Nestlé Good food, Good life

Corporate Governance Report 2019
Compensation Report 2019
Financial Statements 2019

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Front cover

Ninho: Brighter start
Our *Ninho* brand is dedicated to developing products that offer the energy, protein and micronutrients needed by growing children. The new plant-based offering makes this accessible for families who prioritize plant foods and are looking for an alternative to milk.

Corporate Governance Report 2019

Situation at December 31, 2019

(1) The full Board of Directors Regulations and Committee Charters are published on www.nestle.com/investors/corporate-governance/boardcommittees.
(2) The term Executive Committee, as used in the SIX Directive, is replaced by Executive Board throughout this document.

Group structure and shareholders

Preliminary remarks
The Nestlé Corporate Governance Report 2019 follows the SIX Swiss Exchange Directive on Information relating to Corporate Governance. Additional information can be found in the Compensation Report. Nestlé S.A. complies with the recommendations of the Swiss Code of Best Practice for Corporate Governance, as in force at December 31, 2019.

To avoid duplication of information, cross-referencing to other reports is made in some sections, namely the Annual Review 2019, the Financial Statements 2019 that comprise the Consolidated Financial Statements of the Nestlé Group and the Financial Statements of Nestlé S.A., as well as the Articles of Association of Nestlé S.A., whose full text can be consulted in this report (page 51) or on: www.nestle.com/investors/corporate-governance/articles.

The Consolidated Financial Statements of the Nestlé Group 2019 comply with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with Swiss law. Where necessary, these disclosures have been extended to comply with the requirements of the SIX Swiss Exchange Directive on Financial Reporting.

1. Group structure and shareholders

1.1 Group structure

Please refer to the Annual Review 2019, page 70, for the overview of Directors and Officers.

1.1.1 Description of Nestlé's operational group structure

For the general organization chart of Nestlé S.A., refer to page 28 of this document. The Group's Management structure is represented in the analysis by operating segments (refer to Note 3 of the Consolidated Financial Statements of the Nestlé Group 2019, page 81).

1.1.2 All listed companies belonging to the Nestlé group

The registered offices of Nestlé S.A. are in Vevey and Cham (Switzerland). Nestlé S.A. shares are listed on the SIX Swiss Exchange in Switzerland (ISIN code: CH0038863350). At December 31, 2019, the market capitalization of Nestlé S.A. was CHF 301 771 581 500. For further information see also page 75 of the Annual Review 2019 and visit our website on www.nestle.com/investors.

Please refer to the Consolidated Financial Statements of the Nestlé Group 2019, page 154, for the list of publicly listed companies of the Nestlé Group, with an indication of the company name, registered office, share capital, place of listing, securities' ISIN number, their market capitalization and the Company's participation.

1.1.3 The non-listed companies belonging to the Nestlé Group

Please refer to the Consolidated Financial Statements of the Nestlé Group 2019, page 154, for the enumeration of companies of the Nestlé Group, joint arrangements and associates, with an indication of the company name, registered office, share capital and the Company's participation.

Capital structure

1.2 Significant shareholders
BlackRock, Inc., New York, announced most recently on December 6, 2019, holding, directly or indirectly, 4.96% of Nestlé S.A.'s share capital, and The Capital Group Companies, Inc., Los Angeles, announced on October 30, 2017, holding, directly or indirectly, 3.55% of Nestlé S.A.'s share capital. As at December 31, 2019, Nestlé S.A. held 95 950 558 treasury shares, representing 3.22% of its share capital including 88 858 659 shares repurchased under Nestlé S.A.'s share buyback program of CHF 20 billion completed on December 30, 2019 (refer to Note 19 of 2019 Financial Statements of Nestlé S.A.). Apart from the foregoing, Nestlé S.A. is not aware of any other shareholder holding, as at December 31, 2019, Nestlé S.A. shares in excess of 3% of the share capital.

During 2019, the Company published on the electronic publication platform of the SIX Swiss Exchange 19 disclosure notifications pertaining to the holding of Nestlé S.A. shares by BlackRock, Inc., New York (the latest one relating to the announcement mentioned above) and three disclosure notifications concerning the holding of its own shares. The details of these disclosure notifications can be accessed on the publication platform of the SIX Swiss Exchange following this link: www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html.

With respect to nominees, Chase Nominees Ltd, London, was a registered Nominee N (refer to point 2.6.3. below) of 364 933 310 shares, i.e. 12.26% of the shares of the Company as at December 31, 2019. At the same date, Citibank N.A., London, as depositary for the shares represented by American Depositary Receipts, was the registered holder of 243 575 492 shares, i.e. 8.18% of the shares of the Company. Also on December 31, 2019, Nortrust Nominees Ltd, London, was a registered Nominee N of 121 635 955 shares of the Company, representing 4.09% of the shares.

1.3 Cross-shareholdings
The Company is not aware of cross-shareholdings exceeding 5% of the capital or voting rights on both sides.

2. Capital structure
2.1 Capital
The ordinary share capital of Nestlé S.A. is CHF 297 600 000. The conditional share capital is CHF 10 000 000. Nestlé S.A. does not have any authorized share capital.

2.2 Conditional capital
The share capital may be increased (without time limitation) in an amount not to exceed CHF 10 000 000 by issuing up to 100 000 000 registered shares with a nominal value of CHF 0.10 each (representing 3.36% of the currently issued share capital) through the exercise of conversion rights and/or option rights granted in connection with the issuance by Nestlé or one of its subsidiaries of newly or already issued convertible debentures, debentures with option rights or other financial market instruments. 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.

For a description of the group of beneficiaries and of the terms and conditions of the issuance of conditional capital, refer to art. 3bis of the Articles of Association of Nestlé S.A.(*)

2.3 Changes in capital
The share capital was reduced twice in the last three financial years as a consequence of a share buyback program of CHF 20 billion, launched on July 4, 2017, and completed on December 30, 2019. The resulting cancellations of shares were approved at the 2018 and 2019 Annual General Meetings.

On April 12, 2018, the Annual General Meeting resolved to reduce the share capital by 49 160 000 shares to CHF 306 300 000.

On April 11, 2019, the Annual General Meeting resolved to cancel 87 000 000 shares resulting in a reduction of the share capital to the present CHF 297 600 000.

For the breakdown of capital ("equity") for 2019, 2018 and 2017 see the consolidated statement of changes in equity in the Consolidated Financial Statements of the Nestlé Group 2019, page 71, and 2018, page 71–72. (www.nestle.com/asset-library/documents/library/documents/financial_statements/2018-financial-statements-en.pdf).

(*) Nestlé S.A.'s Articles of Association can be found on page 51 and on www.nestle.com/investors/corporate-governance/articles

2.4 Shares and participation certificates

Nestlé S.A.'s capital is composed of registered shares only. The number of registered shares with a nominal value of CHF 0.10 each, fully paid up, was 2 976 000 000 at December 31, 2019.

According to art. 11 par. 1 of the Articles of Association, each share recorded in the share register as a share with voting rights confers the right to one vote to its holder. See also point 2.6.1 below.

Shareholders have the right to receive dividends. There are no participation certificates.

2.5 Dividend-right certificates

There are no dividend-right certificates.

2.6 Limitations on transferability and nominee registrations

2.6.1 Limitations on transferability along with an indication of group clauses in the Articles of Association and rules for granting exceptions

According to art. 5 par. 5 of the 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 their shares through nominees pursuant to that article. Legal entities that are linked to one another through capital, voting rights, management or in any other manner, as well as all natural persons or legal entities achieving an understanding or forming a syndicate or otherwise acting in concert to circumvent the regulations concerning the limitation on registration or the nominees, shall be counted as one person or nominee (art. 5 par. 7 of the Articles of Association). The limitation on registration also applies to shares acquired or subscribed by the exercise of subscription, option or conversion rights (art. 5 par. 10 of the Articles of Association). See also art. 5 par. 6 and par. 9 of the Articles of Association and point 2.6.3 below.

2.6.2 Reasons for granting exceptions in the year under review

Please refer to points 2.6.3 and 6.1.3 below.

2.6.3 Admissibility of nominee registrations, indication of percent clauses and registration conditions

Pursuant to art. 5 par. 6 and par. 9 of the Articles of Association, the Board of Directors has issued regulations concerning the application of art. 5 of the Articles of Association. The regulations on nominees set forth rules for the entry of nominees as shareholders in the share register.

They allow the registration of:

– Nominees N ("N" as Name of beneficial owner disclosed): where trading and safekeeping practices make individual registration of beneficial owners difficult or impractical, shareholders may register their holdings through a Nominee N with voting rights, subject to the specific understanding that the identity and holdings of beneficial owners are to be disclosed to the Company, periodically or upon request. Voting rights of Nominees are to be exercised on the basis of voting instructions received from the beneficial owners. For voting purposes, holdings of a Nominee N, or Nominees N acting as an organized group or pursuant to a common agreement, may not exceed 5% of the share capital of the Company. Holdings exceeding the 5% limit (respectively the limit fixed by the Board of Directors, see point 6.1.3 below) are registered without voting rights. The responsibility for disclosure of beneficial owners and their holdings resides with the nominees registered in the share register.
– Nominees A ("A" as Anonymous beneficial owner): registration without voting rights.

In line with its regulations, in order to facilitate trading of the shares on the Stock Exchange, the Board of Directors has authorized certain nominees to exceed the 5% limit to be registered as nominees with voting rights.

2.6.4 Procedure and conditions for cancelling statutory privileges and limitations on transferability

Please refer to point 6.1.3 below.

2.7 Convertible bonds and options

As at December 31, 2019, there are no outstanding convertible bonds or warrants/options issued by Nestlé S.A. or by subsidiaries on Nestlé S.A. shares.

3. Board of Directors

3.1 Members of the Board of Directors

Nestlé's Board of Directors is highly structured to ensure a high degree of diversity by age, gender, education/qualifications, professional background, present activity, sector expertise, special skills (classification), nationality and geography. This is reflected in Nestlé's skills and diversity grid disclosed here.

	Name	Year of birth	Education/Qualifications [(a)]	Professional background
1	Paul Bulcke	1954	Economics and Business Administration	Chairman, Nestlé S.A.
2	Ulf Mark Schneider	1965	Economics, Business Administration and Finance & Accounting	CEO, Nestlé S.A.
3	Henri de Castries [(c)] [(d)]	1954	HEC, Law and École Nationale d'Administration (ENA)	Former Chairman and CEO, AXA French Ministry, Government
4	Beat W. Hess	1949	Law, Swiss Attorney-at-law	Lawyer, Former Legal Director, Royal Dutch Shell
5	Renato Fassbind	1955	Economics, Business Administration and Finance & Accounting	Former CFO, ABB and Credit Suisse Former CEO, Diethelm Keller Group
6	Ann M. Veneman	1949	Law, Public Policy and Political Science	Former Secretary, USDA Former Executive Director, UNICEF Lawyer
7	Eva Cheng	1952	Business Administration and History	Former Amway China Chairwoman and EVP, Amway Corporation
8	Patrick Aebischer	1954	Medicine and Neuroscience	President Emeritus, Swiss Federal Institute of Technology Lausanne (EPFL)
9	Ursula M. Burns	1958	Mechanical Engineering	Former Chairman, Xerox Corporation
10	Kasper B. Rorsted	1962	Business Administration	CEO, Former general management Henkel, Compaq/Hewlett Packard
11	Pablo Isla	1964	Law	Lawyer, Former State Attorney, Government Spain Banking, Banco Popular España
12	Kimberly A. Ross	1965	Business Administration and Finance & Accounting	Former CFO, Baker Hughes, Avon Products, Royal Ahold NV
13	Dick Boer	1957	Business Administration	Former President and CEO, Ahold Delhaize NV
14	Dinesh Paliwal	1957	Engineering, Applied Sciences, Business Administration	President and CEO, Harman International Industries Inc., a subsidiary of Samsung Electronics Co., Ltd.

(a) For more complete information on qualifications: please refer to section 3.2 and the individual CVs on www.nestle.com/aboutus/management/boardofdirectors
(b) All Board members are elected annually in accordance with Swiss Corporate law and Nestlé S.A.'s Articles of Association.
(c) Vice Chairman
(d) Lead Independent Director. The Lead Independent Director assumes the role of a prime intermediary between the Board and the Chairman. He regularly convenes and chairs Board meetings and "in camera" sessions where the Chairman is not present or conflicted.

Present functions/mandates (listed companies)	Sector	Classification	Nationality	First Election	Expires [b]
Chairman, Nestlé S.A. Roche Ltd. L'Oréal S.A.	Food & Beverages	FMCG/CEO	Belgian/Swiss	April 10, 2008	2020
CEO, Nestlé S.A.	Food & Beverages	CEO	German/US	April 06, 2017	2020
HSBC Holdings plc	Insurance & Finance	Insurance/CEO	French	April 19, 2012	2020
Chairman, LafargeHolcim Ltd. Vice Chairman, Sonova Holding AG	Legal	Legal	Swiss	April 10, 2008	2020
Vice Chairman, Swiss Re AG Kühne + Nagel International SA	Finance	Financial Management/ CFO	Swiss	April 16, 2015	2020
Global Health Innovative Technology Fund, Full Harvest Technologies Inc., Washington Institute for Business, Government and Society, CHAI and various advisory mandates	Government/NGOs	Government/NGOs	US	April 14, 2011	2020
Trinity Limited Haier Electronics Group Co. Ltd.	Personal Care & Nutrition	FMCG	Chinese	April 11, 2013	2020
Lonza Group AG Logitech SA	Science	Scientist	Swiss	April 16, 2015	2020
Chairman & CEO, VEON Ltd. Exxon Mobil Corporation Uber Technologies Inc.	Technology	Information Systems/ CEO	US	April 06, 2017	2020
CEO, adidas AG	Retail Technology	Information Systems/ FMCG/CEO	Danish	April 07, 2018	2020
Executive Chairman, Inditex	Retail	Finance/Legal/ FMCG/CEO	Spanish	April 07, 2018	2020
Chubb Insurance Group PQ Corporation	Finance Personal Care Food Retail Oil & Gas	Financial Management/ FMCG/CFO	US	April 07, 2018	2020
Chairman, G-Star RAW CV SHV Holdings N.V.	Food Retail Digital	FMCG/CEO	Dutch	April 11, 2019	2020
Bristol-Myers Squibb Raytheon Company	Technology Digital	Information Systems/ CEO	US/Indian	April 11, 2019	2020

Board diversity

The working guidelines used for the selection of new Board members state that the Board of Directors should at all times be well-balanced, including with respect to Swiss and non-Swiss nationals, the members' individual experiences, expertise, competencies and personal attributes (so as to support regular succession planning for the Board as a whole and for its various Committees).

The Nomination and Sustainability Committee periodically reviews the composition of the Board using various criteria, including, without limitation:

– the Board's cumulative experience and expertise in (international) business leadership, legal/compliance/risk management, science, finance, marketing, IT, technology, government/politics and other relevant fields;
– diversity of competencies including education, function, industry and geographic business experience;
– the Board's diversity of personal attributes including gender, age, nationality, culture and leadership approach;
– the Board's general age and term limits.

The Board should at all times be composed of:

– a majority of independent members; and
– members with the specific abilities or skills to serve on one or more of the various Board Committees.

3.1.1 Management tasks of the members of the Board of Directors

With the exception of Ulf Mark Schneider, all members of the Board of Directors are non-executive members. Paul Bulcke is active Chairman and has certain responsibilities for the direction and control of the Group with respect to Nestlé Health Science and Nestlé's engagement with L'Oréal.

3.1.2 Information on non-executive members of the Board of Directors

With the exception of Paul Bulcke, all non-executive members of the Board of Directors are independent, were not previously members of the Nestlé management and have no important business connections with Nestlé.

Pursuant to Nestlé's Board Regulations, a Director shall be considered independent, if he/she is not and has not been employed as an executive officer at the Company or any of its principal subsidiaries or as employee or affiliate of the Group's external auditor for the past three years and does not maintain, in the sole determination of the Board, a material direct or indirect business relationship with the Company or any of its subsidiaries. Directors with immediate family members who would not qualify as independent shall not be considered independent, subject to a three-year cooling-off period.

Nestlé's succession planning process is highly structured and managed by the Board's Nomination and Sustainability Committee with the support of outside consultants when necessary.

Subject to specific exceptions granted by the Board, members are subject to twelve-year term limits. According to Nestlé's Board Regulations [a], an age limit of 72 years applies. This allows for continuous refreshment and long-term succession planning according to Nestlé's skills and diversity grid.

3.1.3 Cross-involvement

None.

