101)	(101)	1	(100)
	—	—	—	—	602	602	(2)	600
Share of other comprehensive income of associates and joint ventures								
- Recognized	—	—	—	(32)	117	85	—	85
- Reclassified to income statement	—	—	—	11	—	11	—	11
	—	—	—	(21)	117	96	—	96
<b>Other comprehensive income for the year</b>	<b>(893)</b>	<b>(40)</b>	<b>46</b>	<b>(18)</b>	<b>723</b>	<b>(182)</b>	<b>(115)</b>	<b>(297)</b>

## 17. Equity

### 17.9 Reconciliation of the other reserves

In millions of CHF

	Fair value reserves	Hedging reserves	Reserves of associates and joint ventures	Total
At January 1, 2019	—	(17)	(166)	(183)
Other comprehensive income for the year	—	(59)	52	(7)
Other movements	—	145	—	145
<b>At December 31, 2019</b>	<b>—</b>	<b>69</b>	<b>(114)</b>	<b>(45)</b>
At January 1, 2018	40	(73)	(148)	(181)
Other comprehensive income for the year	(40)	46	(18)	(12)
Other movements	—	10	—	10
<b>At December 31, 2018</b>	<b>—</b>	<b>(17)</b>	<b>(166)</b>	<b>(183)</b>

### 17.10 Dividend

In accordance with Swiss law, the 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 2018 was paid on April 17, 2019, in accordance with the decision taken at the Annual General Meeting on April 11, 2019. Shareholders approved the proposed dividend of CHF 2.45 per share, resulting in a total dividend of CHF 7230 million.

Dividend payable is not accounted for until it has been ratified at the Annual General Meeting. At the Annual General Meeting on April 23, 2020, a dividend of CHF 2.70 per share will be proposed, resulting in an estimated total dividend of CHF 7795 million. For further details, refer to the Financial Statements of Nestlé S.A.

The Consolidated Financial Statements for the year ended December 31, 2019, do not reflect this proposed distribution, which will be treated as an appropriation of profit in the year ending December 31, 2020.

## 18. Transactions with related parties

### 18.1 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 as well as members of the Nomination and Sustainability Committee: additional CHF 70 000 (Chair CHF 150 000); 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 cash compensation, as well as Nestlé S.A. shares which are blocked for three years.

In millions of CHF

	2019	2018
Chairman's compensation	3	4
Other Board members		
Remuneration – cash	3	3
Shares	3	2
<b>Total (a)</b>	<b>9</b>	<b>9</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.



## 18. Transactions with related parties

### Executive Board

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

In millions of CHF

	2019	2018
Remuneration – cash	13	15
Bonus – cash	9	9
Bonus – shares	7	7
Equity compensation plans <sup>(a)</sup>	11	15
Pension	2	4
<b>Total <sup>(b)</sup></b>	<b>42</b>	<b>50</b>

(a) Equity compensation plans are equity-settled share-based payment transactions whose cost is recognized 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.

### 18.2 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); and
- in-licensing and intellectual property purchase (see Note 9).

### 18.3 Other transactions

- Group's pension plans considered as related parties, refer to Note 10 Employee benefits;
- Directors of the Group: no personal interest in any transaction of significance for the business of the Group.

## 19. Guarantees

At December 31, 2019 and December 31, 2018, the Group has no significant guarantees given to third parties.

## 20. Effects of hyperinflation

The 2019 and 2018 figures include the following countries considered as hyperinflationary economies:

- Venezuela;
- Argentina;
- Zimbabwe and Iran since 2019.

None of them have a significant impact on the Group accounts.

## 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 February 12, 2020, 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 except the acquisition of Zenpep as described in Note 2.2 and the estimated gain on the disposal of the US Ice Cream business mentioned in Note 2.4 Assets held for sale.



# Statutory Auditor's Report

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

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the consolidated financial statements of Nestlé S.A. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2019, 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 66 to 145) give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



## Revenue recognition

### Key Audit Matter

Revenue from the sale of goods is recognized at the moment when control has been transferred to the buyer; and is measured net of pricing allowances, other trade discounts, and price promotions to customers (collectively 'trade spend').

The judgments 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 incentivized.

The Group focuses on revenue as a key performance measure, which could create an incentive for revenue to be recognized before control has been transferred.

### Our response

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

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

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

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

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

For further information on revenue recognition refer to the following:

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



## Carrying value of goodwill and indefinite life intangible assets

### Key Audit Matter

The Group has goodwill of CHF 28,896 million and indefinite life intangible assets of CHF 15,966 million as at December 31, 2019, which are required to be tested for impairment at least on an annual basis. The recoverability of these assets is dependent on achieving a sufficient level of future net cash flows.

Management apply judgment in allocating these assets to individual cash generating units ('CGUs') as well as in assessing the future performance and prospects of each CGU and determining the relevant valuation assumptions. In 2019 impairment losses of CHF 1,484 million for goodwill and indefinite life intangible assets were recognized across a number of 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. We also tested the design, implementation and operating effectiveness of controls over the preparation of impairment tests.

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 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 (the higher of 'value in use' and 'fair value less costs of disposal'), including identification of the CGU, forecast cash flows, long-term growth rate and the discount rate based on our understanding of the commercial prospects of the related assets. In addition, we identified and analyzed changes in assumptions from prior periods, made an assessment of the appropriateness of assumptions, and performed a comparison of assumptions with publicly available data.

We also considered the appropriateness of disclosures on impairment testing and on impairments recognized.

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 recognizes 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 and testing the design, implementation and operating effectiveness of related controls. Third party opinions, past and current experience with the tax authorities in the respective jurisdiction and our tax specialists' own expertise were used to assess the appropriateness of management's best estimate of the most likely outcome of each uncertain tax position.

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

For further information on income taxes refer to the following:

- Note 1, "Accounting policies"
- Note 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, February 12, 2020

KPMG SA, Esplanade de Pont-Rouge 6, P.O. Box 1571, CH-1211 Geneva 26

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## Financial information – 5 year review

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

	2019	2018
<b>Results</b>		
Sales	92 568	91 439
Underlying Trading operating profit <sup>(a)</sup>	16 260	15 521
as % of sales	17.6%	17.0%
Trading operating profit <sup>(a)</sup>	13 674	13 789
as % of sales	14.8%	15.1%
Taxes	3 159	3 439
Profit for the year attributable to shareholders of the parent (Net profit)	12 609	10 135
as % of sales	13.6%	11.1%
Total amount of dividend	7 795 <sup>(c)</sup>	7 230
Depreciation of property, plant and equipment <sup>(d)</sup>	3 488	3 604
<b>Balance sheet and Cash flow statement</b>		
Current assets	35 663	41 003
Non-current assets	92 277	96 012
Total assets	127 940	137 015
Current liabilities	41 615	43 030
Non-current liabilities	33 463	35 582
Equity attributable to shareholders of the parent	52 035	57 363
Non-controlling interests	827	1 040
Net financial debt <sup>(a)</sup>	27 138	30 330
Ratio of net financial debt to equity (gearing)	52.2%	52.9%
Operating cash flow	15 850	15 398
as % of net financial debt	58.4%	50.8%
Free cash flow <sup>(a)</sup>	11 934	10 765
Capital additions <sup>(d)</sup>	5 482	14 711
as % of sales	5.9%	16.1%
<b>Data per share</b>		
Weighted average number of shares outstanding (in millions of units)	2 929	3 014
Basic earnings per share	4.30	3.36
Underlying earnings per share <sup>(a)</sup>	4.41	4.02
Dividend	2.70 <sup>(c)</sup>	2.45
Pay-out ratio based on basic earnings per share	62.8% <sup>(c)</sup>	72.9%
Stock prices (high)	113.20	86.50
Stock prices (low)	79.86	72.92
Yield <sup>(b)</sup>	2.4/3.4 <sup>(c)</sup>	2.8/3.4
<b>Market capitalization</b>	<b>301 772</b>	<b>237 363</b>
<b>Number of employees (in thousands)</b>	<b>291</b>	<b>308</b>

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

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

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

(d) Including right-of-use assets – leased since 2017



Financial information – 5 year review

2017	2016	2015	
			<b>Results</b>
89 590	89 469	88 785	Sales
14 771	14 307	14 032	Underlying Trading operating profit <sup>(a)</sup>
16.5%	16.0%	15.8%	as % of sales
13 277	13 693	13 382	Trading operating profit <sup>(a)</sup>
14.8%	15.3%	15.1%	as % of sales
2 773	4 413	3 305	Taxes
7 156	8 531	9 066	Profit for the year attributable to shareholders of the parent (Net profit)
8.0%	9.5%	10.2%	as % of sales
7 124	7 126	6 937	Total amount of dividend
3 560	2 795	2 861	Depreciation of property, plant and equipment <sup>(d)</sup>
			<b>Balance sheet and Cash flow statement</b>
31 884	32 042	29 434	Current assets
101 326	99 859	94 558	Non-current assets
133 210	131 901	123 992	Total assets
38 189	37 517	33 321	Current liabilities
32 792	28 403	26 685	Non-current liabilities
60 956	64 590	62 338	Equity attributable to shareholders of the parent
1 273	1 391	1 648	Non-controlling interests
21 369	13 913	15 425	Net financial debt <sup>(a)</sup>
35.1%	21.5%	24.7%	Ratio of net financial debt to equity (gearing)
14 199	15 582	14 302	Operating cash flow
66.4%	112.0%	92.7%	as % of net financial debt
9 358	10 108	9 945	Free cash flow <sup>(a)</sup>
6 569	5 462	4 883	Capital additions <sup>(d)</sup>
7.3%	6.1%	5.5%	as % of sales
			<b>Data per share</b>
3 092	3 091	3 129	Weighted average number of shares outstanding (in millions of units)
2.31	2.76	2.90	Basic earnings per share
3.55	3.40	3.31	Underlying earnings per share <sup>(a)</sup>
2.35	2.30	2.25	Dividend
101.7%	83.3%	77.6%	Pay-out ratio based on basic earnings per share
86.40	80.05	77.00	Stock prices (high)
71.45	67.00	64.55	Stock prices (low)
2.7/3.3	2.9/3.4	2.9/3.5	Yield <sup>(b)</sup>
<b>256 223</b>	<b>226 310</b>	<b>229 947</b>	<b>Market capitalization</b>
<b>323</b>	<b>328</b>	<b>335</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>					
Nespresso Österreich GmbH & Co. OHG	Wien		100%	EUR	35 000
Nestlé Österreich GmbH	Wien		100%	EUR	7 270 000
<b>Azerbaijan</b>					
Nestlé Azerbaijan LLC	Baku	100%	100%	USD	200 000
<b>Belarus</b>					
LLC Nestlé Bel	Minsk	100%	100%	BYN	410 000
<b>Belgium</b>					
Nespresso Belgique S.A.	Bruxelles		100%	EUR	550 000
Nestlé Belgijux S.A.	Bruxelles		100%	EUR	3 818 140
Nestlé Catering Services N.V.	Bruxelles		100%	EUR	14 035 500
Nestlé Waters Benelux S.A.	Etalle		100%	EUR	5 601 257
<b>Bosnia and Herzegovina</b>					
Nestlé Adriatic BH d.o.o.	Sarajevo	100%	100%	BAM	2 151

Companies of the Nestlé Group, joint arrangements and associates

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Bulgaria</b>					
Nestlé Bulgaria A.D.	Sofia		100%	BGN	10 234 933
<b>Croatia</b>					
Nestlé Adriatic d.o.o.	Zagreb	100%	100%	HRK	14 685 500
<b>Czech Republic</b>					
Mucos Pharma CZ, s.r.o.	Pruhonice		100%	CZK	160 000
Nestlé Česko s.r.o.	Praha		100%	CZK	300 000 000
Tivall CZ, s.r.o.	Krupka		100%	CZK	400 000 000
<b>Denmark</b>					
Nestlé Danmark A/S	Copenhagen		100%	DKK	44 000 000
Nestlé Professional Food A/S	Faxe		100%	DKK	12 000 000
Glycom A/S	<sup>3)</sup> Copenhagen	35.7%	35.7%	DKK	1 735 725
<b>Finland</b>					
Pulijonki Oy	Juuka		100%	EUR	85 000
Suomen Nestlé Oy	Espoo		100%	EUR	6 000 000
<b>France</b>					
Centres de Recherche et Développement Nestlé S.A.S.	Noisiel		100%	EUR	3 138 230
Herta S.A.S.	Noisiel		100%	EUR	12 908 610
Nespresso France S.A.S.	Paris		100%	EUR	1 360 000
Nestlé Entreprises S.A.S.	<sup>4)</sup> Noisiel		100%	EUR	739 559 392
Nestlé Excellence Supports France S.A.S.	Issy-les-Moulineaux		100%	EUR	1 356 796
Nestlé France S.A.S.	Noisiel		100%	EUR	130 925 520
Nestlé France M.G. S.A.S.	Noisiel		100%	EUR	50 000
Nestlé Health Science France S.A.S.	Noisiel		100%	EUR	57 943 072
Nestlé Purina PetCare France S.A.S.	Noisiel		100%	EUR	21 091 872
Nestlé Waters S.A.S.	<sup>4)</sup> Issy-les-Moulineaux		100%	EUR	254 825 042
Nestlé Waters France S.A.S.	<sup>4)</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 Supply Est S.A.S.	Issy-les-Moulineaux		100%	EUR	17 539 660
Nestlé Waters Supply Sud S.A.S.	Issy-les-Moulineaux		100%	EUR	7 309 106
Société des Produits Alimentaires de Caudry S.A.S.	Noisiel		100%	EUR	8 670 319
Société Immobilière de Noisiel S.A.	<sup>4)</sup> Noisiel		100%	EUR	22 753 550
Société Industrielle de Transformation de Produits Agricoles S.A.S.	Noisiel		100%	EUR	9 718 000
Cereal Partners France SNC	<sup>1)</sup> Noisiel		50%	EUR	3 000 000
L'Oréal S.A. <sup>(*)</sup>	<sup>Δ3)</sup> Paris	23.3%	23.3%	EUR	111 623 441
<i>Listed on the Paris stock exchange, market capitalization EUR 147.3 billion, quotation code (ISIN) FR0000120321</i>					
Lactalis Nestlé Produits Frais S.A.S.	<sup>3)</sup> Laval	40%	40%	EUR	69 208 832