(a) Nestlé S.A.'s Board Regulations can be found on www.nestle.com/investors/corporate-governance/boardcommittees

3.2 Professional background and other activities and functions (*)(**)

Paul Bulcke
Chairman

Paul Bulcke began his career in 1977 as a financial analyst for Scott Graphics International in Belgium before moving to the Nestlé Group in 1979 as a marketing trainee. From 1980 to 1996, he held various responsibilities in Nestlé Peru, Nestlé Ecuador and Nestlé Chile before moving back to Europe as Managing Director of Nestlé Portugal, Nestlé Czech and Slovak Republic, and Nestlé Germany. In 2004, he was appointed Executive Vice President, responsible for Zone Americas. In April 2008, Paul Bulcke was elected member of the Board of Directors of Nestlé S.A. and the Board appointed him Chief Executive Officer (CEO).

As of December 31, 2016, Paul Bulcke relinquished his function as CEO remaining member of the Board of Directors. In April 2017, Paul Bulcke was elected Chairman of the Board of Directors of Nestlé S.A.

As a Nestlé S.A. representative, he serves as Vice Chairman on the Board of L'Oréal S.A., France.

Paul Bulcke is also a Board member of Roche Holding Ltd, Switzerland.

In addition, he serves as Co-Chairman of the 2030 Water Resources Group (WRG) and is a member of the Board of Trustees of Avenir Suisse, Switzerland, the European Round Table of Industrialists (ERT), Belgium, and the J.P. Morgan International Council.

Ulf Mark Schneider
CEO

Mark Schneider started his career in 1989 with Haniel Group in Germany, where he held several senior executive positions. In 2001, he joined Fresenius Medical Care as Chief Financial Officer. He was CEO of Fresenius Group between 2003 and 2016. Since January 2017, Mark Schneider has served as Chief Executive Officer (CEO) of Nestlé S.A. In April 2017, Mark Schneider was elected member of the Board of Directors of Nestlé S.A.

As a representative of Nestlé, Mark Schneider serves as Co-Chairman of the Board of Directors of Cereal Partners Worldwide S.A., Switzerland.

Furthermore, he is a member of the Board of the Consumer Goods Forum as well as of the World Economic Forum (WEF) Board of Trustees and its International Business Council.

Henri de Castries
Vice Chairman
Lead Independent Director

Henri de Castries started his career in the French Finance Ministry Inspection Office, auditing government agencies from 1980 to 1984. In 1984, he joined the French Treasury Department. As of 1989, he joined AXA Corporate Finance Division. Two years later, he was appointed Senior Executive Vice President for the Group's asset management, financial and real-estate business. Henri de Castries was Chairman of the AXA Management Board from May 2000 to April 2010. Since April 2010, following a modification of the corporate governance structure, he was Chairman and CEO of AXA, functions he relinquished in 2016.

In March 2016, Henri de Castries joined the Board of HSBC Holdings plc. and he serves on the Board of Argus Media since June 2018.

Beat W. Hess

Beat Hess started his career in 1977 at BBC Brown Boveri Ltd in Baden as Legal Counsel where he was promoted to General Counsel in 1986. From 1988 to 2003, he was Senior Group Officer, General Counsel and Secretary for ABB Ltd in Zurich. From 2003 until his retirement in January 2011, Beat Hess was Group Legal Director and a member of the Group Executive Committee of Royal Dutch Shell plc, The Hague, The Netherlands.

Beat Hess is Chairman of LafargeHolcim Ltd. and Vice Chairman of Sonova Holding AG, Switzerland. He is also a member of the Curatorium of The Hague Academy of International Law.

(*) Mandates and functions are listed in the following order: (1) mandates in listed companies, (2) mandates in non-listed companies, (3) mandates held at the request of Nestlé or companies controlled by it, (4) mandates held in associations, charitable organizations, foundations, trusts and employee welfare foundations.
(**) For information on former members of the Board of Directors see page 33 and www.nestle.com/investors/corporate-governance/former-members-board-of-directors.

Renato Fassbind

Renato Fassbind started his career in 1982 as Managing Director of Kunz Consulting AG. From 1984 until 1990, he was Auditor and ultimately Head of Internal Audit at F. Hoffmann-La Roche AG. Renato Fassbind then joined ABB Ltd and served between 1990 and 1997 as Head of Corporate Staff Audit, and then as CFO and member of the Executive Board from 1997 to 2002. Subsequently, he joined Diethelm Keller Holding AG as CEO from 2002 to 2004. He joined Credit Suisse Group AG as CFO and member of the Executive Board from 2004 until 2010.

Currently, Renato Fassbind serves as Vice Chairman and Lead Independent Director of the Board of Directors of Swiss Re AG, he is also the Chairman of its Audit Committee and a member of its Compensation Committee. Furthermore, Renato Fassbind serves on the Board of Kühne + Nagel International AG and is a member of its Audit Committee.

Ann M. Veneman

An attorney by training, Ann M. Veneman was Secretary of the United States Department of Agriculture (USDA) from 2001 to 2005. She then served a five-year term as the Executive Director of the United Nations Children's Fund. Earlier in her career she practiced law and was in various positions in the USDA. She also served four years as the Secretary of the California Department of Food and Agriculture. She is currently a member of the Boards of Full Harvest Technologies Inc., the Global Health Innovative Technology Fund, the Clinton Health Access Initiative and The Washington Institute for Business, Government and Society. Ann M. Veneman is on a number of advisory boards including KDC Ag, Memphis Meats, Perfect Day, TerraVesco, Ukko, JUST Capital and BRAC. She is a member of the Council on Foreign Relations. In addition, Ann M. Veneman is a member of the Hilton Humanitarian Prize Jury.

In 2009, she was named to Forbes The World's 100 Most Powerful Women list, and she has been the recipient of numerous awards and honors throughout her career.

Ann M. Veneman also serves as member of the Nestlé CSV (Creating Shared Value) Council.

Eva Cheng

Eva Cheng joined Amway Corporation – a US-based global consumer product company – in 1977 as an Executive Assistant in Hong Kong and moved to become Corporate Executive Vice President in 2005 responsible for Greater China and Southeast Asia Region, a position she held until her retirement in 2011. Eva Cheng is most well-known for leading Amway's entry into China in 1991. She also held Amway China's Chairperson and CEO position since market launch until her retreat in 2011.

In 2008 and 2009, Eva Cheng was twice named to Forbes The World's 100 Most Powerful Women list. She has also received numerous awards and honors for her business leadership and community service.

Presently, Eva Cheng serves as Independent Non-Executive Director on the Boards of Trinity Limited and Haier Electronics Group Co. Ltd. in Hong Kong, China. She is also the Executive Director of the Our Hong Kong Foundation, a Director of China Children and Teenagers Foundation and a Council Member of the Hong Kong Academy of Performing Arts.

Patrick Aebischer

Patrick Aebischer was trained as an MD and neuroscientist at the University of Geneva and the University of Fribourg, Switzerland.

He is a Professor of neurosciences at the Brain Mind Institute EPFL.

From 1984 to 1992, he worked at Brown University, USA, as Research Scientist, Assistant and then Associate Professor of Medical Sciences. In 1992, he returned to Switzerland as a Professor and Director of Surgical Research Division and Gene Therapy Center at the University Hospital of Lausanne (CHUV). From 2000 to end 2016, Patrick Aebischer was the President of the Swiss Federal Institute of Technology Lausanne (EPFL). Furthermore, Patrick Aebischer is founder of three start-ups: CytoTherapeutics Inc. (1989), Modex Therapeutics Inc. (1996) and Amazentis SA (2007).

Currently, he is Vice Chairman of Lonza Group Ltd, serves as a Board member of Logitech International S.A. and is Chairman of Novartis Bioventures AG. Furthermore, Patrick Aebischer is a senior partner of NanoDimension-III and is a member of the Foundation Boards of the Verbier Festival and the Montreux Jazz Festival.

In addition, Patrick Aebischer serves as Vice Chairman on the Geneva Science and Diplomacy Anticipator Foundation, Switzerland.

Ursula M. Burns

Ursula M. Burns joined Xerox in 1980 and advanced through engineering and manufacturing functions to leadership positions in manufacturing, operations and product development. She was Chairman of the Board of the Xerox Corporation from 2010 to 2017 and CEO from 2009 to 2016. Ursula M. Burns was appointed as Chairman of the Board of VEON Ltd. in June 2017 and CEO since December 2018. She also serves on the Boards of Exxon Mobil Corporation and Uber Technologies Inc., USA.

Furthermore, Ursula M. Burns also provides leadership counsel to various community, educational and non-profit organizations including the Massachusetts Institute of Technology, NAF (National Academy Foundation), the Mayo Clinic and the Ford Foundation as well as the New York Ballet, the Cornell Tech Board of Overseers and The High Line.

Ursula M. Burns is a member of the National Academy of Engineering and the American Academy of Arts and Sciences.

Kasper B. Rorsted

Kasper Rorsted started his career in sales and marketing positions within Oracle and Digital Equipment Corporation. From 1995, he held various international management positions at Compaq and from 2001 was General Manager for the company's Europe, Middle East & Africa (EMEA) business. In 2002, Compaq merged with Hewlett Packard. Between 2002 and 2004, Kasper Rorsted was Senior Vice President and General Manager at Hewlett Packard, where he last headed the EMEA business. In April 2005, he joined Henkel as Executive Vice President Human Resources, Purchasing, Information Technologies and Infrastructure Services.
In 2007, he was Vice Chairman of the Henkel Management Board. As of April 2008 until 2016, he held the position of CEO. In August 2016, Kasper Rorsted joined the Executive Board of adidas AG and became its CEO in October 2016.

Pablo Isla

From 1988 to 1991, Pablo Isla was a Spanish State Attorney at the Ministry of Transport, Tourism and Communication. From 1992 to 1996 he was Group General Counsel for Banco Popular Español. In 1996, Pablo Isla was appointed General Manager for the National Heritage Department of the Treasury Ministry, Government of Spain. In 1998, he rejoined the Banco Popular Español as General Secretary. From 2000 to 2005, Pablo Isla was Co-Executive Chairman of Altadis Group, Spain. In 2005, he was named CEO and Deputy Chairman of Inditex S.A., Spain, and was appointed Executive Chairman of the company in 2011.

From 2003 until 2017, he served as Independent Director of the Spanish telecom company, Telefonica S.A.

Kimberly A. Ross

Kimberly A. Ross started her finance career at the Anchor Glass Container Corporation, USA, in 1992. In 1995, she joined Joseph E. Seagram & Sons Inc., USA, where she held a number of management positions. In 2001, Kimberly A. Ross joined Ernst & Young Global Limited, USA, as a Senior Manager. In the same year, she joined Royal Ahold NV, Netherlands, and advanced through a series of successively responsible positions in treasury, tax and finance before her appointment as CFO in 2007. From 2011 until 2014, Kimberly A. Ross served as CFO and Executive Vice President of Avon Products Inc., USA. She served as CFO and Senior Vice President at Baker Hughes LLC, USA, from 2014 until 2017.

Kimberly A. Ross is also a member of the Boards of both Chubb Limited, Switzerland, and PQ Corporation, USA.

Dick Boer

Dick Boer spent more than 17 years in various retail positions for SHV Holding N.V. and Unigro N.V. in the Netherlands. Thereafter he became CEO of Ahold Czech Republic in 1998, and subsequently President and CEO of Albert Heijn B.V., Netherlands, from 2000 to 2010. From 2006 to 2011, he held the position of Chief Operating Officer of Ahold Europe and from 2011 to 2016, Dick Boer was president and CEO of Ahold N.V. From 2016 until his retirement in 2018, he was President and CEO of Ahold Delhaize N.V.

Currently, Dick Boer serves as Chairman of the Advisory Board of G-Star RAW CV and the Rijksmuseum Fonds, Netherlands. He is also a member of the Supervisory Board of the Royal Concertgebouw, Netherlands, as well as a non-executive Board member of SHV Holdings N.V., Netherlands.

Dinesh Paliwal

Dinesh Paliwal began his career in various technical and management roles in the ABB Group for 22 years. He then became President Global markets and Technology of ABB Ltd. In 2007, Dinesh Paliwal joined Harman International Industries Inc., USA, as Chairman and CEO and as from 2017, he is President and CEO of Harman International Industries Inc., USA – since then a subsidiary of Samsung Electronics Co., Ltd.

Furthermore, Dinesh Paliwal serves on the Boards of Bristol-Meyers Squibb and Raytheon Company, USA. He is also a member of the Business Roundtable, Washington and of the Board of the U.S.-India Business Council (USIBC).

3.3 Mandates outside Nestlé

Pursuant to art. 21^{sexies} of the Articles of Association, no member of the Board of Directors may hold more than 4 additional mandates in listed companies and 5 additional mandates in non-listed companies.

The following mandates are not subject to these limitations:

a) mandates in companies which are controlled by Nestlé;
b) mandates which a member of the Board of Directors holds at the request of Nestlé or companies controlled by it. No member of the Board of Directors shall hold more than 10 such mandates; and
c) mandates in associations, charitable organizations, foundations, trusts and employee welfare foundations. No member of the Board of Directors shall hold more than 10 such mandates.

Mandates shall mean mandates in the supreme governing body of a legal entity which is required to be registered in the commercial register or a comparable foreign register. Mandates in different legal entities which are under joint control are deemed one mandate.

The Board of Directors has promulgated regulations that determine additional restrictions.

All members of the Board of Directors comply with the provisions set out in art. 21^{sexies}.

3.4 Elections and terms of office

Pursuant to art. 6 par. 2 of the Articles of Association, the General Meeting has the competence to elect and remove the members of the Board of Directors.

The Chairman of the Board of Directors, the members of the Board of Directors and the members of the Compensation Committee are elected individually by the General Meeting for a term of office until completion of the next Annual General Meeting (art. 15 of the Articles of Association).

Members of the Board of Directors whose term of office has expired are immediately eligible for re-election.

The Board of Directors elects one or two Vice Chairmen and the members of the Committees other than the Compensation Committee.

The term of office of a Board member shall expire no later than at the Annual General Meeting following the member's 72nd birthday.

Rules in the Articles of Association reflect the statutory legal provisions with regard to the appointment of the Chairman, the members of the Compensation Committee and the independent proxy.

For the principles of the selection procedure, see points 3.1.2 above and 3.5.2 below.

For the time of first election and term of office, see point 3.1 above.

3.5 Internal organizational structure

3.5.1 Allocation of tasks within the Board of Directors

	Chairman's and Corporate Governance Committee	Compensation Committee	Nomination and Sustainability Committee	Audit Committee
Paul Bulcke Chairman	• (Chair)		•	
Ulf Mark Schneider CEO	•			
Henri de Castries Vice Chairman Lead Independent Director	•		• (Chair)	•
Beat W. Hess	•	• (Chair)		
Renato Fassbind	•			• (Chair)
Ann M. Veneman			•	
Eva Cheng			•	•
Patrick Aebischer		•		
Ursula M. Burns		•		
Kasper B. Rorsted				
Pablo Isla		•		
Kimberly A. Ross				•
Dick Boer				
Dinesh Paliwal				

3.5.2 Tasks and area of responsibility for each Committee of the Board of Directors (a)

The powers and responsibilities of each Committee are established in the applicable Committee Charter, which is approved by the Board. Each Committee is entitled to engage outside counsel. After each Committee meeting, its Chairman reports to the full Board.

Chairman's and Corporate Governance Committee

The Chairman's and Corporate Governance Committee consists of the Chairman, the Vice Chairman and Lead Independent Director, the CEO (Administrateur délégué) and any other member elected by the Board. It liaises between the Chairman and the full Board of Directors in order to act as a consultant body to the Chairman and to expedite whenever necessary the handling of the Company's business. The Committee regularly reviews the corporate governance of the Company and prepares recommendations for the Board. It also advises on certain finance-related matters including the Company's financing and financial management and periodically reviews its asset and liability management.

While the Committee has limited authority as per the Board Regulations, it may in exceptional and urgent matters deal with business matters which might arise between Board meetings. In all cases it keeps the Board fully appraised. It reviews the Board's annual work plan.

Compensation Committee

The Compensation Committee consists of a minimum of three non-executive members of the Board. All members are independent (art. 19bis par. 1 of the Articles of Association). The members of the Compensation Committee are elected individually by the General Meeting for a term of office until completion of the next Annual General Meeting. Members of the Compensation Committee whose term of office has expired are immediately eligible for re-election. The Compensation Committee determines the system and principles for remuneration of the members of the Board of Directors and submits them to the Board for approval. It oversees and discusses the remuneration principles for Nestlé S.A. and the Nestlé Group. It prepares the proposals of the Board to be submitted for approval by the General Meeting in relation to the compensation of the Board of

(a) For complete information please refer to the Board Regulations and Committee Charters on www.nestle.com/investors/corporate-governance/boardcommittees

Directors and the Executive Board. In addition, it proposes the remuneration of the Chairman and the CEO, and approves the individual remuneration of the members of the Executive Board. It reports on its decisions to the Board and keeps the Board updated on the overall remuneration policy of the Nestlé Group. It reviews the annual Compensation Report.

Nomination and Sustainability Committee

The Nomination and Sustainability Committee consists of a Chairperson, who is an independent and non-executive member of the Board, preferably the Lead Independent Director; the other members are the Chairman of the Board of Directors and a minimum of two independent and non-executive members of the Board. The Nomination and Sustainability Committee oversees the long-term succession planning of the Board, establishes the principles and criteria for the selection of candidates to the Board, performs a regular gap analysis, selects candidates for election or re-election to the Board and prepares a proposal for the Board's decision. It is regularly supported by external search firms.

The succession planning for the Board of Directors is highly structured and seeks to ensure a balance of relevant competencies and an appropriate diversity of its members over time. The Nomination and Sustainability Committee regularly reviews the Company's skills and diversity grid (see 3.1. above). It ensures an appropriately wide net is cast on key successions. The candidates to the Board must possess the necessary profile, qualifications and experience to discharge their duties. Newly appointed Board members receive an appropriate introduction into the business and affairs of the Company and the Group. If required, the Nomination and Sustainability Committee arranges for further training.

The Nomination and Sustainability Committee reviews, at least annually, the independence of the members of the Board as well as their outside mandates, and prepares the annual self-evaluation of the Board and its Committees.

Importantly, we have expanded the role of our Nomination and Sustainability Committee to oversee all aspects of our environmental, social and governance performance. It reviews reports and gives advice on measures which ensure the long-term sustainability of the Company in its economic, social and environmental dimension (including its response to climate change and related reporting) and monitors the Company's performance against selected external sustainability indexes. It reviews the Company's commitments on environmental, social and governance aspects as well as the annual Nestlé in society report and discusses periodically how other material non-financial issues affect the Company's financial performance and how its long-term strategy relates to its ability to create shared value. It reviews as well the Company's shareholder base and other significant stakeholders and their material interests. It meets as frequently as necessary to fulfil its tasks and prepares the relevant *in camera* sessions of the Board of Directors.

Audit Committee

The Audit Committee consists of a Chairperson, who is an independent and non-executive member of the Board, and a minimum of two other non-executive members of the Board, excluding the CEO (Administrateur délégué) and any former member of the Executive Board. All members shall be independent. At least one member has to have recent and relevant financial expertise, the others must be familiar with the issues of accounting and audit. In discharging its responsibilities, the Audit Committee has unrestricted access to the Company's management, books and records. The Audit Committee supports the Board of Directors in its supervision of financial controls through a direct link to the external auditors (KPMG) and Nestlé Internal Audit (corporate internal auditors).

The Audit Committee's main duties include the following:
- to review, and challenge where necessary, the actions and judgements of management, in relation to the Company's year-end financial accounts;
- to make recommendations to the Board of Directors regarding the nomination of external auditors to be appointed by the shareholders;
- to discuss the audit procedures, including the proposed scope and the results of the internal and external audit;
- to keep itself regularly informed on important findings of the audits and of their progress;
- to oversee the quality of the internal and external auditing;
- to present the conclusions on the approval of the Financial Statements to the Board of Directors;
- to review certain reports regarding internal controls, compliance and the Group's annual risk assessment.

The Audit Committee regularly reports to the Board on its findings and proposes appropriate actions. The responsibility for approving the annual Financial Statements remains with the Board of Directors.

Meetings held in 2019	Frequency	Average duration (hours)
Board of Directors of Nestlé S.A.	9 times	3:30
Chairman's and Corporate Governance Committee	7 times	3:30
Compensation Committee	3 times	1:10
Nomination and Sustainability Committee	5 times	1:00
Audit Committee	5 times	2:55

3.5.3 Work methods of the Board of Directors and its Committees

The Board meets as often as necessary, at least quarterly, and on notice by the Chairman or by the person designated by him. In addition, the Board must be convened as soon as a Board member requests the Chairman to call a meeting. All Committees provide a detailed report to the full Board at each meeting in a dedicated Chairman's session. The Board regularly meets for *in camera* sessions (without CEO) and independent director meetings (without Chairman and CEO).

The Board reserves at least one day per year to discuss the strategic long-term plan of the Company. In addition, every year the Board visits one operating company for three to five days (in 2019, Nestlé in Switzerland).

The average attendance at the Board meetings in 2019 was 94%. All Board members attended all Committee meetings. The Company would individually disclose each member of the Board of Directors with an attendance rate of less than 75% and will individually disclose director attendance as from 2020. All Board meetings, with the exception of certain Chairman's and *in camera* sessions, are attended by all members of the Executive Board. In addition, members of the Executive Board and senior management participate in Committee meetings, if appropriate, when a Committee discusses matters in relation to their respective responsibilities. The CEO may partially attend the meetings of the Audit Committee, the Nomination and Sustainability Committee and the Compensation Committee as an invited guest, except on matters where he may have a conflict of interest. Furthermore, both the external auditor and the Head of Nestlé Internal Audit participate in the Audit Committee meetings except for regular *in camera* sessions. No external subject matter experts were invited to the Board and Committee meetings in 2019.

The Company performs annual self-evaluations of the Board and its Committees including confidential, anonymous feedback and individual interviews. Findings are appropriately addressed. For example, in 2019 the Board committee structure and reporting were reviewed and a new Science & Technology Advisory Council was introduced. The purpose of this Council is to give specific advice with the aim of identifying actions that will strengthen our Science and Technology roadmaps, support the translation into innovation pipelines of the different businesses, and facilitate deployment. In particular, it reviews strategic research programs and technological developments across the Company and discusses how to best translate new scientific findings and cutting-edge technologies into business relevant innovations.

An open, transparent and critical board room culture forms the basis for the Board of Directors' annual review of its own performance and effectiveness. The Board of Directors conducts the self-assessment on the basis of anonymous questionnaires which deal with the Board's composition, organization and processes, the Board's responsibilities governed by the Board Regulations as well as the focus areas and goals of the year under review. The topics are discussed and take-aways defined to be incorporated in the goals for the upcoming year. In addition, each Board Committee annually reviews the adequacy of its composition, organization and processes as well as the scope of its responsibilities, assesses its accomplishments and evaluates its performance.

3.5.4 Lead Independent Director

The Lead Independent Director assumes the role of a prime intermediary between the Board and the Chairman. He may convene and chair Board meetings and in camera sessions, where the Chairman is not present. He serves as an advisor to the Chairman and acts as an intermediary between the Chairman, the Board and the Board's stakeholders. He chairs meetings of the independent directors to evaluate the performance of the Chairman and the effectiveness of the relationship between the Chairman and the CEO.

3.6 Definition of areas of responsibility

The governing bodies have responsibilities as follows:

3.6.1 Board of Directors [(1)]

The Board of Directors is the ultimate governing body of the Company. It is responsible for the long-term strategy and the ultimate supervision of the Group. It oversees the Group's economic, social and environmental sustainability. The Board attends to all matters which are not reserved for the Annual General Meeting or another governance body of the Company by law, the Articles of Association or specific regulations issued by the Board of Directors.

Under Nestlé's governance model, the CEO (Administrateur délégué) is a full member of the Board of Directors, ensuring full alignment on its critical responsibilities and proper checks and balance between Chairman and CEO.

The Board has the following main duties:

a) the ultimate direction of the Company, in particular the conduct, management and supervision of the business of the Company, and the provision of necessary directions;
b) the determination of the Company's organization;
c) the determination of accounting and financial control principles, as well as the principles of financial planning;
d) the appointment and removal of any Vice Chairman, the Committee members (except the members of the Compensation Committee) and their Chairmen and members of the Executive Board;
e) the ultimate supervision of the Chairman and the members of the Executive Board, in particular with respect to their compliance with the law, the Articles of Association, the Board Regulations and instructions given from time to time by the Board;
f) the preparation of the Annual Report including the Compensation Report as well as the General Meetings and execution of their resolutions;
g) the notification of the court in the event of over indebtedness;
h) the discussion and approval of:
   - the Group's long-term strategy and annual investment budget;
   - major financial operations;
   - any significant policy issue dealing with the Company's or the Group's general structure or with financial, commercial and industrial policy;
   - Corporate Governance Principles of the Company;
   - the review of and decision on any report submitted to the Board;
   - the Group's annual risk assessment; and
   - the compensation proposals to the General Meeting.

3.6.2 Executive Board

The Board of Directors delegates to the CEO, with the authorization to subdelegate, the power to manage the Company's and the Group's business, subject to law, the Articles of Association and the Board Regulations.

The CEO chairs the Executive Board and delegates to its members individually the powers necessary for carrying out their responsibilities, within the limits fixed in the Executive Board Regulations.

3.7 Information and control instruments vis-à-vis the Executive Board

The Board of Directors is, at each of its meetings, informed on material matters involving the Company's and the Group's business. Except for regular *in camera* sessions, the members of the Executive Board attend the Board of Directors meetings and report on current developments, significant projects and events. Other members of management attend Board meetings to report on areas of the business for which they are responsible. Each Board member is entitled to request and receive information from the CEO and from other members of the Executive Board. In preparation for each Board meeting, the Board is provided with an overview of business performance and consolidated financial information. In addition, regular written reports by the Executive Board are provided, including e.g. capital investment, risk, audit, compliance and strategy progress reports. The Chairman and the CEO ensure the proper information flow between the Executive Board and the Board of Directors.

The Board pays a visit to a major market every year, where it meets members of senior management. The Board visited the U.S. and the Swiss Market in 2018 and 2019, respectively.

The Chairman receives the agenda, documents and minutes of the meetings of the Executive Board as well as of the key markets and senior management meetings. He has regular meetings with the CEO and may request information about any matters relating to the Company. He may examine reports, proposals and minutes of meetings of any functions or committees of the Corporate Center or the markets or businesses.

(1) For complete information, please refer to the Board Regulations and Committee Charters on www.nestle.com/investors/corporate-governance/boardcommittees

The Chairman's and Corporate Governance Committee is regularly informed about the strategic management of the Group's financial assets and liabilities and financial risk policies. It performs twice a year a review of the assets and liabilities management by the Company's treasury, pensions and insurance departments with the Chief Financial Officer and the Head of Treasury, Pensions & Insurance being present. The Audit Committee reviews the financial performance and assesses the effectiveness of the internal and external audit processes as well as the internal risk management organization and processes. It reviews the reports on the effectiveness of the systems for internal control and on the performance of the annual risk assessment at least once a year. It also reviews management's reports on the company's compliance and risk management processes. It has complete and unrestricted access to the Company's management, books and records and may obtain any information it requires from the appropriate services. Members of the Executive Board and other senior management, in particular the Heads of Group Accounting & Reporting, Internal Audit and Legal and Compliance, attend the Audit Committee meetings, except for certain *in camera* sessions.

The Nomination and Sustainability Committee reviews reports on measures that ensure the long-term sustainability of the Company in its economic, social and environmental dimension. It monitors the Company's performance against selected external sustainability indexes and reviews the annual Nestlé in society report. It regularly discusses how other material non-financial issues affect financial performance and how the Company's long-term strategy relates to its ability to create shared value.

The Compensation Committee reviews the Company's compensation system and principles. The Head of Human Resources is invited to the meetings, except when questions of compensation for Executive Board members are deliberated.

Additional information and control instruments include the external auditors, KPMG, auditors of Nestlé S.A. and of the Consolidated Financial Statements of the Nestlé Group, who conduct their audit in compliance with Swiss law and in accordance with Swiss Auditing Standards and International Standards on Auditing, and the Nestlé Internal Audit function. Nestlé Internal Audit comprises an organisation of one Center Team and eleven Regional units of auditors covering all the businesses (i.e. head offices, factories, distribution centers and business units) worldwide, completing audit assignments on the basis of the annual internal audit plan based on an independent risk assessment that is approved by the Audit Committee.

The role of Nestlé Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight, contributing to the continuous improvement of the Company's risk management and control systems. Nestlé Internal Audit assesses the reliability of financial and operational information, the effectiveness of controls and processes for compliance with internal, legal, regulatory and statutory requirements. Any findings are communicated in the form of an audit report, which is shared with management and the Audit Committee.

The Head of the Nestlé Internal Audit reports administratively to the Chief Financial Officer and has a functional reporting line to the Chairman of the Audit Committee. He reports at all the Audit Committee meetings, has direct access to the Chairman of the Audit Committee and regularly meets with him for interim updates. The Audit Committee regularly receives a report on the results of the internal auditors' work that is also provided to the Chairman of the Board of Directors, Executive Board members and other stakeholders. It reviews and monitors management's responsiveness to internal audit findings and recommendations. In case of major findings, a follow-up audit is planned to ensure proper remediation.

Group Risk Management provides assistance to all corporate entities with regard to risk management. Group Risk Services provides assistance to all corporate entities with regard to loss prevention, claims handling and insurance. Enterprise Risk Management (ERM) is a process applied across the Group, designed to identify potential events that may affect the Group's achievement of its strategic objectives and support the Group to ensure it acts in accordance with external regulations and internal policies. It supports Nestlé's management to raise risk awareness and to anticipate emerging risks, as well as the process of identifying appropriate mitigation actions.

The Nestlé Group adopts a dual approach using "Top-Down" and "Bottom-Up" assessments. The "Top-Down" assessment occurs annually and focuses on the Group's global risks. A "Bottom-up" assessment occurs in parallel resulting in the aggregation of individual assessments by all Markets, Regionally and Globally Managed Businesses.

Additionally, Nestlé engages with external stakeholders to better understand the issues that are of most concern to them. For each issue, the materiality matrix (reported in the Annual Review 2019, please refer to page 47) rates the degree of stakeholder concern and potential business impact.

Group ERM combines the output of the "Top-Down" assessment, the "Bottom-Up" assessments and the external stakeholder assessments which is presented annually to the Executive Board. The Annual Risk Report is reviewed by the Audit Committee, and material risks are reviewed by the Board of Directors on an annual basis.

For more information on the Nestlé Group Enterprise Risk Management, please refer to page 62 of the Annual Review 2019.

Group Compliance and other risk- and control-related functions provide additional guidance and oversight. Risk and compliance activities are coordinated through the Group Compliance Committee to ensure a holistic, entity-wide approach. The Audit Committee is provided yearly with the Group Compliance Report, a comprehensive documentation of the Company's compliance framework, systems, activities and improvement actions pursued by the various functions. It includes a summary of the feedback received on the Group's internal and external integrity reporting systems as well as the functional compliance audits (CARE) through external auditors. The Group Compliance Report is also reviewed by the Board of Directors.

For more information on the Group's Governance and Compliance program, please refer to page 69 and 74 of the Annual Review 2019.

Executive Board

4. Executive Board
4.1 Members of the Executive Board (December 31, 2019)

Name	Year of birth	Nationality	Education/Current function
Ulf Mark Schneider	1965	German/US	Economics, Business Administration and Finance & Accounting CEO: Nestlé S.A.
Laurent Freixe	1962	French	Business Administration EVP & CEO: Zone Americas
Chris Johnson	1961	US/Swiss	Economics and Business Administration EVP & CEO: Zone Asia, Oceania and sub-Saharan Africa
Patrice Bula	1956	Swiss	Economics and Business Administration EVP: Strategic Business Units, Marketing, Sales and Nespresso
Marco Settembri	1959	Italian	Business Administration EVP & CEO: Zone Europe, Middle East and North Africa
François-Xavier Roger	1962	French	Business Administration and Finance & Accounting EVP: CFO (includes Finance and Control, Tax, Treasury, Investor Relations)
Magdi Batato	1959	Swiss	Mechanical Engineering and PhD in Thermodynamics EVP: Operations
Stefan Palzer	1969	German	PhD - Professorships Process Engineering, Food Technology, Industrial Engineering and Chemical Engineering EVP: Chief Technology Officer: Innovation, Technology and R&D
Béatrice Guillaume-Grabisch	1964	French	Business Administration EVP: Group Human Resources & Business Services
Leanne Geale	1965	Canadian	Law EVP: General Counsel, Corporate Governance and Compliance
Maurizio Patarnello	1966	Italian	Business Administration Deputy EVP: Nestlé Waters
Grégory Behar	1969	Swiss	Mechanical Engineering and Business Administration Deputy EVP & CEO: Nestlé Health Science

(EVP: Executive Vice President; CEO: Chief Executive Officer)
For complete information, please refer to individual CVs on www.nestle.com/aboutus/management/executiveboard

4.2 Professional background and other activities and functions (*)(**)

Ulf Mark Schneider
Please refer to point 3.2 above.