<sup>(\*)</sup> Voting powers amount to 23.3%

Companies of the Nestlé Group, joint arrangements and associates

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Georgia</b>					
Nestlé Georgia LLC	Tbilisi	100%	100%	CHF	700 000
<b>Germany</b>					
Mucos Pharma GmbH & Co. KG	Berlin		100%	EUR	—
Nestlé Deutschland AG	Frankfurt am Main		100%	EUR	214 266 628
Nestlé Product Technology Centre Lebensmittelforschung GmbH	Freiburg i. Br.		100%	EUR	52 000
Nestlé Unternehmungen Deutschland GmbH	◊ Frankfurt am Main		100%	EUR	60 000 000
Nestlé Waters Deutschland GmbH	Frankfurt am Main		100%	EUR	10 566 000
Terra Canis GmbH	München		80%	EUR	60 336
C.P.D. Cereal Partners Deutschland GmbH & Co. OHG	<sup>1)</sup> Frankfurt am Main		50%	EUR	511 292
Trinks GmbH	<sup>3)</sup> Braunschweig		25%	EUR	2 360 000
Trinks Süd GmbH	<sup>3)</sup> München		25%	EUR	260 000
<b>Greece</b>					
Nespresso Hellas S.A.	Maroussi	100%	100%	EUR	500 000
Nestlé Hellas S.A.	Maroussi	100%	100%	EUR	5 269 765
C.P.W. Hellas Breakfast Cereals S.A.	<sup>1)</sup> Maroussi		50%	EUR	201 070
<b>Hungary</b>					
Nestlé Hungária Kft.	Budapest		100%	HUF	6 000 000 000
<b>Italy</b>					
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%	EUR	12 525
Nestlé Finance International Ltd	◊ Luxembourg	100%	100%	EUR	440 000
Nestlé Treasury International S.A.	◊ Luxembourg	100%	100%	EUR	1 000 000
NTC-Europe S.A.	◊ Luxembourg	100%	100%	EUR	3 565 000
IVC New TopHolding S.A.	<sup>3)</sup> Luxembourg	20%	20%	GBP	16 170 000
<b>Macedonia</b>					
Nestlé Adriatik Makedonija d.o.o.e.l.	Skopje-Karpos		100%	MKD	31 065 780

Companies of the Nestlé Group, joint arrangements and associates

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Malta</b>					
Nestlé Malta Ltd	Lija		100%	EUR	116 470
<b>Moldova</b>					
LLC Nestlé	Chisinau	100%	100%	USD	1 000
<b>Netherlands</b>					
East Springs International N.V.	<sup>6</sup> Amsterdam		100%	EUR	25 370 000
MCO Health B.V.	Aimere		100%	EUR	418 000
Nespresso Nederland B.V.	Amsterdam		100%	EUR	680 670
Nestlé Nederland B.V.	Amsterdam		100%	EUR	11 346 000
<b>Norway</b>					
AS Nestlé Norge	Bærum		100%	NOK	81 250 000
<b>Poland</b>					
Nestlé Polska S.A.	Warszawa	88.5%	100%	PLN	42 459 600
Cereal Partners Poland Torun-Pacific Sp. Z o.o.	<sup>1)</sup> Torun	50%	50%	PLN	14 572 838
<b>Portugal</b>					
Nestlé Business Services Lisbon, S.A.	Oeiras		100%	EUR	50 000
Nestlé Portugal, Unipessoal, Lda.	Oeiras		100%	EUR	30 000 000
Cereal Associados Portugal A.E.I.E.	<sup>1)</sup> Oeiras		50%	EUR	99 760
<b>Republic of Ireland</b>					
Nestlé (Ireland) Ltd	Dublin		100%	EUR	1 270
Wyeth Nutritionals Ireland Ltd	Askeaton		100%	USD	10 000 000
WyNutri Ltd	Dublin		100%	USD	1
<b>Republic of Serbia</b>					
Nestlé Adriatic S d.o.o., Beograd-Surcin	Beograd-Surcin		100%	RSD	12 222 327 814
<b>Romania</b>					
Nestlé Romania S.R.L.	Bucharest		100%	RON	132 906 800
<b>Russia</b>					
LLC Atrium Innovations Rus	Moscow		100%	RUB	6 000 000
Nestlé Kuban LLC	Timashevsk	67.4%	100%	RUB	21 041 793
Nestlé Rossiya LLC	Moscow	84.1%	100%	RUB	880 154 115
Cereal Partners Rus, LLC	<sup>1)</sup> Moscow	35%	50%	RUB	39 730 860
<b>Slovak Republic</b>					
Nestlé Slovensko s.r.o.	Prievidza		100%	EUR	13 277 568

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<b>Slovenia</b>					
Nestlé Adriatic Trgovina d.o.o.	Ljubljana	100%	100%	EUR	8 763
<b>Spain</b>					
Nestlé España S.A.	Esplugues de Llobregat (Barcelona)		100%	EUR	100 000 000
Nestlé Global Services Spain, S.L.	Esplugues de Llobregat (Barcelona)		100%	EUR	3 000
Nestlé Purina PetCare España S.A.	Castellbisbal (Barcelona)		100%	EUR	12 000 000
Productos del Café S.A.	Reus (Tarragona)		100%	EUR	6 600 000
Cereal Partners España A.E.I.E.	1) Esplugues de Llobregat (Barcelona)		50%	EUR	120 202
<b>Sweden</b>					
Nestlé Sverige AB	Helsingborg		100%	SEK	20 000 000
<b>Switzerland</b>					
DPA (Holding) S.A.	Vevey	100%	100%	CHF	100 000
Entreprises Maggi S.A.	Cham	100%	100%	CHF	100 000
Intercona Re AG	Châtel-St-Denis		100%	CHF	35 000 000
Microbiome Diagnostics Partners S.A.	Epalinges	100%	100%	CHF	100 000
Nespresso IS Services S.A.	Lausanne	100%	100%	CHF	100 000
Nestlé Capital Advisers S.A.	Vevey	100%	100%	CHF	400 000
Nestlé Enterprises SA	Vevey	100%	100%	CHF	3 514 000
Nestlé Finance S.A.	Cham		100%	CHF	30 000 000
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
Nestrade 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
Société des Produits Nestlé S.A.	Vevey	100%	100%	CHF	8 746 750
Sofinol S.A.	Manno		100%	CHF	3 000 000
Somafa S.A.	Cham	100%	100%	CHF	400 000
Vetropa S.A.	Fribourg	100%	100%	CHF	2 500 000
CPW Operations Sàrl	1) Prilly	50%	50%	CHF	20 000
CPW S.A.	1) Prilly	50%	50%	CHF	10 000 000
Eckes-Granini (Suisse) S.A.	2) Henniez		49%	CHF	2 000 000
<b>Turkey</b>					
Erikli Şu ve Mesrubat Sanayi ve Ticaret A.Ş.	Bursa		100%	TRY	20 700 000
Nestlé Türkiye Gıda Sanayi A.Ş.	Istanbul		99.9%	TRY	35 000 000
Cereal Partners Gıda Ticaret Limited Şirketi	1) Istanbul		50%	TRY	88 080 000

Companies of the Nestlé Group, joint arrangements and associates

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Ukraine</b>					
LLC Nestlé Ukraine	Kyiv		100%	UAH	799 965
LLC Technocom	Kharviv	100%	100%	UAH	119 658 066
JSC "Lviv Confectionery Factory" "Svitoch"	Lviv		100%	UAH	88 111 060
PJSC Volynholding	Torchyn		100%	UAH	100 000
<b>United Kingdom</b>					
Nespresso UK Ltd	Gatwick		100%	GBP	275 000
Nestec York Ltd	Gatwick		100%	GBP	500 000
Nestlé Holdings (UK) PLC	<sup>6</sup> Gatwick		100%	GBP	77 940 000
Nestlé Purina PetCare (UK) Ltd	Gatwick		100%	GBP	44 000 000
Nestlé UK Ltd	Gatwick		100%	GBP	129 972 342
Nestlé Waters UK Ltd	Gatwick		100%	GBP	640
Osem UK Ltd	London		100%	GBP	2 000
Princes Gate Water Ltd	Pembrokeshire		90%	GBP	199 630
Tailsco Ltd	London		83%	GBP	16
Vitafo (International) Ltd	Liverpool		100%	GBP	625 379
Cereal Partners UK	<sup>1)</sup> Herts		50%	GBP	—
Froneri Ltd <sup>1b)</sup>	<sup>1)</sup> Northallerton	21,8%	44%	EUR	14 534
Phagenesis Ltd	<sup>2b)</sup> Manchester	29,2%	29,2%	GBP	16 146