Laurent Freixe

Laurent Freixe joined Nestlé France in 1986 as a sales representative and got increasing responsibilities in the field of sales and marketing. In 1999, he became a member of the Management Committee and was nominated Head of the Nutrition Division. In 2003, Laurent Freixe became Market Head of Nestlé Hungary. In January 2007, he was appointed Market Head of the Iberian Region taking responsibility for Spain and Portugal. From November 2008 to October 2014, Laurent Freixe served as Executive Vice President in charge of Zone Europe.

Effective October 2014, he was appointed Executive Vice President for Zone Americas.

As a representative of Nestlé, he is a member of the Board of Directors of Cereal Partners Worldwide S.A., Switzerland, and of the Regional Board of Directors of the Consumer Goods Forum in Latin America.

Since June 2019, he is Chairman of the Global Apprenticeship Network (GAN).

Laurent Freixe has been named International Youth Ambassador by the International Youth Organization for Ibero-America.

Chris Johnson

Chris Johnson started his career with Nestlé in 1983 as a marketing trainee at Carnation Inc. During his first eight years, he took on increasing responsibilities mainly in the commercial area at Nestlé USA and then, from 1991, in Japan. Senior Area Manager for the Asian region of Nestlé Waters in Paris from 1995, he was then transferred to Taiwan in 1998 as Market Head. From 2000, Chris Johnson led the worldwide development and implementation of GLOBE (Global Business Excellence; IS/IT), the Strategic Supply Chain as well as eNestlé. He was appointed Deputy Executive Vice President in April 2001, and later moved back to Japan in 2007 as Market Head. From January 2011 to October 2014, Chris Johnson was Executive Vice President responsible for Zone Americas.

Effective October 2014, he was appointed Executive Vice President of Nestlé S.A. in charge of Nestlé Business Excellence.

From August 2018 to end December 2018, Chris Johnson was appointed Head of Group Human Resources & Business Services in addition to his responsibilities for Nestlé Business Excellence. Effective January 2019, he was appointed Executive Vice President for Zone Asia, Oceania and sub-Saharan Africa.

As a representative of Nestlé, Chris Johnson serves on the Board of Blue Bottle Coffee Inc., USA.

Chris Johnson is also Treasurer of the Swiss-American Chamber of Commerce.

Patrice Bula

Patrice Bula joined Nestlé S.A. in 1980 and was entrusted with various responsibilities in Marketing and Sales in Kenya, Japan and Taiwan before being promoted to Market Head for Taiwan in 1992, Market Head for Czech Republic in 1995, then Head for the South and Eastern Africa Region in 1997. In 2000, he was appointed Head of Chocolate, Confectionery and Biscuits Strategic Business Unit based at Nestlé's International Headquarters in Vevey. In October 2003, Patrice Bula was transferred as Market Head of Nestlé Germany and in August 2007 he took up the role as Market Head for the Greater China Region.

Effective May 2011, Patrice Bula was appointed to the Executive Board of Nestlé S.A. as Executive Vice President with responsibility for the Strategic Business Units, Marketing, Sales and Nespresso.

Patrice Bula serves on the Boards of Novartis AG and Schindler Holding Ltd., Switzerland.

As a representative of Nestlé, Patrice Bula serves as Chairman of Blue Bottle Coffee Inc., USA, as a Board member of Cereal Partners Worldwide S.A., Switzerland, and of Froneri Ltd., UK. He is also a Board member of Hsu Fu Chi Group Companies, China.

(*) Mandates and functions are listed in the following order: (1) mandates in listed companies, (2) mandates in non-listed companies, (3) mandates held at the request of Nestlé or companies controlled by it, (4) mandates held in associations, charitable organizations, foundations, trusts and employee welfare foundations.
(**) For information on former members of the Executive Board see page 45 and www.nestle.com/investors/corporate-governance/former-executive-board-members

Marco Settembri

Marco Settembri joined the Nestlé Group with Nestlé Italiana S.p.A. in 1987 and was entrusted with various responsibilities, mainly in the PetCare area. He was appointed Managing Director of the Sanpellegrino water business in 2004 and largely contributed to the successful consolidation of the water activities in Italy and to the development of a strong export stream of the emblematic Italian brands. In 2006, he took over the position of Market Head in Italy in addition to his responsibility as Head of Nestlé Waters Italy. In 2007, Marco Settembri was appointed CEO of Nestlé Purina PetCare Europe.

Effective December 2013, Marco Settembri was appointed to the Executive Board of Nestlé S.A. as Executive Vice President, Head of Nestlé Waters of the Nestlé Group.

As of January 2017, Marco Settembri was appointed Executive Vice President in charge of Zone EMENA (Europe, Middle East and North Africa).

As a representative of Nestlé, he is Board member of Lactalis Nestlé Produits Frais S.A.S, France, and of Cereal Partners Worldwide S.A., Switzerland.

In addition, Marco Settembri is a member of the Boards of FoodDrinkEurope and of the Association des Industries de Marque de l'Union Européenne (AIM) in Belgium.

François-Xavier Roger

In July 2015, François-Xavier Roger joined Nestlé S.A. as Executive Vice President and Chief Financial Officer.

François-Xavier Roger came to Nestlé S.A. from Takeda Pharmaceutical, Tokyo, where he was CFO since 2013. From 2008 to 2013, he was Chief Financial Officer of Millicom based in Luxembourg. From 2000 to 2008, he worked as Chief Financial Officer for Danone Asia, followed by Head of Finance, Treasury and Tax for the Danone Group based in Paris, France.

Magdi Batato

Magdi Batato is a mechanical engineer and holds a PhD in Energetics of the human body from the Swiss Federal Institute of Technology Lausanne (EPFL). He spent a few years teaching in university and consulting before joining Nestlé S.A. in 1991 in Switzerland as Engineer in Industrial Services, Energy & Environment. His factory and production management experiences took him to Germany, Lebanon and South Africa. In 2004, he was transferred to Malaysia as Executive Director of Production and, in 2009, he moved to Nestlé UK & Ireland as Head of Group Technical. In May 2012, he took up the position of Market Head Pakistan.

Effective October 2015, he was appointed Executive Vice President of Nestlé S.A. in charge of Operations.

Magdi Batato is a member of the Board of Carlsberg A/S and a member of the executive committee of the World Business Council for Sustainable Development. As of May 2018, he is a member of the Swiss Academy of Technical Sciences.

Stefan Palzer

Stefan Palzer studied food engineering and marketing. He obtained a PhD in Chemical Engineering from the Technical University of Munich and was appointed Professor for Food and Chemical Engineering by the Universities of Hamburg, Stuttgart, Sheffield and Copenhagen. Stefan Palzer joined the Nestlé Group in 2000 as project manager in the Product Technology Centre, Kemptthal. From 2003 to 2010, he held positions of increasing responsibility at the Product Technology Centre Singen and the Nestlé Research Center in Lausanne.

In 2010, he took over the responsibility as Head of the Product Technology Centre York. From 2013 to 2017, Stefan Palzer was Global R&D Manager in the Strategic Business Unit for Beverages. In 2016, he was appointed Head of the Nestlé Research Center in Lausanne. As of January 2018, Stefan Palzer joined the Executive Board of Nestlé S.A. as Executive Vice President and Chief Technology Officer.

In addition, he is a member of the Executive Board of the European Academy of Food Engineering (EAFE), a Board member of the Nutrition Cluster Berlin and a member of the

Strategic Advisory Board of the École Polytechnique Fédérale de Lausanne (EPFL). In 2018, he was conferred the title "Fellow" by the International Union of Food Science and Technology (IUFOST).

Béatrice Guillaume-Grabisch

Béatrice Guillaume-Grabisch joined Nestlé in 2013 as Vice President, Regional Manager of Zone EMENA based in Vevey, Switzerland. She served as CEO of Nestlé Germany AG from 2015 to 2018. Before joining Nestlé, she held various leadership roles at Colgate, Beiersdorf, Johnson & Johnson and "L'Oréal Paris" in Germany. She headed the L'Oréal Consumer Division in Switzerland between 2004 and 2006. From 2006 to 2010, she was President of The Coca-Cola Company in Germany. In 2010, she became the CEO of Zurich-based Beverage Partners Worldwide, a former joint venture between Nestlé and Coca-Cola.

Effective January 2019, Béatrice Guillaume-Grabisch was appointed Executive Vice President in charge of Group Human Resources & Business Services.

As a representative of Nestlé, she is a Board member of L'Oréal S.A., France, and member of its audit committee.

Leanne Geale

Leanne Geale joined Nestlé S.A. in August 2019 as Executive Vice President and General Counsel. In her role, Leanne Geale oversees the legal and compliance function. From 2014 to 2019, Leanne Geale was Chief Ethics & Compliance Officer for Royal Dutch Shell plc. Former positions at Shell include Associate General Counsel, Heavy Oil and Head of Legal for Shell Canada from 2011 to 2014, Shell Legal Services Coordinator for Royal Dutch Shell plc and its subsidiaries from 2006 to 2011 as well as Senior Solicitor and successively Associate General Counsel, Oil Products from 2003 to 2006. Prior to her functions at Shell, she was a Senior Counsel for the Royal Bank of Canada, Senior Counsel and Assistant Secretary for Rio Algom Limited as well as Counsel for Alcan Aluminium Limited in Canada.

Leanne Geale is a member of the Management Board of the CEELI Institute, o.p.s, Prague, Czech Republic.

Maurizio Patarnello

Maurizio Patarnello joined Nestlé S.A. in 1993 and held several positions in Finance before moving to Sanpellegrino in 1999. In 2002, he was appointed as Country Business Manager for Lebanon and Jordan, where he led the development of the Nestlé Waters business. In September 2004, he joined the regional management team in Dubai and was promoted Chief Operating Officer and Regional Business Head of Nestlé Waters for Middle East and Africa. In 2007, Maurizio Patarnello took over the additional responsibility for Nestlé Waters Asia. In October 2010, he was promoted to Market Head for Ukraine and Moldava. Maurizio Patarnello took up the position of Market Head for Nestlé Russia and Eurasia Region in October 2012.

Effective January 2017, he was appointed Deputy Executive Vice President of Nestlé S.A. and Head of Nestlé Waters.

Grégory Behar

Grégory (Greg) Behar joined Nestlé S.A. in 2014 as CEO of Nestlé Health Science. Greg Behar came to Nestlé S.A. from Boehringer Ingelheim Pharmaceuticals Inc., USA, where he was President and CEO since 2011. From 2010 to July 2011, Greg Behar was Corporate Vice President Region NECAR (North European Union, Canada and Australasia) for Boehringer-Ingelheim GmbH and was its Corporate Vice President of the Cardiovascular and Metabolism Franchise from 2009 to 2010. Furthermore, Greg Behar held previous roles at Bula & Fils, Nestlé and Novartis Pharma.

As of January 2017, he was appointed to the Executive Board of Nestlé S.A.

He represents Nestlé S.A. on the Boards of various companies in which Nestlé S.A. holds investments, including Cerecin Inc., USA, Seres Therapeutics Inc., USA, Aimmune Therapeutics Inc., USA, Axcella Health Inc., USA and Precision IBD Inc., USA.

Compensation, shareholdings and loans

4.3 Mandates outside Nestlé

Pursuant to art. 21^{sexies} of the Articles of Association, no member of the Executive Board may hold more than 2 additional mandates in listed companies and 4 additional mandates in non-listed companies. Each of these mandates is subject to a specific approval by the Board of Directors.

The following mandates are not subject to these limitations:

– mandates in companies which are controlled by Nestlé;
– mandates which a member of the Executive Board holds at the request of Nestlé or companies controlled by it. No member of the Executive Board shall hold more than 10 such mandates; and
– mandates in associations, charitable organizations, foundations, trusts and employee welfare foundations. No member of the Executive Board shall hold more than 10 such mandates.

Mandates shall mean mandates in the supreme governing body of a legal entity which is required to be registered in the commercial register or a comparable foreign register. Mandates in different legal entities which are under joint control are deemed one mandate.

The Board of Directors has promulgated regulations that determine additional restrictions.

All members of the Executive Board comply with the provisions set out in art. 21^{sexies}.

4.4 Management contracts

There are no management contracts with third parties at Nestlé.

5. Compensation, shareholdings and loans

Please refer to the Compensation Report 2019, page 29.

Shareholders' participation

6. Shareholders' participation rights

6.1 Voting rights restrictions and representation

6.1.1 Voting rights restrictions and rules on granting exceptions

and

6.1.3 Reasons for granting exceptions in the year under review

Each share registered with the right to vote entitles the holder to one vote at General Meetings ("one share, one vote"). Only persons entered in the share register as shareholders with voting rights may exercise the voting rights or the other rights related thereto (art. 5 par. 2 of the Articles of Association).

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. Legal entities that are linked to one another through capital, voting rights, management or in any other manner, as well as all natural persons or legal entities achieving an understanding or forming a syndicate or otherwise acting in concert to circumvent such a limit shall be counted as one shareholder (art. 11 par. 2 of the Articles of Association; see art. 11 par. 3 of the Articles of Association for exceptions to this voting restriction).

To permit the exercise of voting rights in respect of shares held by nominees, in line with art. 11 par. 4 of the Articles of Association, the Board of Directors may by means of regulations or agreements depart from the limit of 5% of the share capital as recorded in the commercial register (art. 5 par. 6 and par. 9 of the Articles of Association). The Board of Directors has granted exceptions to vote shares that in aggregate are in excess of 5% of the share capital to the following Nominees N: Chase Nominees Ltd, London, and Citibank N.A.,London, as depositary for shares represented by American Depositary Receipts (please refer to point 2.6.3).

Pursuant to art. 5 par. 9 and 11 par. 4 of the Articles of Association, the Board of Directors has conferred to Credit Suisse AG and UBS AG as custodians the right to vote shares in excess of 5% on the basis of specific instructions provided by their clients for General Meetings.

6.1.4 Procedure and conditions for abolishing voting rights restrictions in the Articles of Association

A resolution to amend the provisions of the Articles of Association relating to:

(i) restrictions on the exercise of voting rights and the change or removal of such restrictions, or
(ii) the limitation on registration or the limitation on voting rights and the change or removal of such limitations requires a majority of two-thirds of the shares represented and the absolute majority of the nominal value represented at the General Meeting (art. 13 of the Articles of Association). See also art. 11 par. 4 of the Articles of Association.

6.1.5 Rules on participation in the General Meeting of shareholders

There are no restrictions to the legal regime set out by Swiss law in the Articles of Association. Shareholders with voting rights may have their shares represented by the proxy of their choice.

6.1.6 Rules on instructions to the independent representative and on the electronic participation in the General Meeting of shareholders

The legal regime set out by Swiss law applies to instructions in written or electronic form to the independent representative for participation in the General Meeting of shareholders. There are no specific provisions related thereto in the Articles of Association.

6.2 Quorums required by the Articles of Association

Please refer to art. 13 of the Articles of Association.

6.3 Convocation of the General Meeting of shareholders

Nestlé S.A. statutory rules (art. 7 to 9 of the Articles of Association) do not differ from applicable legal provisions. An Extraordinary General Meeting requested by one or more shareholders whose combined holdings represent at least 10% of the share capital as recorded in the commercial register must be held as promptly as practicable following such request (art. 8 par. 2 of the Articles of Association).

6.4 Inclusion of items on the agenda

One or more shareholders with voting rights whose combined holdings represent at least 0.15% of the share capital as recorded in the commercial register may request that an item be included in the agenda of the General Meeting by making the request in writing to the Board of Directors at the latest 45 days before the meeting and specifying the agenda items and the proposals made (art. 9 par. 2 and par. 3 of the Articles of Association).

6.5 Entries in the share register

The relevant date to determine the shareholders' right to participate in the General Meeting on the basis of the registrations appearing in the share register is set by the Board of Directors.

Change of control and defence measures

7. Change of control and defence measures

7.1 Duty to make an offer

Nestlé S.A. does not have a provision on opting out or opting up in the Articles of Association.

Thus, the provisions regarding the legally prescribed threshold of 33 ⅓% of the voting rights for making a public takeover offer set out in art. 135 of the Swiss Financial Market Infrastructure Act are applicable.

7.2 Clauses on change of control

There are no such agreements.

Auditors

8. Auditors

8.1 Duration of the mandate and term of office of the lead auditor

KPMG Klynveld Peat Marwick Goerdeler SA were first appointed on May 22, 1993, and KPMG SA (replacing KPMG Klynveld Peat Marwick Goerdeler SA) were first appointed on April 23, 2009 as auditors of Nestlé S.A.

On April 11, 2019, KPMG SA (hereafter "KPMG") were appointed as auditors of the Financial Statements of Nestlé S.A. and of the Consolidated Financial Statements of the Nestlé Group for a term of office of one year.

The audit report is signed jointly by two KPMG partners on behalf of KPMG. The first year that Mr. Scott Cormack, in his capacity as lead auditor, signed the Financial Statements of Nestlé S.A. and the Consolidated Financial Statements of the Nestlé Group was for the year ending December 31, 2013. The lead auditor is rotated every seven years in accordance with Swiss law.

8.2 Auditing fees

The auditing fees paid to KPMG in their capacity as Group auditors for 2019 amount to CHF 37 million.

8.3 Additional fees

In addition, KPMG provided non-audit services amounting to CHF 24.4 million, including CHF 20.6 million for mergers and disposals services, CHF 1.5 million for tax services, CHF 0.7 million for IS/IT advisory support, and CHF 1.4 million for other various non-audit services.

8.4 Information instruments pertaining to the external audit

KPMG presents to the Audit Committee a detailed report on the conduct of the Financial Statements audit, the findings on significant financial accounting and reporting issues together with the findings on the internal control system as well as an overview of issues found during the interim audit.

In 2019, KPMG participated in four Audit Committee meetings at the end of which they met with the Audit Committee without the Group's management being present.

The Audit Committee assesses the effectiveness of the work of the auditors in accordance with Swiss law, based on their understanding of the Group's business, control, accounting and reporting issues, together with the way in which matters significant at Group level or in the statutory accounts are identified and resolved.

The Audit Committee is also informed on the work of the auditors through regular briefings of its Chairman. Audit fees are ultimately approved by the Audit Committee.

The Group and KPMG have agreed on clear guidelines as to non-audit services which it is appropriate for KPMG to provide. These services include sell side and carve out support on disposals and certain tax and business risk assurance and IS/IT advisory support. These guidelines ensure KPMG's independence in their capacity as auditors to the Group. KPMG monitors its independence throughout the year and confirms its independence to the Audit Committee annually.

8.5 Auditor rotation

As disclosed in the Corporate Governance Report 2018, in October 2018, the Audit Committee invited several audit firms, including KPMG, to participate in a tender process which would lead to the selection of the audit firm to be proposed for election at the Annual General Meeting 2020.

Following a comprehensive tender process under the supervision of the Audit Committee, the Board decided to propose to the Annual General Meeting 2020 the appointment of EY as the principal audit provider for the 2020 financial year.

All the "big four" audit firms, who have the footprint and experience to audit a global company with a complex spread of operations, participated in the tender process. The objective of the Board was to deliver a fair, transparent and balanced tender process according to defined key success criteria and underpinned by a strong governance ensuring that all participants had equal access to management and information.

In the first phase of field work, the firms visited markets, met with key functional management at the Group head office, and had access to a data-room containing both financial and organisational information. On the basis of written proposals and presentation by the firms, a first round selection panel, including the Chairman of the Audit Committee, shortlisted two firms for presentations to a second round selection panel. The latter comprised all Audit Committee members, the Chairman of the Board of Directors as well as the CEO.

The Audit Committee recommended to the Board of Directors the appointment of EY as the statutory auditors of Nestlé S.A. After discussion of the merits of each of the two shortlisted firms' proposals and the rationale for the Audit Committee decision, the Board of Directors approved the recommendation and proposes the election of EY as external auditors of the Company at the Annual General Meeting of April 23, 2020.

Information policy

9. Information policy

Investor Relations – guiding principles

Nestlé is committed to managing an open and consistent communication policy with shareholders and other interested parties. The objective is to ensure that the perception of those parties about the historical record, current performance and future prospects of Nestlé is in line with management's understanding of the actual situation at Nestlé. The guiding principles of this policy are that Nestlé gives equal treatment to shareholders in equal situations, that any price-sensitive information is published in a timely fashion and that the information is provided in a format that is as full, simple, transparent and consistent as possible.

Methodology

Each year, Nestlé produces a detailed Annual Report, which consists of i) the Annual Review, ii) the Consolidated Financial Statements of the Nestlé Group, iii) the Financial Statements of Nestlé S.A., iv) the Corporate Governance Report, and v) the Compensation Report. The Consolidated Financial Statements are prepared according to the International Financial Reporting Standards (IFRS). The Half-year Report, consisting of the Half-Yearly Income Statement, Balance Sheet and Cash Flow Statement, complements the Annual Report. The Company also issues annually its Creating Shared Value (CSV) report.

Nestlé publishes its Financial Statements for the full-year and the half-year. Additionally, the Company publishes its sales figures for the first three-months and nine-months. Press releases accompany the financial results and sales announcements, and are also issued at the time of potentially price-sensitive events, such as significant acquisitions and divestments, joint venture agreements or alliances. These communications are publicly available on the internet. Major announcements, such as results of corporate activity, are accompanied by a presentation which is broad cast "live" on the internet and which anyone can access, whether or not that person is a shareholder.

Furthermore, Nestlé has an active investor relations (IR) program. Throughout the year, IR engages with investors (current or prospective) and relevant sell-side analysts in meetings, conference calls, roadshows, broker conferences, or other events. In certain cases, members of management might also participate in some meetings with the financial community, including both group meetings and one-to-one meetings. Topics of discussion may include recently announced financial results, recent corporate activity, or the longer-term strategy of the Group; they are not an occasion for the disclosure of new information which might encourage investment decisions. Specifically on governance topics, the Company engages in an active dialogue with investors through regular Chairman's roundtables, surveys and bilateral exchanges which are reported to the Chairman's and Corporate Governance Committee or the Board.

The Company uses its website (www.nestle.com/investors) to ensure a rapid and equitable distribution of information. There are also links to non-financial information that may be of interest to investors, including areas such as the environment, sustainability and news about brands and innovation. A corporate calendar of relevant dates is displayed on page 75 of the Annual Review 2019 and available on the IR events pages. (www.nestle.com/investors/events).

The Nestlé Investor Relations Department can be contacted via the following coordinates:

Contact

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Nestlé S.A., Avenue Nestlé 55
CH-1800 Vevey (Switzerland)
Tel. +41 (0)21 924 35 09
E-mail: ir@nestle.com

General Organization of Nestlé S.A.

at December 31, 2019

Executive Board

Ulf Mark Schneider
Laurent Freixe
Chris Johnson
Patrice Bula
Marco Settembri
François-Xavier Roger
Magdi Batato
Stefan Palzer
Béatrice Guillaume-Grabisch
Leanne Geale
Maurizio Patarnello
Greg Behar

- Chairman: **Paul Bulcke**
  - Secretary to the Board: **David Frick**
  - Chief Executive Officer: **Ulf Mark Schneider**
    - Nestlé Health Science: **Greg Behar**
    - Organizational Efficiency: **Wolfgang Pasewald**
    - Sustainable Packaging: **Véronique Cremades**
    - Corporate Communications: **Eugenio Simioni**
    - Finance & Control: **François-Xavier Roger**
    - General Counsel, Corporate Governance & Compliance: **Leanne Geale**
    - Innovation Technology and R&D: **Stefan Palzer**
    - Human Resources & Business Services: **Béatrice Guillaume-Grabisch**
    - Operations: **Magdi Batato**
    - Strategic Business Units, Marketing and Sales: **Patrice Bula**
    - Zone EMENA: Europe, Middle East & North Africa: **Marco Settembri**
    - Zone AMS: Americas: **Laurent Freixe**
    - Zone AOA: Asia, Oceania & Africa: **Chris Johnson**
    - Nestlé Waters: **Maurizio Patarnello**

Compensation Report 2019

Compensation Report 2019

Introduction
The future success of Nestlé is dependent on its ability to attract, motivate and retain the right talented employees. Among the various programs to support this ambition is a competitive remuneration policy. Nestlé believes in a performance culture as well as good corporate governance and corporate social responsibility.

Therefore, remuneration at Nestlé is based on the following principles:
– pay for performance to support the Company's short-term and long-term objectives;
– compensation aligned with long-term Group strategy and shareholders' interests;
– coherence in our remuneration plans and levels throughout the Company;
– competitiveness versus external market comparisons;
– appropriate balance of fixed and variable remuneration and short-term and long-term rewards.

This Compensation Report shall be submitted to the advisory vote of the shareholders at the Annual General Meeting 2020.

At the 2019 Annual General Meeting, shareholders approved the total compensation budgets for the Board of Directors and the Executive Board with large majorities.

To ensure complete accountability, the shareholders will be able to retrospectively vote on the Compensation Report and payouts in a consultative vote.

Changes to Compensation
For 2019 the following changes have been implemented:
– The compensation budget will be adjusted routinely to the number of Executive Board members as at December 31 of the prior business year.
– Share ownership: Subject to an appropriate phase-in period, each Executive Board Member is required to hold shares at least equal to twice his/her annual base salary. The CEO is required to hold shares for at least five times his annual base salary.
– Market value (for blocked shares): We start disclosing the market value (instead of tax value) for blocked shares awarded to the Board of Directors (50% of their remuneration) and the Executive Board (as part of their Short Term Bonus) in the Compensation Report 2019.
– Individual objectives of Executive Board members are integrated into the business and functional objectives.

Governance
The Board of Directors has the overall responsibility for defining the compensation principles used in the Group. Pursuant to art. 21bis of Nestlé's Articles of Association (*), the total compensation of the Board of Directors and of the Executive Board is subject to approval by the shareholders, upon proposal by the Board of Directors.

As of December 31, 2019, the governance for setting the compensation of the members of the Board of Directors and the Executive Board is defined as follows:

Compensation of	Recommended by	Approved by
Board of Directors as a whole	Board of Directors	Shareholders
Executive Board as a whole	Board of Directors	Shareholders
Chairman of the Board, CEO	Compensation Committee	Board of Directors (a)
Non-executive members of the Board of Directors	Compensation Committee	Board of Directors (b)
Members of the Executive Board	CEO together with Chairman	Compensation Committee (c)

(a) Chairman as well as CEO not voting on own compensation, and not participating in the relevant meetings.
(b) Members not voting on own compensation to the extent that Committee fees are concerned.
(c) Executive Board members not participating in the relevant meetings.

Compensation Committee (CC)
The CC is governed by the Compensation Committee Charter (see point 3.5.2 in the Corporate Governance section). The Committee consists of the Chairperson who is an independent and non-executive member of the Board. The other members shall be a minimum of three other non-executive members of the Board.

The members of the CC have been elected by the shareholders for one year. The Chairman was appointed by the Board of Directors. On December 31, 2019, the composition of the CC is as follows:

Chairman	Members
Beat W. Hess	Patrick Aebischer
	Ursula M. Burns
	Pablo Isla

The tasks and areas of responsibility of the CC are described on page 13 of the Corporate Governance Report 2019.

(*) Nestlé S.A.'s Articles of Association can be found on page 51 and on www.nestle.com/investors/corporate-governance/articles

Board of Directors

Principles of compensation for the members of the Board of Directors

Governance

Pursuant to art. 21bis par. 1 of Nestlé's Articles of Association, the General Meeting shall approve annually the proposal of the Board of Directors in relation to the maximum aggregate amount of the compensation of the Board of Directors for the period until the next Annual General Meeting [(a)].

In the event the General Meeting has not approved a proposal of the Board of Directors, the Board of Directors shall determine the respective maximum aggregate amount or maximum partial amounts of compensation provided that:

a) the Board of Directors takes into account (i) the proposed maximum aggregate amount of compensation; (ii) the decision of the General Meeting and, to the extent known to the Board of Directors, the main reasons for the negative vote; and (iii) Nestlé's compensation principles; and
b) the Board of Directors submits the amount(s) so determined for approval by the same General Meeting, a subsequent Extraordinary General Meeting or the next Annual General Meeting (art. 21bis par. 2 of the Articles of Association).

The compensation of the members of the Board of Directors is subject to "claw back" rules in accordance with art. 678 of the Swiss Code of Obligations. Members of the Board of Directors could be obligated to return benefits received from the Company to the extent these are manifestly disproportionate to the performance rendered in return and to the Company's economic situation (including as a result of fraud or accounting misstatement).

Principles

The remuneration of the members of the Board of Directors is set to attract and retain highly qualified individuals to serve on the Board of Directors. The level of remuneration reflects the time and effort required from the members in fulfilling their Board and Committee responsibilities. The pay structure (cash and blocked shares) is designed to ensure the Board's focus on the long-term success of the Company. There is no variable compensation for non-executive members of the Board of Directors, in order to ensure a proper level of independence.

The principal benchmark used to define Board remuneration is a selection of large Swiss Market Index (SMI) companies [(b)], adjusted for the size of Nestlé. These figures are periodically reviewed against this benchmark.

Compensation 2019 for the members of the Board of Directors

Board membership fees and allowances

With the exception of the Chairman and the CEO, each member of the Board of Directors receives a Board membership fee of CHF 280 000 and an Expense Allowance of CHF 15 000. These figures have remained unchanged since 2006.

(a) The Board of Directors may submit for approval by the General Meeting deviating or additional proposals relating to the same or different periods.
(b) Novartis, Roche, Richemont, ABB, UBS and Credit Suisse.

Members of a Board Committee receive the following additional fees [a]:

	Chair	Members
Chairman's and Corporate Governance Committee	CHF 300 000	CHF 200 000
Compensation Committee	CHF 150 000	CHF 70 000
Nomination and Sustainability Committee	CHF 150 000	CHF 70 000
Audit Committee	CHF 150 000	CHF 100 000

(a) The Chairman and the CEO Committee fees are included in their total remuneration.

Committee membership on December 31, 2019

	Chairman's and Corporate Governance Committee	Compensation Committee	Nomination and Sustainability Committee	Audit Committee
Paul Bulcke, Chairman	• (Chair)		•	
Ulf Mark Schneider, CEO	•			
Henri de Castries, Vice-Chairman, Lead Independent Director	•		• (Chair)	•
Beat W. Hess	•	• (Chair)		
Renato Fassbind	•			• (Chair)
Ann M. Veneman			•	
Eva Cheng			•	•
Patrick Aebischer		•		
Ursula M. Burns		•		
Kasper B. Rorsted				
Pablo Isla		•		
Kimberly A. Ross				•
Dick Boer				
Dinesh Paliwal				

The above fees and allowances cover the period between the Annual General Meeting 2019 and the Annual General Meeting 2020. They are paid in two instalments. Board membership and Committee fees are paid 50% in cash and 50% in Nestlé S.A. shares, which are subject to a three-year blocking period. The blocking period remains applicable upon termination of the mandate.

The number of Nestlé S.A. shares is determined by taking the closing price of the share on the SIX Swiss Exchange on the ex-dividend date of the respective financial year.

Mr. Jean-Pierre Roth and Mrs. Ruth K. Oniang'o did not stand in for re-election at the Annual General Meeting on April 11, 2019 and left the Board of Directors.

Compensation payout 2019

At the Annual General Meeting of April 11, 2019, the shareholders approved a maximum compensation for the Board of Directors of CHF 10.0 million for the period from the Annual General Meeting 2019 to the Annual General Meeting 2020. The total actual compensation pay-out for this period including social security contributions is CHF 9 130 292.

Audited (*)

Summary of compensation 2019 **

	Cash in CHF (a)	Number of shares	Market value of shares in CHF (b)	**Total Cash & Shares**	Social security & addit. Fees (c)	**Total Compensation**
Paul Bulcke, Chairman	570 000	30 734	2 900 060	**3 470 060**	28 200	**3 498 260**
Ulf Mark Schneider, Chief Executive Officer (d)	–	–	–	**–**	–	**–**
Henri de Castries, Vice Chairman, Lead Independent Director	380 000	3 869	365 078	**745 078**	28 200	**773 278**
Beat W. Hess	330 000	3 339	315 068	**645 068**	28 200	**673 268**
Renato Fassbind	330 000	3 339	315 068	**645 068**	28 200	**673 268**
Ann M. Veneman	190 000	1 855	175 038	**365 038**	25 000	**390 038**
Eva Cheng	240 000	2 385	225 049	**465 049**	20 355	**485 404**
Patrick Aebischer	190 000	1 855	175 038	**365 038**	27 014	**392 052**
Ursula M. Burns	190 000	1 855	175 038	**365 038**	16 501	**381 539**
Kasper B. Rorsted	155 000	1 484	140 030	**295 030**	13 201	**308 231**
Pablo Isla	190 000	1 855	175 038	**365 038**	16 501	**381 539**
Kimberly A. Ross	205 000	2 014	190 041	**395 041**	–	**395 041**
Dick Boer	155 000	1 484	140 030	**295 030**	13 201	**308 231**
Dinesh Paliwal	155 000	1 484	140 030	**295 030**	13 201	**308 231**
Total for 2019	**3 280 000**	**57 552**	**5 430 606**	**8 710 606**	**257 774**	**8 968 380**

** For all Board members except the Chairman and the CEO, the above table shows the annual compensation paid semi-annually in April and October during the respective year covering the twelve-month period starting with the Annual General Meeting.
(a) The cash amount includes the expense allowance of CHF 15 000. The Chairman receives no expense allowance.
(b) Nestlé S.A. shares received are valued at the closing price of the share on the SIX Swiss Exchange on the ex-dividend date.
(c) Since Company contributions to social security are based on full earnings, whereas benefits are capped, only contributions that lead to future benefits are included. The additional cost to the Company taking into account full social security employer contributions is CHF 130 745 in 2019. For details of additional fees, see page 37.
(d) The CEO's compensation is disclosed in its entirety under compensation of the Executive Board.