<sup>6)</sup> Excluding non voting preference shares. Voting powers amount to 50.0%

Companies of the Nestlé Group, joint arrangements and associates

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	650 000 000
Nestlé Industrie Algérie SpA	Alger	49%	49%	DZD	1 100 000 000
Nestlé Waters Algérie SpA	Blida		49%	DZD	377 606 250
<b>Angola</b>					
Nestlé Angola Lda	Luanda		100%	AOA	1 791 870 000
<b>Burkina Faso</b>					
Nestlé Burkina Faso S.A.	Ouagadougou		100%	XOF	50 000 000
<b>Cameroon</b>					
Nestlé Cameroun S.A.	Douala		100%	XAF	4 323 960 000
<b>Côte d'Ivoire</b>					
Nestlé Côte d'Ivoire S.A.	<sup>A</sup> Abidjan		86.5%	XOF	5 517 600 000
<i>Listed on the Abidjan stock exchange, market capitalization XOF 8.7 billion, quotation code (iSiN) C000974078</i>					
<b>Egypt</b>					
Caravan Marketing Company S.A.E.	Giza	100%	100%	EGP	33 000 000
Nestlé Egypt S.A.E.	Giza	100%	100%	EGP	80 722 000
Nestlé Waters Egypt S.A.E.	Cairo		63.8%	EGP	90 140 000
<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%	GHS	145 746 000
Nestlé Ghana Ltd	Accra		76%	GHS	20 100 000
<b>Kenya</b>					
Nestlé Equatorial African Region Ltd	Nairobi	100%	100%	KES	2 507 242 000
Nestlé Kenya Ltd	Nairobi	100%	100%	KES	226 100 400
<b>Mauritius</b>					
Nestlé's Products (Mauritius) Ltd	Port Louis	100%	100%	MUR	2 488 071
<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>Nigeria</b>					
Nestlé Nigeria Plc	<sup>A</sup> Ilupeju	66.2%	66.2%	NGN	396 328 126
<i>Listed on the Nigerian Stock Exchange, market capitalization NGN 1165.0 billion, quotation code (iSiN) NGNESTLE0006</i>					



Companies of the Nestlé Group, joint arrangements and associates

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Senegal</b>					
Nestlé Sénégal S.A.	Dakar		100%	XOF	1 620 000 000
<b>South Africa</b>					
Nestlé (South Africa) (Pty) Ltd	Johannesburg	100%	100%	ZAR	759 735 000
Clover Waters Proprietary Limited	<sup>3)</sup> Johannesburg		30%	ZAR	56 021 890
<b>Tunisia</b>					
Nestlé Tunisie S.A.	Tunis	99.5%	99.5%	TND	8 438 280
Nestlé Tunisie Distribution S.A.	Tunis	<0.1%	99.5%	TND	100 000
<b>Zambia</b>					
Nestlé Zambia Trading Ltd	Lusaka		100%	ZMW	2 317 500
<b>Zimbabwe</b>					
Nestlé Zimbabwe (Private) Ltd	Harare		100%	ZWL	19 626 000

Companies of the Nestlé Group, joint arrangements and associates

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
Nestlé Argentina S.A.	Buenos Aires	100%	100%	ARS	3 384 352 000
<b>Bolivia</b>					
Industrias Alimenticias Fagal S.R.L.	Santa Cruz		100%	BOB	175 556 000
Nestlé Bolivia S.A.	Santa Cruz		100%	BOB	191 900
<b>Brazil</b>					
Chocolates Garoto S.A.	Vila Velha		100%	BRL	264 766 192
Dairy Partners Americas Manufacturing Brasil Ltda	São Paulo	100%	100%	BRL	39 468 974
Nestlé Brasil Ltda	São Paulo	100%	100%	BRL	463 707 038
Nestlé Nordeste Alimentos e Bebidas Ltda	Feira de Santana		100%	BRL	259 547 969
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
SOCOPAL – Sociedade Comercial de Corretagem de Seguros e de Participações Ltda	° São Paulo	100%	100%	BRL	2 155 600
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	300 806 368
Dairy Partners Americas Nordeste – Produtos Alimentícios Ltda	<sup>3)</sup> Garanhuns		49%	BRL	100 000
<b>Canada</b>					
Atrium Innovations Inc.	Westmount (Québec)		99.6%	CAD	219 940 960
Nestlé Canada Inc.	Toronto (Ontario)		100%	CAD	47 165 540
Nestlé Capital Canada Ltd	° Toronto (Ontario)		100%	CAD	1 010
<b>Cayman Islands</b>					
Hsu Fu Chi International Limited	° Grand Cayman		60%	SGD	7 950 000
<b>Chile</b>					
Nespresso Chile S.A.	Santiago de Chile		99.8%	CLP	1 000 000
Nestlé Chile S.A.	Santiago de Chile	99.7%	99.8%	CLP	11 832 926 000
Cereales CPW Chile Ltda	<sup>1)</sup> Santiago de Chile		50%	CLP	3 026 156 114
Aguas CCU – Nestlé Chile S.A.	<sup>3)</sup> Santiago de Chile		49.8%	CLP	49 799 375 321
<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
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%	CRC	18 000 000

Companies of the Nestlé Group, joint arrangements and associates

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Cuba</b>					
Coralac S.A.	La Habana		60%	USD	6 350 000
Los Portales S.A.	La Habana		50%	USD	24 110 000
Nescor, S.A.	Artemisa		50.9%	USD	32 200 000
<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%	USD	521 583
Industrial Surindu S.A.	Quito		100%	USD	3 000 000
Nestlé Ecuador S.A.	Quito		100%	USD	1 776 760
Terrafertil S.A.	Tabacundo		60%	USD	525 800
<b>El Salvador</b>					
Nestlé El Salvador, S.A. de C.V.	San Salvador	100%	100%	USD	4 457 200
<b>Guatemala</b>					
Industrias Consolidadas de Occidente, S.A.	Chimaltenango	100%	100%	GTQ	300 000
Malher, S.A.	Guatemala City		100%	GTQ	100 075 000
Nestlé Guatemala S.A.	Guatemala City		100%	GTQ	23 460 600
TESOCORP, S.A.	Guatemala City	100%	100%	GTQ	5 000
<b>Honduras</b>					
Nestlé Hondureña S.A.	Tegucigalpa		100%	PAB	200 000
<b>Jamaica</b>					
Nestlé Jamaica Ltd	Kingston		100%	JMD	49 200 000
<b>Mexico</b>					
Malhemex, S.A. de C.V.	México, D.F.	100%	100%	MXN	50 000
Manantiales La Asunción, S.A.P.I. de C.V. <sup>(c)</sup>	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
Nescalin, 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	4 407 532 730
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	50 000
Ralston Purina México, S.A. de C.V.	México, D.F.		100%	MXN	9 257 112
Terrafertil México S.A.P.I. de C.V.	Tultitlán		60%	MXN	15 040 320
Waters Partners Services México, S.A.P.I. de C.V. <sup>(c)</sup>	México, D.F.		40%	MXN	620 000

<sup>(c)</sup> Voting powers amount to 51.0%

Companies of the Nestlé Group, joint arrangements and associates

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Mexico (continued)</b>					
Cereal Partners México, S.A. de C.V.	1) México, D.F.		50%	MXN	500 000
CPW México, S. de R.L. de C.V.	1) México, D.F.		50%	MXN	708 138 000
<b>Nicaragua</b>					
Compañía Centroamericana de Productos Lácteos, S.A.	Managua	66.1%	92.6%	NIO	10 294 900
Nestlé Nicaragua, S.A.	Managua		100%	USD	150 000
<b>Panama</b>					
Nestlé Panamá, S.A.	Panamá City	100%	100%	PAB	17 500 000
Unilac, Inc.	◊ Panamá City		100%	USD	750 000
<b>Paraguay</b>					
Nestlé Business Services Latam S.A.	Asunción	99.9%	100%	PYG	100 000 000
Nestlé Paraguay S.A.	Asunción		100%	PYG	100 000 000
<b>Peru</b>					
Nestlé Marcas Perú, S.A.C.	Lima	50%	100%	PEN	5 536 832
Nestlé Perú, S.A.	Lima	99.5%	99.5%	PEN	88 964 263
<b>Puerto Rico</b>					
Nestlé Puerto Rico, Inc.	Bayamon		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>					
BBC New Holdings, LLC	◊ Wilmington (Delaware)		68.3%	USD	0
Blue Bottle Coffee, Inc.	Wilmington (Delaware)		68.3%	USD	0
Chameleon Cold Brew, LLC	Wilmington (Delaware)		100%	USD	0
Checkerboard Holding Company, Inc	◊ Wilmington (Delaware)		100%	USD	1 001
Dreyer's Grand Ice Cream Holdings, Inc.	◊ Wilmington (Delaware)		100%	USD	10
Foundry Foods, Inc.	Wilmington (Delaware)		100%	USD	1
Garden of Life LLC	Wilmington (Delaware)		100%	USD	—
Gerber Products Company	Fremont (Michigan)		100%	USD	1 000
HVL LLC	Wilmington (Delaware)		100%	USD	—
Lifelong Nutrition Inc.	Wilmington (Delaware)		50%	USD	1 200
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
NDHH, LLC	◊ Wilmington (Delaware)		100%	USD	1
Nespresso USA, Inc.	Wilmington (Delaware)		100%	USD	1 000
Nestlé Capital Corporation	◊ Wilmington (Delaware)		100%	USD	1 000 000

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<b>United States (continued)</b>					
Nestlé Dreyer's Ice Cream Company	Wilmington (Delaware)		100%	USD	1
Nestlé Health Science US Holdings, Inc.	◊ Wilmington (Delaware)		100%	USD	1
Nestlé HealthCare Nutrition, Inc.	Wilmington (Delaware)		100%	USD	50 000
Nestlé Holdings, Inc.	◊ Wilmington (Delaware)		100%	USD	100 000
Nestlé Insurance Holdings, Inc.	◊ Wilmington (Delaware)		100%	USD	10
Nestlé Nutrition R&D Centers, Inc.	Wilmington (Delaware)		100%	USD	10 000
Nestlé Prepared Foods Company	Philadelphia (Pennsylvania)		100%	USD	476 760
Nestlé Purina PetCare Company	St. Louis (Missouri)		100%	USD	1 000
Nestlé Purina PetCare Global Resources, Inc.	Wilmington (Delaware)		100%	USD	0
Nestlé R&D Center, Inc.	Wilmington (Delaware)		100%	USD	10 000
Nestlé Regional GLOBE Office North America, Inc.	Wilmington (Delaware)		100%	USD	1 000
Nestlé Transportation Company	Wilmington (Delaware)		100%	USD	100
Nestlé US Holdco, Inc.	◊ Wilmington (Delaware)		100%	USD	1
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%	USD	10
Osem USA Inc.	New York		100%	USD	30 000
Pure Encapsulations, LLC	Wilmington (Delaware)		100%	USD	—
Red Maple Insurance Company	◊ Williston (Vermont)		100%	USD	1 200 000
Sweet Earth Inc.	Wilmington (Delaware)		100%	USD	0
The Häagen-Dazs Shoppe Company, Inc.	Centennial (Colorado)		100%	USD	0
The Stouffer Corporation	◊ Cleveland (Ohio)		100%	USD	0
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
Aimmune Therapeutics, Inc.	<sup>3)</sup> Wilmington (Delaware)		18.5%	USD	6 330
Axcella Health Inc.	<sup>3)</sup> Wilmington (Delaware)		10.3%	USD	23 082
Before Brands, Inc.	<sup>3)</sup> Wilmington (Delaware)		32.5%	USD	4 815
Cerecin Inc.	<sup>3)</sup> Wilmington (Delaware)		32.1%	USD	68 251
Seres Therapeutics, Inc.	<sup>3)</sup> Cambridge (Massachusetts)		9.8%	USD	69 994
<b>Uruguay</b>					
Nestlé del Uruguay S.A.	Montevideo		100%	UYU	9 495 189
<b>Venezuela</b>					
Nestlé Cadipró, S.A.	Caracas		100%	VES	506
Nestlé Venezuela, S.A.	Caracas	100%	100%	VES	5

Companies of the Nestlé Group, joint arrangements and associates

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<b>Asia</b>					
<b>Afghanistan</b>					
Nestlé Afghanistan Ltd	Kabul	100%	100%	USD	1 000 000
<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	100%	100%	CNY	303 990 000
Atrium Innovations (HK) Limited	Hong Kong	100%	100%	HKD	1
Chengdu Yinlu Foods Co., Limited	Chengdu	100%	100%	CNY	215 800 000
Dongguan Hsu Chi Food Co., Limited	Dongguan		60%	HKD	700 000 000
Guangzhou Refrigerated Foods Limited	Guangzhou	95.5%	95.5%	CNY	390 000 000
Henan Hsu Fu Chi Foods Co., Limited	Zhumadian		60%	CNY	224 000 000
Hsu Fu Chi International Holdings Limited	Hong Kong		60%	USD	100 000
Hubei Yinlu Foods Co., Limited	Hanchuan	100%	100%	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) Limited	Taizhou City		100%	USD	32 640 000
Nestlé Hong Kong Limited	Hong Kong	100%	100%	HKD	250 000 000
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
Shandong Yinlu Foods Co., Limited	Jinan	100%	100%	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
Wyeth (Hong Kong) Holding Co., Limited	Hong Kong	100%	100%	HKD	1 354 107 000
Wyeth (Shanghai) Trading Co., Limited	Shanghai		100%	USD	2 000 000
Wyeth Nutritional (China) Co., Limited	Suzhou		100%	CNY	900 000 000
Xiamen Yinlu Foods Group Co., Limited	Xiamen	100%	100%	CNY	496 590 000
Yunnan Dashan Drinks Co., Limited	Kunming	100%	100%	CNY	35 000 000