(*) Sections highlighted with a blue bar are audited by KPMG. They include all elements the Company needs to disclose pursuant to art. 14 to 16 of the Ordinance against excessive compensation in listed companies.

Audited (*)

Summary of compensation 2018 **

	Cash in CHF (a)	Number of shares	Market value of shares in CHF (b)	**Total Cash & Shares**	Social security & addit. Fees (c)	**Total Compensation**
Paul Bulcke, Chairman	510 000	47 148	3 520 070	**4 030 070**	28 200	**4 058 270**
Ulf Mark Schneider, Chief Executive Officer (d)	–	–	–	**–**	–	**–**
Henri de Castries, Lead Independent Director	380 000	4 889	365 013	**745 013**	28 200	**773 213**
Beat W. Hess	330 000	4 220	315 065	**645 065**	28 200	**673 265**
Renato Fassbind	330 000	4 220	315 065	**645 065**	28 200	**673 265**
Jean-Pierre Roth	190 000	2 344	175 003	**365 003**	15 639	**380 642**
Ann M. Veneman	190 000	2 344	175 003	**365 003**	25 000	**390 003**
Eva Cheng	240 000	3 014	225 025	**465 025**	20 354	**485 379**
Ruth K. Oniang'o	155 000	1 876	140 062	**295 062**	37 341	**332 403**
Patrick Aebischer	190 000	2 344	175 003	**365 003**	27 012	**392 015**
Ursula M. Burns	190 000	2 344	175 003	**365 003**	16 500	**381 503**
Kasper B. Rorsted	155 000	1 876	140 062	**295 062**	13 202	**308 264**
Pablo Isla	155 000	1 876	140 062	**295 062**	13 202	**308 264**
Kimberly A. Ross	205 000	2 545	190 009	**395 009**	–	**395 009**
Total for 2018	**3 220 000**	**81 040**	**6 050 445**	**9 270 445**	**281 050**	**9 551 495**

** For all Board members except the Chairman and the CEO, the above table shows the annual compensation paid semi-annually in April and October during the respective year covering the twelve-month period starting with the Annual General Meeting.
(a) The cash amount includes the expense allowance of CHF 15 000. The Chairman receives no expense allowance.
(b) Nestlé S.A. shares received 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 (16.038% discount) to market value.
(c) Since Company contributions to social security are based on full earnings, whereas benefits are capped, only contributions that lead to future benefits are included. The additional cost to the Company taking into account full social security employer contributions is CHF 155 161 in 2018. For details of additional fees, see page 37.
(d) The CEO's compensation is disclosed in its entirety under compensation of the Executive Board.

(*) Sections highlighted with a blue bar are audited by KPMG. They include all elements the Company needs to disclose pursuant to art. 14 to 16 of the Ordinance against excessive compensation in listed companies.

Paul Bulcke in his capacity as active Chairman, received a cash compensation as well as Nestlé S.A. shares, which are blocked for three years. This in particular reflects certain responsibilities for the direction and control of the Group including the support to the CEO, the chairmanship of the Nestlé Science & Technology Advisory Council, the support of Nestlé Health Science through its Strategic Advisory Council, and the direct leadership of Nestlé's interests in L'Oréal. Paul Bulcke also chairs the 2030 Water Resources Group (WRG) and represents Nestlé as member of the European Roundtable of Industrialists (ERT) and as member of the WEF Community of Chairpersons. The remuneration includes all compensation received in relation to these activities. His total compensation decreased as previously agreed.

Audited

	2019		2018	
	Number	Value in CHF	Number	Value in CHF
Cash compensation		570 000		510 000
Blocked shares (market value) [a]	30 734	2 900 060	47 148	3 520 070
Total Cash & Shares		**3 470 060**		**4 030 070**
Company contribution to compulsory Swiss social security [b]		28 200		28 200
Total compensation		3 498 260		4 058 270

(a) The 2018 amounts have been restated from the discounted value (16.038% discount) to market value.
(b) Since Company contributions to social security are based on full earnings, whereas benefits are capped, only contributions that lead to future benefits are included. The additional cost to the Company taking into account full social security employer contributions is CHF 122 673 in 2019 and CHF 146 804 in 2018.

Shares and stock options ownership of the non-executive members of the Board of Directors and closely related parties on December 31, 2019

	Number of shares held [a]
Paul Bulcke, Chairman	1 421 941
Henri de Castries, Vice Chairman, Lead Independent Director	27 698
Beat W. Hess	48 988
Renato Fassbind	30 480
Ann M. Veneman	21 160
Eva Cheng	18 168
Patrick Aebischer	6 514
Ursula M. Burns	6 214
Kasper B. Rorsted	3 360
Pablo Isla	3 731
Kimberly A. Ross	4 559
Dick Boer	2 984
Dinesh Paliwal	1 484
Total as at December 31, 2019	**1 597 281**
Total as at December 31, 2018	1 559 560

(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.

Audited

Other audited information regarding the Board of Directors

Loans

There are no loans to members of the Board of Directors. Loans to a member of the Board of Directors may only be granted at market conditions and may, at the time of grant, not exceed the respective member's most recent total annual compensation (art. 21^{septies} of the Articles of Association).

Additional fees and remuneration of the Board of Directors

There are no additional fees or remuneration paid by Nestlé S.A. or any of its Group companies, directly or indirectly, to members of the Board of Directors, except for CHF 25 000 paid to Ann M. Veneman who serves as a member of the Creating Shared Value (CSV) Council, and CHF 10 000 paid to Patrick Aebischer who served on the Steering Committee of the Nestlé Institute of Health Sciences.

Compensation and loans for former members of the Board of Directors

There is no compensation conferred during 2019 on former members of the Board of Directors who gave up their function during the year preceding the year under review or earlier. Similarly, there are no loans outstanding to former members of the Board of Directors.

Compensation or loans to related parties of members of the Board of Directors

In 2019, no compensation was paid to related parties of members of the Board of Directors and there were no loans outstanding to related parties.

Executive Board

Principles of compensation for members of the Executive Board

Governance

Pursuant to art. 21bis par. 1 of Nestlé's Articles of Association (*), the General Meeting shall approve annually the proposal of the Board of Directors in relation to the maximum aggregate amount of the compensation of the Executive Board for the following financial year (**).

In the event the General Meeting has not approved a proposal of the Board of Directors, the Board of Directors shall determine the respective maximum aggregate amount or maximum partial amounts of compensation, provided that:

a) the Board of Directors takes into account: (i) the proposed maximum aggregate amount of compensation; (ii) the decision of the General Meeting and, to the extent known to the Board of Directors, the main reasons for the negative vote; and (iii) Nestlé's compensation principles; and
b) the Board of Directors submits the amount(s) so determined for approval by the same General Meeting, a subsequent Extraordinary General Meeting or the next Annual General Meeting (art. 21bis par. 2 of the Articles of Association).

If the maximum aggregate amount of compensation already approved by the General Meeting is not sufficient to also cover compensation of one or more members who become members of or are being promoted within the Executive Board during a compensation period for which the General Meeting has already approved the compensation of the Executive Board, Nestlé or companies controlled by it shall be authorized to pay such member(s) a supplementary amount during the compensation period(s) already approved. The total supplementary amount shall not exceed 40% of the aggregate amount of compensation of the Executive Board last approved by the General Meeting per compensation period (art. 21ter of the Articles of Association).

Principles

The principles of compensation for members of the Executive Board are the following:

Pay for performance

The Total Direct Compensation for the members of the Executive Board includes a fixed portion (Annual Base Salary) and a variable portion (Short-Term Bonus and Long-Term Incentives). The fixed compensation takes into account individual performance. Variable compensation is determined based on collective and individual performance. These are intended to ensure a major part of executive rewards are contingent on achieving demanding performance goals.

Alignment with long-term company strategy and shareholder interests

Compensation for members of the Executive Board is aligned with company strategy and shareholders' interests. The Short-Term Bonus payout is determined by the degree of achievement of a number of objectives aligned to annual business plans. Long-Term Incentives are provided in the form of share-based instruments, therefore ensuring alignment with shareholders' interests. In 2019, the main Long-Term Incentive instrument was the Performance Share Unit Plan (PSUP). PSUs have a vesting period of three years, with a further holding period of two years for Executive Board members, leading to a total restriction period of five years. Their alignment with shareholder interests is reinforced through pay-outs being tied to underlying Earnings per Share (EPS) growth, relative Total Shareholder Return (TSR) performance and Return on Invested Capital (ROIC).

Coherence in remuneration plans and levels throughout the Company

The Company aims to align remuneration plans across the Group and to ensure that compensation rewards are appropriate for the added responsibilities of positions held. This is reflected in the relative remuneration levels of the Executive Board.

(*) Nestlé S.A.'s Articles of Association can be found on page 51 and on www.nestle.com/investors/corporate-governance/articles
(**) The Board of Directors may submit for approval by the General Meeting deviating or additional proposals relating to the same or different periods.

Compensation to be internationally competitive by using selected benchmarks

The compensation packages for the members of the Executive Board need to be competitive in a dynamic international environment. Nestlé targets its overall remuneration policy to be between the median and the 75th percentile of the selected external benchmarks (please refer to page 43). Whenever appropriate, the benchmark values are adjusted for the size of Nestlé. The market competitiveness of the compensation of the Executive Board is therefore periodically assessed using the services of Willis Towers Watson, a reputed international human capital and benefits consultancy.

The total compensation package consists of the following elements:

1. Base Salary

The Base Salary is the foundation of the total compensation. It reflects the experience, expertise and sustained performance of the Executive Board member as well as taking into account external market competitiveness. It also serves as the basis for determining the Short-Term Bonus target levels, and the allocation of Long-Term Incentives. The Base Salary is reviewed annually by the Compensation Committee. Criteria for adjustments are individual contribution and the level of competitiveness against the benchmarks.

2. Short-Term Bonus

The Short-Term Bonus is intended to reward results achieved against annual collective and individual objectives related to Nestlé's overall business strategy. The Short-Term Bonus is paid in cash and/or in Nestlé S.A. shares, which are subject to a three-year blocking period.

Governance

Pursuant to art. 21quater of Nestlé's Articles of Association (*), variable compensation may comprise short-term compensation elements, and shall be subject to caps expressed as predetermined multipliers of the respective target levels.

Short-term compensation elements are governed by performance metrics that take into account the performance of Nestlé and/or parts thereof, targets in relation to the market, to other companies or to comparable benchmarks and/or individual targets, and achievement of which is generally measured based on a one-year period. The annual target level of the short-term compensation elements is determined as a percentage of the Base Salary; depending on achieved performance, the compensation may amount up to a pre-determined multiplier of target level.

The Board of Directors or, to the extent delegated to it, the Compensation Committee determines performance metrics and target levels, and their achievement.

(*) Nestlé S.A.'s Articles of Association can be found on page 51 and on www.nestle.com/investors/corporate-governance/articles

Objectives 2019

The Short-Term Bonus (Annual Bonus) is based on a bonus target expressed in % of the Annual Base Salary.

In 2019, the following target levels were applicable
– CEO: 150%;
– Executive Vice President: 100%;
– Deputy Executive Vice President: 80%.

For the CEO and the CFO, 100% of the target is linked to performance against the Nestlé Group objectives (see below). For the other members of the Executive Board, at least 50% of the target is linked to business performance, to ensure accountability for Nestlé's results: for Function Heads, 50% is tied to Group performance and 50% to functional objectives; for Zone or Business Heads, 40% is tied to Group performance and 60% to business objectives they are directly responsible for.

In case an executive reaches all objectives in full, the bonus payout will correspond to the targeted level. If one or more objectives are not reached, the bonus is reduced. The bonus payout is capped at a maximum of 130% of the target. There is no guarantee for the payout of a minimum bonus.

Members of the Executive Board can elect to receive part or all of their Short-Term Bonus in Nestlé S.A. shares. The CEO has to take a minimum of 50% in shares.

The number of shares granted is determined using the average market closing price of the last ten trading days of January 2020.

Group objectives

Every year, the Board of Directors defines a set of key quantitative operational objectives, which comprise the main elements in determining the annual Group performance for the following year. These are linked to measurable financial objectives. In 2019, their weighting was 40% Organic Growth, 40% Profitability (Underlying Trading Operating Profit & Trading Operating Profit margins), 10% Working Capital and 10% Return on Invested Capital (ROIC).

Additional quantitative and qualitative objectives, set by the Board of Directors in line with Nestlé's strategy, are also used to determine the Nestlé Group performance. This set of additional objectives reflects Nestlé's Creating Shared Value framework and includes the proportion of products with Nutrition, Health & Wellness benefits, market shares, capital expenditure, structural cost optimization, progress on digitalization, strengthening Nestlé's values and culture, and further progress on quality, safety, sustainability and compliance.

The above objectives are kept under review by the Board of Directors so as to ensure they are aligned with Nestlé's business objectives and its strategic ambition.

Business and functional objectives

Business and functional objectives are determined by the CEO for each member of the Executive Board. They are related to the individual area of responsibility and are of a financial or non-financial nature.

3. Long-Term Incentives

Long-Term Incentives are intended to reward sustained business success and overall shareholder value creation as well as to retain key senior management members.

Governance

Pursuant to art. 21quater of Nestlé's Articles of Association (*), variable compensation may comprise long-term compensation elements, and shall be subject to caps expressed as pre-determined multipliers of the respective target levels.

Long-term compensation elements are governed by performance metrics that take into account strategic objectives of Nestlé, achievement of which is generally measured based on a multi-annual period. The annual target level of the long-term compensation elements is determined as a percentage of the Base Salary; depending on the achieved performance, the compensation may amount up to a pre-determined multiplier of the target level. Vesting periods, as determined by the Board of Directors or, to the extent delegated to it, the Compensation Committee, shall be at least three years. See further art. 21quater par. 6 to par. 8 of the Articles of Association.

The Board of Directors or, to the extent delegated to it, the Compensation Committee determines performance metrics and target levels, and their achievement.

Target levels 2019

In 2019, members of Nestlé's Executive Board were eligible to receive Long-Term Incentives in the form of Performance Share Units under the Performance Share Unit Plan (PSUP). The grant value for Long-Term Incentives in 2019 was the following:

– CEO: 150% of the Annual Base Salary
– Executive Vice President and Deputy Executive Vice President: 100% of the Annual Base Salary

The fair value of Long-Term Incentives at grant is determined by using generally accepted pricing models. Please refer to explanations on page 45.

The PSUP provides units which entitle participants to receive Nestlé S.A. shares at the end of the three-year vesting period. These shares remain blocked for a further period of two years for Executive Board members.

The level at which PSUs vest is determined by the degree by which the three performance measures of the PSUP are met over the full three-year vesting period. These three criteria are:

– the growth of underlying Earnings per Share (EPS) in constant currencies;
– the relative Total Shareholder Return (TSR) of the Nestlé S.A. share in relation to the STOXX Global 1800 Food & Beverage Gross Return Index; and
– the Return on Invested Capital (ROIC).

Growth of underlying Earnings per Share, Total Shareholder Return performance in relation to peers and Return on Invested Capital are commonly used measures to determine senior management long-term performance in the industry. Growth of underlying Earnings per Share will be weighted at 50%, Total Shareholder Return Performance at 30% and Return on Invested Capital at 20% to determine the vesting level of the initial PSU award.

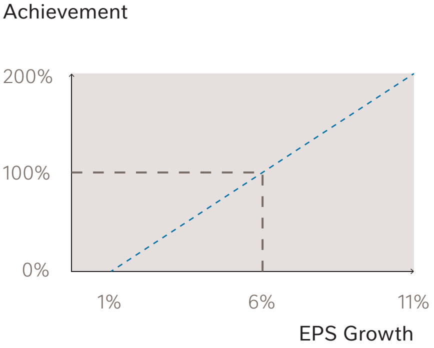
All three performance measures will be subject to Compensation Committee review in case of extraordinary events.

The PSUP covers only the Executive Board and Senior Vice Presidents. A Restricted Stock Unit Plan (RSUP) applies to all other participants.