Companies of the Nestlé Group, joint arrangements and associates

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>India</b>					
Nestlé India Ltd	Δ New Delhi	34.3%	62.8%	INR	964 157 160
<i>Listed on the Bombay Stock Exchange, market capitalization INR 1426.0 billion, quotation code (ISIN) INE:239A01016</i>					
<b>Indonesia</b>					
PT. Nestlé Indonesia	Jakarta	90.2%	90.2%	IDR	152 753 440 000
PT. Nestlé Trading Indonesia	Jakarta	1%	90.3%	IDR	60 000 000 000
PT. Wyeth Nutrition Sduaenam	Jakarta		90%	IDR	2 500 000 000
<b>Iran</b>					
Nestlé Iran (Private Joint Stock Company)	Tehran	95.9%	95.9%	IRR	358 538 000 000
Nestlé Parsian (Private Joint Stock Company)	Tehran	60%	60%	IRR	1 000 000 000
<b>Israel</b>					
Assamim Gift Parcels Ltd	Shoam		73.8%	ILS	103
Beit Hashita-Asis Limited Partnership	Kibbutz Beit Hashita		100%	ILS	11 771 000
Materna Industries Limited Partnership	Kibbutz Maabarot		100%	ILS	10 000
Migdanot Habait Ltd	Shoam		100%	ILS	4 014
Nespresso Israel Ltd	Tel Aviv	100%	100%	ILS	1 000
OSEM Food Industries Ltd	Shoam		100%	ILS	176
OSEM Group Commerce Limited Partnership	Shoam		100%	ILS	100
OSEM Investments Ltd	Shoam	100%	100%	ILS	110 644 443
Tivall Food Industries Ltd	Kiryat Gat		100%	ILS	41 861 167
<b>Japan</b>					
Blue Bottle Coffee Japan, G.K.	Tokyo		68.3%	JPY	10 000 000
Nestlé Japan Ltd	Kobe	100%	100%	JPY	4 000 000 000
Nestlé Nespresso K.K.	Kobe		100%	JPY	10 000 000
<b>Jordan</b>					
Ghadeer Mineral Water Co. WLL	Amman		75%	JOD	1 785 000
Nestlé Jordan Trading Company Ltd	Amman	50%	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

Companies of the Nestlé Group, joint arrangements and associates

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Malaysia</b>					
Nestlé (Malaysia) Bhd.	<sup>Δ</sup> Petaling Jaya	72.6%	72.6%	MYR	267 500 000
<i>Listed on the Kuala Lumpur stock exchange, market capitalization MYR 34.5 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	28 500 000
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
Cereal Partners (Malaysia) Sdn. Bhd.	<sup>1)</sup> Petaling Jaya	50%	50%	MYR	2 500 000
<b>Oman</b>					
Nestlé Oman Trading LLC	Muscat	49%	49%	OMR	300 000
<b>Pakistan</b>					
Nestlé Pakistan Ltd	<sup>Λ</sup> Lahore	59%	59%	PKR	453 495 840
<i>Listed on the Pakistan Stock Exchange, market capitalization PKR 366.1 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>					
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>	<sup>◦</sup> Makati City		88.5%	PHP	630 000 000
Wyeth Philippines, Inc.	Makati City	100%	100%	PHP	743 134 900
CPW Philippines, Inc.	<sup>1)</sup> Makati City	50%	50%	PHP	7 500 000
<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>					
Nestlé Korea Yuhan Chaegim Hoesa	Seoul		100%	KRW	15 594 500 000
Pulmuone Waters Co., Ltd	Gyeonggi-Do		51%	KRW	6 778 760 000
LOTTE-Nestlé (Korea) Co., Ltd	<sup>1)</sup> Cheongju		50%	KRW	52 783 120 000
<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

<sup>(d)</sup> Voting powers amount to 40.0%



Companies of the Nestlé Group, joint arrangements and associates

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Singapore</b>					
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>6</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>A</sup> Colombo	90.8%	90.8%	LKR	537 254 630
<i>Listed on the Colombo stock exchange, market capitalization LKR 69.8 billion, quotation code (ISIN) LK0128N00005</i>					
<b>Syria</b>					
Nestlé Syria S.A.	Damascus	99.9%	99.9%	SYP	800 000 000
<b>Thailand</b>					
Nestlé (Tha) Ltd	Bangkok		100%	THB	880 000 000
Perrier Vittel (Thailand) Ltd	Bangkok		100%	THB	235 000 000
Quality Coffee Products Ltd	Bangkok	49%	50%	THB	500 000 000
<b>United Arab Emirates</b>					
Nestlé Dubai Manufacturing LLC	Dubai	49%	49%	AED	300 000
Nestlé Middle East FZE	Dubai	100%	100%	AED	3 000 000
Nestlé Middle East Manufacturing LLC	Dubai	49%	49%	AED	300 000
Nestlé Middle East Marketing FZE	Dubai		100%	AED	1 000 000
Nestlé Treasury Centre-Middle East & Africa Ltd	<sup>6</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
CP Middle East FZCO	<sup>1)</sup> Dubai	50%	50%	AED	600 000
<b>Uzbekistan</b>					
Nestlé Food MChJ XK	Tashkent	100%	100%	UZS	12 922 977 969
<b>Vietnam</b>					
La Vie Limited Liability Company	Long An		65%	USD	2 663 400
Nestlé Vietnam Ltd	Bien Hoa	100%	100%	KVND	1 261 151 498

Companies of the Nestlé Group, joint arrangements and associates

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
<b>Oceania</b>					
<b>Australia</b>					
Nestlé Australia Ltd	Sydney	100%	100%	AUD	274 000 000
Cereal Partners Australia Pty Ltd	<sup>1)</sup> Sydney		50%	AUD	107 800 000
<b>Fiji</b>					
Nestlé (Fiji) Ltd	Lami	33%	100%	FJD	3 000 000
<b>French Polynesia</b>					
Nestlé Polynésie S.A.S.	Papeete		100%	XPF	5 000 000
<b>New Caledonia</b>					
Nestlé Nouvelle-Calédonie S.A.S.	Nouméa		100%	XPF	64 000 000
<b>New Zealand</b>					
Nestlé New Zealand Limited	Auckland		100%	NZD	300 000
CPW New Zealand	<sup>1)</sup> Auckland		50%	NZD	—
<b>Papua New Guinea</b>					
Nestlé (PNG) Ltd	Lae		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, specialized as follows:

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

The Technical Assistance centre is Société des Produits Nestlé S.A. (SPN), a technical, scientific, commercial and business assistance company. The units of SPN, specialized 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. SPN 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>		
Nestlé Institute of Health Sciences	Ecublens	R
Nestlé Product Technology Centre Beverage	Orbe	PTC
Nestlé Product Technology Centre Dairy	Konolfingen	PTC
Nestlé Product Technology Centre Nestlé Nutrition	Konolfingen	PTC
Nestlé Product Technology Centre Nestlé Professional	Orbe	PTC
Nestlé Research	Lausanne	R
Nestlé System Technology Centre	Orbe	R and PTC
Société des Produits Nestlé S.A.	Vevey	TA
<b>Australia</b>		
CPW R&D Centre	<sup>1)</sup> Wahgunyah	R&D
<b>Chile</b>		
Nestlé Development Centre	Santiago de Chile	D
<b>Côte d'Ivoire</b>		
Nestlé R&D Centre	Abidjan	R&D
<b>France</b>		
Nestlé Development Centre Dairy	Lisieux	D
Nestlé Product Technology Centre Water	Vittel	PTC
Nestlé R&D Centre	Aubigny	R&D
Nestlé R&D Centre	Tours	R&D
Froneri Development Center Glaces S.A.S.	<sup>1)</sup> Beauvais	PTC

Companies of the Nestlé Group, joint arrangements and associates

City of operations		
<b>Germany</b>		
Nestlé Product Technology Centre Food	Singen	PTC
<b>Greater China Region</b>		
Nestlé R&D Centre	Beijing	R&D
<b>India</b>		
Nestlé Development Centre	Gurgaon	D
<b>Republic of Ireland</b>		
Nestlé Development Centre	Askeaton	D
<b>Singapore</b>		
Nestlé Development Centre	Singapore	D
<b>United Kingdom</b>		
Nestlé Product Technology Centre Confectionery	York	PTC
CPW R&D Centre	<sup>1)</sup> Staverton	R&D
<b>United States</b>		
Nestlé Development Centre	Fremont (Michigan)	D
Nestlé Development Centre	Marysville (Ohio)	D
Nestlé Development Centre	Solon (Ohio)	D
Nestlé Product Technology Centre Health Science	Bridgewater (New Jersey)	PTC
Nestlé Product Technology Centre Ice Cream	Bakersfield (California)	PTC
Nestlé Product Technology Centre PetCare	St. Louis (Missouri)	PTC
Nestlé R&D Centre	St. Joseph (Missouri)	R&D
CPW R&D Centre	<sup>1)</sup> Minneapolis (Minnesota)	R&D