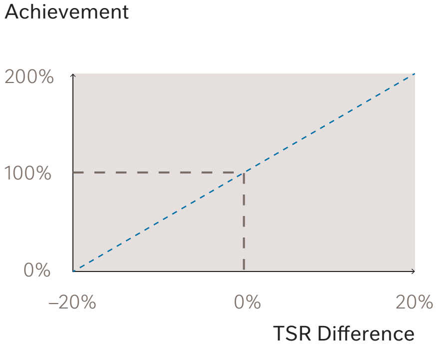
(*) Nestlé S.A.'s Articles of Association can be found on page 51 and on www.nestle.com/investors/corporate-governance/articles

The following charts show the different potential levels of achievement for each of the three measures for the 2019 PSUP grant.

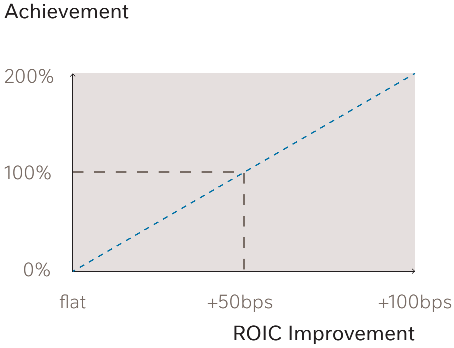
Average Underlying EPS Growth (constant currencies)



TSR Difference (Nestlé vs. Index)



ROIC Improvement



The total vesting level will be determined by applying, at the end of the vesting period, a weight of 50% for Underlying EPS, 30% for TSR and 20% for ROIC of the grant, and by adding up the three elements.

The vesting range of the PSU starts at 0% and is capped at 200% of the initial PSU award, thus providing alignment with strategy and shareholders' interests, as well as ensuring competitiveness versus external market comparisons.

Overview of Executive Board compensation elements

CEO

Base Salary	Short-Term Bonus (*)	Long-Term Incentives (PSUP) (**)
100%	150% (at target)	150%

(*) Payable between 50% and 100% in Nestlé S.A. shares with a three-year blocking period.
(**) Subject to a two-year holding period after the three-year vesting period.

Executive Vice Presidents

Base Salary	Short-Term Bonus (*)	Long-Term Incentives (PSUP) (**)
100%	100% (at target)	100%

(*) Payable between 0% and 100% in Nestlé S.A. shares with a three-year blocking period.
(**) Subject to a two-year holding period after the three-year vesting period.

Maximum payout:
– Short-Term Bonus: capped at 130% of the target;
– PSUP: vesting ranges from 0% to 200% of the initial PSU award.

4. Other benefits

The Company limits other benefits to a minimum. Typical elements are a car allowance, a contribution towards health insurance premiums (below CHF 4000 per annum) as well as long-term service awards related to 25 and 40 years of service to the Company, in line with the Company policy, as offered to other employees. Those Executive Board members who have been transferred to Switzerland from other Nestlé locations can receive benefits in line with the Nestlé Corporate Expatriation Policy.

5. Pension benefits

Executive Board members domiciled in Switzerland are affiliated to the Nestlé Pension Plan in Switzerland like all other employees. The Plan was changed from a defined contribution plan with a retirement pension objective to a Swiss-type defined contribution plan in 2013. Beneficiaries of the Plan born in 1958 or before maintain their membership in the former plan. In July 2018, the Nestlé Pension Plan was adapted to reflect the lower interest rate environment and the increase in life expectancy.

Pensionable earnings include the Annual Base Salary, but not the variable compensation (Short-Term Bonus or Long-Term Incentives). Any part of the Annual Base Salary which exceeds the ceiling prescribed by Swiss Pension Law is covered directly by the Company.

Benchmarks of Executive Board compensation

Any benchmark needs to take into account Nestlé's overall size, its sector and geographic location. The Compensation Committee has therefore decided that the most appropriate way to assess the competitiveness of the compensation for the Executive Board is by comparing it against the STOXX Europe 50 index (excluding financial services) as the primary benchmark (*), while taking account of trends in executive remuneration in the European Fast Moving Consumer Goods and pharma companies. Reflecting the Company's size (revenue and headcount), Nestlé's competitive position has been evaluated with reference to the 75th percentile of the benchmark.

Share ownership policy

As of December 31, 2019, subject to an appropriate phase-in period, each Executive Board Member is required to hold shares at least equal to twice his/her annual base salary, absent specific circumstances. The CEO is required to hold shares at least equal to five times his annual base salary.

An additional two-year blocking period is imposed on Nestlé S.A. shares delivered to Executive Board members upon vesting of PSUs, bringing the total restriction period to five years. The blocking period remains applicable upon termination of employment.

Loans

The Company does not, as a rule, grant loans, except that it may provide advances, generally repayable over a three-year period to members of the Executive Board who have been transferred to Switzerland from other Nestlé locations in line with the Nestlé Corporate Expatriation Policy.

Loans to Executive Board members may only be granted at market conditions and may, at the time of grant, not exceed the respective member's most recent total annual compensation (art. 21septies of the Articles of Association).

Contracts of employment and severance payments

Members of the Executive Board are subject to a notice period of twelve months. During this time, unless there was termination for cause, entitlement to the Annual Base Salary and prorated Short-Term Bonus continues. Long-Term Incentives are forfeited upon voluntary resignation or termination for cause; Long-Term Incentives immediately vest in all other cases of termination of employment. There are no severance payments or change of control provisions ("golden parachutes"). Non-compete provisions are in line with the Articles of Association and are activated by the Company only as necessary on a case-by-case basis.

The compensation of the members of the Executive Board is subject to forfeiture or claw back if the compensation paid or granted is rejected by the General Meeting of Nestlé S.A. in a final vote.

(*) Companies include: Adidas, Ahold Delhaize, Airbus, Air Liquide, Amadeus IT Group, Anheuser-Busch Inbev, ASML, BASF, Bayer, BMW, CRH, Daimler, Danone, Deutsche Post, Deutsche Telekom, Enel, Engie, Eni, Essilorluxottica, Fresenius, Iberdrola, Industria de diseño textil, Kering, L'Oréal, Linde, LVMH, Nokia, Orange, Philips, Safran, Sanofi, SAP, Schneider Electric, Siemens, Telefónica, Total, Unibail-Rodamco-Westfield SE, Unilever, Vinci, Vivendi, Volkswagen.

Audited

Compensation 2019 for members of the Executive Board

At the Annual General Meeting of April 12, 2018, the shareholders approved a maximum compensation for members of the Executive Board of CHF 60 million for 2019. The total compensation paid to members of the Executive Board in 2019, including contributions towards future pension benefits and total social security contributions, was CHF 47 602 538.

Compensation for members of the Executive Board in CHF (including the CEO)

	2019	2018
Annual Base Salary	12 696 667	13 211 669
Short-Term Bonus (cash)	8 497 251	8 529 175
Short-Term Bonus (market value of Nestlé S.A. share) (a)	7 184 942	7 125 998
Performance Share Units (fair value at grant)	13 046 578	11 001 761
Other benefits	578 268	1 850 211
Total	**42 003 706**	**41 718 814**
% Fixed/Variable	31.6 – 68.4	36.1 – 63.9
Company contributions towards future pension benefits (in line with Nestlé's Pension Benefit Policy described above)	2 916 453	4 444 147
Company contributions to compulsory Swiss social security (b)	338 400	354 850
Additional remuneration and fees paid to members of the Executive Board	560 031	551 106
Total including the elements above	45 818 590	47 068 917

The above compensation table includes the following:

	2019	2018
Number of Nestlé S.A. shares granted	66 478	83 855
Number of Performance Share Units granted under the PSUP	157 960	183 485

(a) 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 (16.038% discount) to market value.
(b) Since the Company contributions to social security are based on full earnings, whereas benefits are capped, only contributions that lead to future benefits are included. The additional cost to the Company taking into account full social security employer contributions is CHF 1 783 948 in 2019 and CHF 1 724 663 in 2018.

Explanations

- On December 31, 2019, the Executive Board consisted of 12 members.
- Mrs. Wan Ling Martello left the Executive Board on January 1, 2019.
- Mr. David Frick left the Executive Board on August 1, 2019; he continues to serve as Head of Corporate Governance, Compliance and Corporate Services as well as Secretary to the Board of Directors.
- Mr. Maurizio Patarnello left the Executive Board on December 31, 2019.
- Mrs. Leanne Geale was appointed member of the Executive Board on August 1, 2019.
- Other benefits include a car allowance, contribution towards health insurance premiums, long-term service awards and expatriate benefits.
- Performance Share Units granted in 2019 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). The fair value is determined using a valuation model which reflects the probability of overachievement or underachievement 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 grant date, discounted at a risk-free interest rate and adjusted for the dividends that participants are not entitled to receive during the vesting period of three years.
- The values in the table above differ in some respect from the compensation disclosure in Note 18.1 of the Consolidated Financial Statements of the Nestlé Group 2019, which have been prepared in accordance with International Financial Reporting Standards (IFRS). The differences relate to the timing of valuation of Performance Share Units, whose values are spread over three years under IFRS but reported fully at the grant date in this report, and to the valuation of blocked shares, which are not subject to a discount for the blocking period under IFRS.

Payout levels

- The Short-Term Bonus payout for the Executive Board was 116.7% in 2019, based on the achievement of the relevant Group and individual quantitative and qualitative objectives (2018: 113.7%).
- The Performance Share Units granted in 2017 vest in February 2020 with a payout of 189% of the initial PSU award (PSUs granted in 2016 vested in 2019 with a payout of 127%).

Events after the balance sheet date

- Mr. Sanjay Bahadur was appointed member of the Executive Board effective January 1, 2020.

Audited

Highest total compensation for a member of the Executive Board

In 2019, the highest total compensation for a member of the Executive Board was conferred to Ulf Mark Schneider, the CEO. The amounts below are included in the Executive Board compensation disclosed above.

		2019		2018
	Number	Value in CHF	Number	Value in CHF
Annual Base Salary		2 400 000		2 400 000
Short-Term Bonus (cash)		2 105 953		2 037 635
Short-Term Bonus (market value of Nestlé S.A. share) [(a)]	19 486	2 106 047	23 977	2 037 565
Performance Share Units (fair value at grant)	39 899	3 237 405	47 640	2 856 494
Other benefits		3 900		3 250
Total		**9 853 305**		**9 334 944**
% Fixed/Variable		24.4 – 75.6		26.7 – 73.3
Company contribution towards future pension benefits		470 788		432 220
Company contribution to compulsory Swiss social security [(b)]		28 200		28 200
Total including the elements above		10 352 293		9 795 364

(a) 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 (16.038% discount) to market value.
(b) Since the Company contributions to social security are based on full earnings, whereas benefits are capped, only contributions that lead to future benefits are included. The additional cost to the Company taking into account full social security employer contributions is CHF 459 475 in 2019 and CHF 433 467 in 2018.

Explanations

- Performance Share Units granted in 2019 are disclosed at fair value at grant, which corresponds to CHF 81.14.
- Please also refer to the explanations provided on page 45.

Payout levels

- The Short-Term Bonus payout for the CEO was 117% in 2019, based on the achievement of Group quantitative and qualitative objectives (2018: 113.2%).
- The Performance Share Units granted in 2017 vest in February 2020 with a payout of 189% of the initial PSU award (PSUs granted in 2016 vested in 2019 with a payout of 127%).

Shares and stock options held by members of the Executive Board

Shares and stock options ownership of the members of the Executive Board and closely related parties on December 31, 2019

	Number of shares held (a)	Number of options held
Ulf Mark Schneider, Chief Executive Officer	300 957	—
Laurent Freixe	50 333	—
Chris Johnson	110 806	—
Patrice Bula	214 842	—
Marco Settembri	59 700	—
François-Xavier Roger	62 080	—
Magdi Batato	23 791	—
Stefan Palzer	6 186	—
Béatrice Guillaume-Grabisch	11 902	—
Leanne Geale	—	—
Maurizio Patarnello	23 961	—
Grégory Behar	11 924	—
Total as at December 31, 2019	**876 482**	**—**
Total as at December 31, 2018	593 521	80 800

(a) Including shares subject to a three-year blocking period, and further two-year holding period.

Audited

Other audited information regarding the Executive Board

Loans to members of the Executive Board

On December 31, 2019, there were no loans outstanding to any member of the Executive Board.

Additional fees and remuneration of the Executive Board

One member of the Executive Board, in his role of CEO of Nestlé Health Science, also participated in 2019 in the Nestlé Health Science Long-Term Incentive plan, a Phantom Share Unit plan based on the long-term development of that business. He was attributed 5476 Units in 2019, with a share price of CHF 102.27 per Unit (vesting period of three years, value capped at two times the Unit price at grant).

Compensation and loans for former members of the Executive Board

In 2019, three former members of the Executive Board received fees of CHF 500 000, CHF 25 000 and CHF 20 000, respectively.

On December 31, 2019, there were no loans outstanding to former members of the Executive Board.

Compensation or loans to related parties of members of the Executive Board

In 2019, no compensation was paid to related parties of members of the Executive Board, and there were no loans outstanding to related parties.

Sections highlighted with a blue bar are audited by KPMG. They include all elements the Company needs to disclose pursuant to art. 14 to 16 of the Ordinance against excessive compensation in listed companies.

Report of the Statutory Auditor

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

We have audited the accompanying compensation report of Nestlé S.A. for the year ended December 31, 2019. The audit was limited to the information according to articles 14 to 16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies contained in the sections highlighted with a blue bar at left on pages 34 to 48 of the compensation report.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the compensation system and defining individual remuneration packages.

Auditor's Responsibility

Our responsibility is to express an opinion on the accompanying compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14 to 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14 to 16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the compensation report.

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

Opinion

In our opinion, the compensation report for the year ended December 31, 2019 of Nestlé S.A. complies with Swiss law and articles 14 to 16 of the Ordinance.

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

Articles of Association of Nestlé S.A.

Amended by the Annual General Meeting of April 11, 2019

Articles of Association of Nestlé S.A.

Translation*

I. General

Article 1

Corporate name; Registered offices; Duration

1 Nestlé S.A. (Nestlé AG) (Nestlé Ltd.) (hereinafter "Nestlé") is a company limited by shares incorporated and organised in accordance with the Swiss Code of Obligations.
2 The registered offices of Nestlé are in Cham and Vevey, Switzerland.
3 The duration of Nestlé is unlimited.

Article 2

Purpose

1 The purpose of Nestlé is to participate in industrial, service, commercial and financial enterprises in Switzerland and abroad, in particular in the food, nutrition, health, wellness and related industries.
2 Nestlé may itself establish such undertakings or participate in, finance and promote the development of undertakings already in existence.
3 Nestlé may enter into any transaction which the business purpose may entail. Nestlé shall, in pursuing its business purpose, aim for long-term, sustainable value creation.

II. Share Capital

Article 3

Share capital

The share capital of Nestlé is CHF 297 600 000 (two hundred and ninety-seven million six-hundred thousand Swiss francs) divided into 2 976 000 000 fully paid up registered shares with a nominal value of CHF 0.10 each.

Article 3bis

Conditional share capital

1 The share capital of Nestlé may be increased in an amount not to exceed CHF 10 000 000 (ten million Swiss francs) by issuing up to 100 000 000 registered shares with a nominal value of CHF 0.10 each, which shall be fully paid up, through the exercise of conversion rights and/or option rights granted in connection with the issuance by Nestlé or one of its subsidiaries of newly or already issued convertible debentures, debentures with option rights or other financial market instruments.
2 The shareholders have no preferential rights to subscribe for these new shares. The current owners of conversion rights and/or option rights shall be entitled to subscribe for the new shares.
3 The new shares shall be subject, as soon as they are issued following the exercise of conversion and/or option rights, to the restrictions set forth in art. 5.
4 The Board of Directors may limit or withdraw the right of the shareholders to subscribe in priority to convertible debentures, debentures with option rights or similar financial market instruments when they are issued, if:
a) an issue by firm underwriting by a consortium with subsequent offering to the public without preferential subscription rights seems to be the most appropriate form of issue at the time, particularly in terms of the conditions for issue; or
b) the financial market instruments with conversion or option rights are issued in connection with the financing or refinancing of the acquisition of an enterprise or parts of an enterprise or participations or new investments.
5 Any financial market instruments with conversion or option rights which the Board of Directors decides not to offer directly or indirectly for prior subscription to the shareholders shall be subject to the following conditions:
a) Conversion rights may be exercised only for up to 15 years, and option rights only during 7 years from the date of issue of the relevant financial market instruments.
b) The new shares shall be issued according to the applicable conversion or option conditions. The respective financial instruments must be issued at the relevant market conditions.
c) The issue of new shares upon exercise of option or conversion rights shall be made at conditions taking into account the market price of the shares and/or comparable instruments with a market price at the time of issuance of the relevant convertible debenture, debenture with option rights or similar financial market instrument.