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## Income statement for the year ended December 31, 2019

In millions of CHF

	Notes	2019	2018
Income from Group companies	2	12 109	15 285
Profit on disposal and revaluation of assets	3	8 368	2 144
Other income		118	110
Financial income	4	302	202
<b>Total income</b>		<b>20 897</b>	<b>17 741</b>
Expenses recharged from Group companies	5	(2 509)	(2 543)
Personnel expenses		(158)	(146)
Other expenses		(367)	(196)
Write-downs and amortization	6	(3 082)	(1 847)
Financial expenses	7	(68)	(68)
Taxes	8	(478)	(673)
<b>Total expenses</b>		<b>(6 662)</b>	<b>(5 473)</b>
<b>Profit for the year</b>		<b>14 235</b>	<b>12 268</b>

# Balance sheet as at December 31, 2019

before appropriations

In millions of CHF

	Notes	2019	2018
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	631	262
Other current receivables	10	1 376	942
Prepayments and accrued income		87	65
<b>Total current assets</b>		<b>2 094</b>	<b>1 269</b>
<b>Non-current assets</b>			
Financial assets	11	13 353	7 857
Shareholdings	12	20 775	28 693
Property, plant and equipment		1	1
Intangible assets	11	—	2 518
<b>Total non-current assets</b>		<b>34 129</b>	<b>39 069</b>
<b>Total assets</b>		<b>36 223</b>	<b>40 338</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Interest-bearing liabilities	14	1 657	2 023
Other current liabilities	15	1 180	2 107
Accruals and deferred income		17	12
Provisions	16	385	596
<b>Total current liabilities</b>		<b>3 239</b>	<b>4 738</b>
<b>Non-current liabilities</b>			
Interest-bearing liabilities	14	1 503	1 635
Provisions	16	547	496
<b>Total non-current liabilities</b>		<b>2 050</b>	<b>2 131</b>
<b>Total liabilities</b>		<b>5 289</b>	<b>6 869</b>
<b>Equity</b>			
Share capital	17/18	298	306
Legal retained earnings			
– General legal reserve	18	1 937	1 929
Voluntary retained earnings			
– Special reserve	18	12 519	19 299
– Profit brought forward	18	11 436	6 480
– Profit for the year	18	14 235	12 268
Treasury shares	18/19	(9 491)	(6 813)
<b>Total equity</b>		<b>30 934</b>	<b>33 469</b>
<b>Total liabilities and equity</b>		<b>36 223</b>	<b>40 338</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 unrealized 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. Unrealized foreign exchange differences on hedging instruments are matched and accounted for with those on the underlying asset or liability. Long-term loans, in foreign currencies, used to finance investments in shareholdings are generally not hedged.

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

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

### Income statement

In accordance with Swiss law 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 and loans are written down on a conservative basis, taking into account the profitability of the company concerned.

### Property, plant and equipment

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

### Intangible assets

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

### Provisions

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

## 2. Income from Group companies

This represents dividends and other income from Group companies.

## 3. Profit on disposal and revaluation of assets

This represents mainly the net gains realized on the sale of financial assets, trademarks and other industrial property rights previously written down. In 2019, the net gain of CHF 1603 million on the sale of participations to Société des Produits Nestlé S.A. and CHF 4135 million on the sale of Nestlé Skin Health S.A. is included. In addition, a reversal of prior period valuation adjustments resulted in a net gain on participations amounting to CHF 2435 million. In 2018, the net gain of CHF 1431 million on the sale of the US confectionery business was included.

## 4. Financial income

In millions of CHF

	2019	2018
Income on loans to Group companies	302	202
	<b>302</b>	<b>202</b>

## 5. Expenses recharged from Group companies

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

## 6. Write-downs and amortization

In millions of CHF

	2019	2018
Shareholdings and loans	2 758	1 481
Trademarks and other industrial property rights	324	366
	<b>3 082</b>	<b>1 847</b>

## 7. Financial expenses

In millions of CHF

	2019	2018
Expenses related to loans from Group companies	25	51
Other financial expenses	43	17
	<b>68</b>	<b>68</b>

## 8. Taxes

In millions of CHF

	2019	2018
Direct taxes	262	241
Prior years adjustments	(130)	—
Withholding taxes on income from foreign sources	346	432
	<b>478</b>	<b>673</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

	2019	2018
Amounts owed by Group companies (current accounts)	1 325	903
Other receivables	51	39
	<b>1 376</b>	<b>942</b>

## 11. Financial assets

In millions of CHF

	2019	2018
Loans to Group companies	13 329	7 842
Other investments	24	15
	<b>13 353</b>	<b>7 857</b>

## 12. Shareholdings

In millions of CHF

	2019	2018
At January 1	28 693	32 006
Net increase/(decrease)	(5 978)	(2 621)
Write-downs	(1 940)	(692)
<b>At December 31</b>	<b>20 775</b>	<b>28 693</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. On December 31, 2019 Nestlé S.A. has sold or contributed shareholdings with a net book value of CHF 6445 million to its subsidiary Société des Produits Nestlé S.A. (also see note 3).

## 13. Intangible assets

This amount represents the unamortized balance of the trademarks and other industrial property rights capitalized in relation with the acquisition of Atrium and of the acquired perpetual rights to market, sell and distribute certain Starbucks' consumer and foodservice products globally, except the United States of America. On December 31, 2019, the trademarks and other industrial property rights have been sold to Société des Produits Nestlé S.A. for CHF 2226 million.

## 14. Interest-bearing liabilities

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

In millions of CHF

Issuer		Face value in millions	Coupon	Effective interest rate	Year of issue/ maturity	2019	2018
Nestlé S.A., Switzerland	CHF	600	0.75%	0.69%	2018–2028	603	603
	CHF	900	0.25%	0.26%	2018–2024	900	899
<b>Total carrying amount</b>						<b>1 503</b>	<b>1 502</b>

Non-current interest-bearing liabilities concern two bonds issued by Nestlé S.A. on June 28, 2018. In addition, in 2018 it also included one amount owed to a Group company.

## 15. Other current liabilities

In millions of CHF

	2019	2018
Amounts owed to Group companies	993	1 897
Other liabilities	187	210
	<b>1 180</b>	<b>2 107</b>

## 16. Provisions

In millions of CHF

					2019	2018
	Uninsured risks	Exchange risks	Swiss and foreign taxes	Other	Total	Total
At January 1	475	134	329	154	1 092	1 021
Provisions made in the period	—	—	262	88	350	371
Amounts used	—	—	(181)	(55)	(236)	(176)
Unused amounts reversed	—	(134)	(131)	(9)	(274)	(124)
<b>At December 31</b>	<b>475</b>	<b>—</b>	<b>279</b>	<b>178</b>	<b>932</b>	<b>1 092</b>
of which expected to be settled within 12 months					385	596

## 17. Share capital

	2019	2018
Number of registered shares of nominal value CHF 0.10 each	2 976 000 000	3 063 000 000
In millions of CHF	298	306

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. The Company was not aware of any shareholder holding, directly or indirectly, 5% or more of the share capital.

## 18. Changes in equity

In millions of CHF

	Share capital	General legal reserve	Special reserve	Retained earnings	Treasury shares	Total
At January 1, 2019	306	1 929	19 299	18 748	(6 813)	33 469
Cancellation of 87 000 000 shares (ex-share buyback program)	(8)	8	(6 862)	—	6 862	—
Profit for the year	—	—	—	14 235	—	14 235
Dividend for 2018	—	—	—	(7 230)	—	(7 230)
Movement of treasury shares	—	—	—	—	(9 540)	(9 540)
Dividend on treasury shares held on the payment date of 2018 dividend	—	—	82	(82)	—	—
<b>At December 31, 2019</b>	<b>298</b>	<b>1 937</b>	<b>12 519</b>	<b>25 671</b>	<b>(9 491)</b>	<b>30 934</b>

## 19. Treasury shares

In millions of CHF

	2019		2018	
	Number	Amount	Number	Amount
Share buyback program	88 858 659	9 009	78 741 659	6 173
Long-term incentive plans	7 091 899	482	9 778 854	640
	<b>95 950 558</b>	<b>9 491</b>	<b>88 520 513</b>	<b>6 813</b>

The share capital has been reduced by 87 000 000 shares from CHF 306 million to CHF 298 million through the cancellation of shares purchased as part of the share buyback program. The purchase value of those cancelled shares amounts to CHF 6862 million.

During the year 97 117 000 shares were purchased as part of the share buyback program for CHF 9698 million.

The Company held 7 091 899 shares to cover long-term incentive plans. During the year 3 296 955 shares were delivered as part of the Nestlé Group remuneration plans for a total value of CHF 221 million. All treasury shares are valued at acquisition cost.

The total of own shares of 95 950 558 held by Nestlé S.A. at December 31, 2019, represents 3.2% of the Nestlé S.A. share capital (88 520 513 own shares held at December 31, 2018, by Nestlé S.A. representing 2.9% of the Nestlé S.A. share capital).

## 20. Contingencies

At December 31, 2019, the total of the guarantees mainly for credit facilities granted to Group companies and commercial paper programs, together with the buyback agreements relating to notes issued, amounted to a maximum of CHF 60 272 million (2018: CHF 51 969 million).

## 21. Performance Share Units, Restricted Stock Units, Phantom Shares and shares for members of the Board and employees granted during the year

In millions of CHF

	2019		2018	
	Number	Amount	Number	Amount
Performance Share Units, Restricted Stock Units and Phantom				
Shares granted to Nestlé S.A. employees <sup>(a)</sup>	205 850	17	225 780	14
Share plan for short-term bonus Executive Board <sup>(b)</sup>	83 855	7	54 641	4
Share plan for Board members <sup>(c)</sup>	57 552	5	81 040	6
	<b>347 257</b>	<b>29</b>	<b>361 461</b>	<b>24</b>

(a) Performance Share and Restricted Stock Units are disclosed at fair value at grant which corresponds to CHF 81.14 (grant in March 2019) and CHF 98.03 (grant in October 2019) (2018: CHF 59.96 for PSUs and CHF 66.62 for RSUs). Includes 157 960 Performance Share Units granted to Executive Board (2018: 180 355). The Phantom Shares are valued at CHF 102.27 per Unit in 2019.

(b) Nestlé S.A. Shares received as part of the short-term bonus are valued at the average closing price of the last ten trading days of January 2020. The 2018 amounts have been restated from the discounted value (discount of 16.038%) to market value.

(c) Nestlé S.A. shares received as part of the Board membership and Committed fees are valued at the closing price of the share on the SIX Swiss Exchange on the ex-dividend date. The 2018 amounts have been restated from the discounted value (discount of 16.038%) to market value.

## 22. 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.

## 23. 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.

## 24. Shares and stock options

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

	2019	2018
	Number of shares held <sup>(a)</sup>	Number of shares held <sup>(a)</sup>
Paul Bulcke, Chairman	1 421 941	1 391 207
Henri de Castries, Vice Chairman, Lead Independent Director	27 698	23 829
Beat W. Hess	48 988	45 649
Renato Fassbind	30 480	27 141
Ann M. Veneman	21 160	19 305
Eva Cheng	18 168	15 783
Patrick Aebischer	6 514	4 659
Ursula M. Burns	6 214	4 196
Kasper B. Rorsted	3 360	1 876
Pablo Isla	3 731	1 876
Kimberly A. Ross	4 559	2 545
Dick Boer	2 984	—
Dinesh Paliwal	1 484	—
Members who retired from the Board during 2019	—	21 494
<b>Total as at December 31</b>	<b>1 597 281</b>	<b>1 559 560</b>

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

There are no stock options held by any non-executive member of the Board of Directors and closely related parties.



24. Shares and stock options

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

	2019		2018	
	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>
Ulf Mark Schneider, Chief Executive Officer	300 957	—	23 234	—
Laurent Freixe	50 333	—	36 191	—
Chris Johnson	110 806	—	78 362	—
Patrice Bula	214 842	—	181 894	—
Marco Settembri	59 700	—	40 620	—
François-Xavier Roger	62 080	—	29 393	—
Magdi Batato	23 791	—	13 288	—
Stefan Palzer	6 186	—	2 616	—
Béatrice Guillaume-Grabisch	11 902	—	—	—
Leanne Geale	—	—	—	—
Maurizio Patarnello	23 961	—	16 533	—
Grégory Behar	11 924	—	3 611	—
Members who retired from the Executive Board during 2019	—	—	167 779	80 800
<b>Total as at December 31</b>	<b>876 482</b>	<b>—</b>	<b>593 521</b>	<b>80 800</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

	2019	2018
Retained earnings		
Profit brought forward	11 436 254 726	6 479 867 098
Profit for the year	14 234 889 934	12 267 820 563
	<b>25 671 144 660</b>	<b>18 747 687 661</b>
We propose the following appropriation:		
Dividend for 2019, CHF 2.70 per share on 2 887 141 341 shares <sup>(a)</sup>		
(2018: CHF 2.45 on 2 984 258 341 shares) <sup>(b)</sup>	7 795 281 621	7 311 432 935
	<b>7 795 281 621</b>	<b>7 311 432 935</b>
<b>Profit to be carried forward</b>	<b>17 875 863 039</b>	<b>11 436 254 726</b>

(a) Depending on the number of shares issued as of the last trading day with entitlement to receive the dividend (April 24, 2020). No dividend is paid on own shares held by the Nestlé Group.

(b) The amount of CHF 81 816 792, representing the dividend on 33 394 609 own shares acquired between January 1st and 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 2.70 per share, representing a net amount of CHF 1.76 per share after payment of the Swiss withholding tax of 35%. The last trading day with entitlement to receive the dividend is April 24, 2020. The shares will be traded ex-dividend as of April 27, 2020. The net dividend will be payable as from April 29, 2020.

The Board of Directors

Cham and Vevey, February 12, 2020



# 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 December 31, 2019, 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 175 to 185) for the year ended December 31, 2019, comply with Swiss law and the Company's Articles of Association.

### Basis for Opinion

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

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

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

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

### Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the Company's Articles of Association, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

## Report on Other Legal and Regulatory Requirements

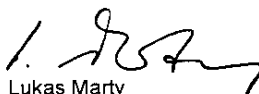
In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

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

KPMG SA



Scott Cormack  
Licensed Audit Expert  
Auditor in Charge



Lukas Marty  
Licensed Audit Expert

Geneva, February 12, 2020

KPMG SA, Esplanade de Pont-Rouge 6, P.O. Box 1571, CH-1211 Geneva 26

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