Article 4

Share certificates; Intermediated securities

1 Nestlé may issue its registered shares in the form of single certificates, global certificates or uncertificated securities. Under the conditions set forth by statutory law, Nestlé may convert its registered shares from one form into another form at any time and without the approval of the shareholders. Nestlé shall bear the cost of any such conversion.

**This is an unofficial translation. In case of doubt or differences of interpretation, the official French and German versions of the Articles of Association shall prevail over the English text.*

2 If registered shares are issued in the form of single certificates or global certificates, they shall be signed by two members of the Board of Directors. Both signatures may be affixed in facsimile.
3 The shareholder has no right to demand a conversion of the form of the registered shares. Each shareholder may, however, at any time request a written confirmation from Nestlé of the registered shares held by such shareholder, as reflected in the share register.
4 Intermediated securities based on registered shares of Nestlé cannot be transferred by way of assignment. A security interest in any such intermediated securities cannot be granted by way of assignment.

Article 5
Share register
1 Nestlé shall maintain a share register showing the name and address of the holders or usufructuaries. Any change of address must be reported to Nestlé.
2 Only persons entered in the share register as shareholders with voting rights may exercise the voting rights or the other rights related thereto.
3 After the acquisition of shares, upon request of the shareholder to be recognised as such, any acquiring party shall be considered as a shareholder without voting rights, until it is recognised by Nestlé as a shareholder with voting rights. If Nestlé does not refuse the request to recognise the acquiring party within twenty days, the latter shall be deemed to be a shareholder with voting rights.
4 An acquirer of shares shall be recorded in the share register as a shareholder with voting rights provided he expressly declares to have acquired the shares in his own name and for his own account.
5 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. All of the foregoing does not apply in the case of the acquisition of an enterprise, or parts of an enterprise or participations through exchange of shares or in the cases provided in art. 685d par. 3 of the Swiss Code of Obligations.
6 The Board of Directors shall promulgate regulations relating to the registration of fiduciaries or nominees to ensure compliance with these Articles of Association.
7 Legal entities that are linked to one another through capital, voting rights, management or in any other manner, as well as all natural persons or legal entities achieving an understanding or forming a syndicate or otherwise acting in concert to circumvent the regulations concerning the limitation on registration or the nominees, shall be counted as one person or nominee within the meaning of paragraphs 4 and 5 of this article.
8 After hearing the registered shareholder or nominee, the Board of Directors may cancel, with retroactive effect as of the date of registration, the registration of such shareholder or nominee if the registration was effected based on false information. The respective shareholder or nominee shall be informed immediately of the cancellation of the registration.
9 The Board of Directors shall specify the details and promulgate the necessary regulations concerning the application of this art. 5. Such regulations shall specify the cases in which the Board or a corporate body designated by the Board may allow exemptions from the limitation on registration or the regulation concerning nominees.
10 The limitation on registration provided for in this article shall also apply to shares acquired or subscribed by the exercise of subscription, option or conversion rights.

III. Organisation of Nestlé

A. General Meeting

Article 6
Powers of the General Meeting
1 The General Meeting of shareholders is the supreme authority of Nestlé.
2 The following non-transferable powers shall be vested in the General Meeting:
a) to adopt and amend the Articles of Association;
b) to elect and remove the members of the Board of Directors, the Chairman of the Board of Directors and the members of the Compensation Committee;
c) to elect and remove the Auditors;
d) to elect and remove the Independent Representative;
e) to approve the annual report and the consolidated financial statements;
f) to approve the annual financial statements as well as to resolve on the use of the balance sheet profit, in particular, the declaration of dividends;
g) to approve the compensation of the Board of Directors and of the Executive Board pursuant to art. 21bis;

h) to grant discharge to the members of the Board of Directors and the persons entrusted with management; and
i) to take all decisions which by law or under these Articles of Association are within the powers of the General Meeting.

Article 7
Annual General Meeting
The Annual General Meeting shall be held each year within six months of the close of the financial year of Nestlé. The meeting shall be convened by the Board of Directors.

Article 8
Extraordinary General Meeting
1 Extraordinary General Meetings shall be convened by the Board of Directors or, if necessary, by the Auditors, as well as in the other cases foreseen by law.
2 The Board of Directors shall, if so requested by a General Meeting or at the request in writing, specifying the items and proposals to appear on the agenda, of one or more shareholders with voting rights whose combined holdings represent at least one tenth of the share capital as recorded in the commercial register, convene an Extraordinary General Meeting. The Extraordinary General Meeting shall be held as promptly as practicable following such request.

Article 9
Notice of General Meetings; Agenda
1 Annual or Extraordinary General Meetings shall be convened by notice in the "Swiss Official Gazette of Commerce" not less than twenty days before the date fixed for the meeting. Shareholders may in addition be informed by ordinary mail.
2 The notice of a meeting shall state the items on the agenda and the proposals of the Board of Directors and of the shareholders who requested that a General Meeting be convened (art. 8 par. 2) or that items be included in the agenda (art. 9 par. 3).
3 One or more shareholders with voting rights whose combined holdings represent at least 0.15% of the share capital of Nestlé as recorded in the commercial register may request that an item be included in the agenda of a General Meeting. Such a request must be made in writing to the Board of Directors at the latest 45 days before the meeting and shall specify the agenda items and the proposals made.
4 No resolution shall be passed at a General Meeting on matters which do not appear on the agenda except for:
a) a resolution convening an Extraordinary General Meeting; or
b) the setting up of a special audit.

Article 10
Presiding officer; Minutes
1 The Chairman or any member of the Board of Directors shall preside at General Meetings and carry all procedural powers.
2 Minutes of General Meetings shall be kept by the Secretary of the Board of Directors.

Article 11
Voting rights; Representation of shareholders
1 Each share recorded in the share register as share with voting rights confers one vote on its holder.
2 At General Meetings 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. Legal entities that are linked to one another through capital, voting rights, management or in any other manner, as well as all natural persons or legal entities achieving an understanding or forming a syndicate or otherwise acting in concert to circumvent such a limit, shall be counted as one shareholder.
3 The foregoing limit does not apply to shares received and held by a shareholder pursuant to an acquisition of an enterprise, or parts of an enterprise or participations as referred in art. 5 par. 5.
4 In order to permit the exercise of voting rights in respect of shares held by nominees, the Board of Directors may by means of regulations or agreements with nominees depart from the limit foreseen in this article. It may also depart from such a limit within the framework of the regulations referred to in art. 5 par. 6 and par. 9. In addition, this limit shall not apply to the exercise of voting rights by the Independent Representative.
5 Each shareholder recorded in the share register with voting rights may be represented at the General Meeting by the Independent Representative or a third party. The Board of Directors shall determine the requirements regarding participation and representation in the General Meeting.

6 The Independent Representative shall be elected by the General Meeting for a term of office until completion of the next Annual General Meeting. Re-election is possible. If the office of the Independent Representative is vacant, the Board of Directors shall appoint the Independent Representative for the next General Meeting.

Article 12
Quorum and decisions

1 General Meetings shall be duly constituted irrespective of the number of shareholders present or of shares represented.
2 Unless provided otherwise by law or the Articles of Association, shareholders' resolutions and elections shall be decided by an absolute majority of the shares represented.
3 Votes shall be taken either on a show of hands or by electronic voting unless a vote by written ballot is ordered by the Presiding officer of the meeting. The Presiding officer may at any time order to repeat an election or resolution, if he doubts the results of the vote. In this case, the preceding election or resolution is deemed not having taken place.
4 If the first ballot fails to result in an election and more than one candidate is standing for election, the Presiding officer shall order a second ballot in which a relative majority shall be decisive.

Article 13
Special quorum

The approval of at least two thirds of the shares represented and the absolute majority of the nominal value represented at a General Meeting shall be required for resolutions with respect to:

a) a modification of the purpose of Nestlé;
b) the creation of shares with increased voting powers;
c) restrictions on the transfer of registered shares and the change or removal of such restrictions;
d) an authorized or conditional increase in share capital;
e) an increase in share capital through the conversion of capital surplus, through a contribution in kind or for the purpose of an acquisition of assets, or a grant of special benefits upon a capital increase;
f) the restriction or withdrawal of the right to subscribe;
g) a change of the registered offices of Nestlé;
h) the dissolution of Nestlé;
i) restrictions on the exercise of voting rights and the change or removal of such restrictions;
j) the limitation on registration (art. 5 par. 4 to 7) and the limitation on voting rights (art. 11 par. 2, 3 and 4) and the change or removal of such limitations;
k) the change of the corporate name of Nestlé; and
l) other matters as provided by statutory law.

B. Board of Directors

Article 14
Number of Directors

The Board of Directors shall consist of at least seven members.

Article 15
Term of office

1 The Chairman of the Board of Directors and the members of the Board of Directors shall be elected individually by the General Meeting for a term of office until completion of the next Annual General Meeting.
2 Members of the Board of Directors whose term of office has expired shall be immediately eligible for re-election.
3 If the office of the Chairman of the Board of Directors is vacant, the Board of Directors shall appoint a new Chairman from amongst its members for the remaining term of office.

Article 16
Organisation of the Board

1 The Board of Directors shall elect one or two Vice-Chairmen. It shall appoint a Secretary and his substitutes, neither of whom need be members of the Board of Directors.
2 The Board of Directors shall, within the limits of the law and the Articles of Association, define its organisation and the assignment of responsibilities in the Board regulations pursuant to art. 19 par. 2.

Article 17
Powers of the Board in general

The Board of Directors shall conduct all the business of Nestlé to the extent that it is not within the powers of the General Meeting or not delegated pursuant to the Board regulations as set forth in art. 19 par. 2.

Article 18
Specific powers of the Board
The Board of Directors has the following non-transferable and inalienable duties:
a) the ultimate direction of the business of Nestlé, in particular the conduct, management and supervision of the business of Nestlé, and the provision of necessary directions;
b) the determination of the organisation in the Board regulations pursuant to art. 19 par. 2;
c) the determination of accounting and financial control principles;
d) the appointment and removal of the persons entrusted with the management and the granting of signatory powers to persons representing Nestlé;
e) the ultimate supervision of the persons entrusted with the management of Nestlé, ensuring in particular their compliance with the law, the Articles of Association, regulations and instructions given;
f) the preparation of the business report and the compensation report in accordance with the provisions of the law;
g) the preparation of General Meetings and the carrying out of its resolutions;
h) the determination of the manner in which the dividend shall be paid;
i) the opening and closing of branch offices; and
j) the notification of the court in case of overindebtedness.

Article 19
Delegation of powers
1 The Board of Directors may, within the limits of the law and the Articles of Association, appoint from amongst its members standing or ad hoc committees entrusted with the preparation and execution of its decisions or the supervision of specific parts of the business. The Board of Directors shall ensure that it is kept properly informed.
2 Unless otherwise provided by law, the Board of Directors may in accordance with the Board regulations delegate all or part of the management to one or more of its members, to one or more board committees, or to third parties.

C. Compensation Committee
Article 19bis
Number of members; Term of office; Organisation
1 The Compensation Committee consists of at least three independent members of the Board of Directors.
2 The members of the Compensation Committee shall be elected individually by the General Meeting for a term of office until completion of the next Annual General Meeting. Members of the Compensation Committee whose term of office has expired shall be immediately eligible for re-election.
3 If there are vacancies on the Compensation Committee, the Board of Directors shall appoint substitutes from amongst its members for the remaining term of office.
4 The Board of Directors shall elect a Chairman of the Compensation Committee. It shall, within the limits of the law and the Articles of Association, define the organisation of the Compensation Committee in regulations.

Article 19ter
Powers of the Compensation Committee
1 The Compensation Committee supports the Board of Directors in establishing and periodically reviewing Nestlé's compensation strategy and guidelines and performance criteria as well as in preparing the proposals to the General Meeting regarding the compensation of the members of the Board of Directors and of the Executive Board. It may submit proposals and recommendations to the Board of Directors in other compensation-related issues.
2 The Board of Directors promulgates regulations to determine for which positions of the Board of Directors and of the Executive Board the Compensation Committee, together with the Chairman of the Board of Directors or on its own, shall submit proposals for the compensation, and for which positions it shall determine the compensation in accordance with the Articles of Association and the compensation guidelines established by the Board of Directors.
3 The Board of Directors may delegate further tasks and powers to the Compensation Committee.

D. Auditors

Article 20

Number of Auditors; Term of office

The General Meeting shall appoint, for a term of office until completion of the next Annual General Meeting, one or more Auditors of the annual financial statements of Nestlé and the consolidated financial statements of the Group, which shall be independent from Nestlé and meet the special professional standards required by law. The Auditors of Nestlé may be re-elected.

Article 21

Rights and duties of Auditors

The Auditors shall verify the annual financial statements of Nestlé and the consolidated financial statements of the Group and perform such other tasks as defined by law. The Auditors shall submit their reports to the General Meeting. Their rights and duties shall be as set out in the applicable Swiss laws.

III^{bis}. Compensation of the Board of Directors and of the Executive Board

Article 21bis

Approval of compensation by General Meeting

1 The General Meeting shall approve annually and separately the proposals of the Board of Directors in relation to the maximum aggregate amount of:

a) compensation of the Board of Directors for the period until the next Annual General Meeting;

b) compensation of the Executive Board for the following financial year.

The Board of Directors may submit for approval by the General Meeting deviating or additional proposals relating to the same or different periods.

2 In the event the General Meeting has not approved a proposal of the Board of Directors, the Board of Directors shall determine the respective maximum aggregate amount or maximum partial amounts of compensation, provided that:

a) the Board of Directors takes into account:

(i) the proposed maximum aggregate amount of compensation;

(ii) the decision of the General Meeting and, to the extent known to the Board of Directors, the main reasons for the negative vote; and

(iii) Nestlé's compensation principles; and

b) the Board of Directors submits the amount(s) so determined to approval by the same General Meeting, a subsequent Extraordinary General Meeting or the next Annual General Meeting.

3 Notwithstanding the preceding paragraph, Nestlé or companies controlled by it may pay out compensation prior to approval by the General Meeting subject to subsequent approval by a General Meeting.

4 The Board of Directors shall submit the annual compensation report to an advisory vote of the General Meeting.

Article 21ter
Supplementary amount for changes on the Executive Board
If the maximum aggregate amount of compensation already approved by the General Meeting is not sufficient to also cover compensation of one or more members who become members of or are being promoted within the Executive Board during a compensation period for which the General Meeting has already approved the compensation of the Executive Board, Nestlé or companies controlled by it shall be authorized to pay to such member(s) a supplementary amount during the compensation period(s) already approved. The total supplementary amount shall not exceed 40% of the aggregate amount of compensation of the Executive Board last approved by the General Meeting per compensation period.

Article 21quater
General compensation principles
1 Compensation of the non-executive members of the Board of Directors comprises fixed compensation elements only.
2 Compensation of the members of the Executive Board comprises fixed and variable compensation elements. Fixed compensation comprises the base salary and may comprise other compensation elements and benefits. Variable compensation may comprise short-term and long-term compensation elements, and shall be subject to caps expressed as predetermined multipliers of the respective target levels.
3 Short-term compensation elements are governed by performance metrics that take into account the performance of Nestlé and/or parts thereof, targets in relation to the market, to other companies or to comparable benchmarks and/or individual targets, and achievement of which is generally measured based on a one-year period. The annual target level of the short-term compensation elements is determined as a percentage of the base salary; depending on achieved performance, the compensation may amount up to a pre-determined multiplier of target level.
4 Long-term compensation elements are governed by performance metrics that take into account strategic objectives of Nestlé, and achievement of which is generally measured based on a multiannual period. The annual target level of the long-term compensation elements is determined as a percentage of the base salary; depending on achieved performance, the compensation may amount up to a pre-determined multiplier of target level. Vesting periods, as determined by the Board of Directors or, to the extent delegated to it, the Compensation Committee, shall be at least three years.
5 The Board of Directors or, to the extent delegated to it, the Compensation Committee determines performance metrics and target levels, and their achievement.
6 Compensation may be paid or granted in the form of cash, shares, other benefits or in kind; compensation to members of the Executive Board may also be paid or granted in the form of financial instruments or similar units. The Board of Directors or, to the extent delegated to it, the Compensation Committee determines grant, vesting, blocking, exercise and forfeiture conditions; they may provide for continuation, acceleration or removal of vesting and exercise conditions, for payment or grant of compensation assuming target achievement or for forfeiture in the event of predetermined events such as a termination of an employment or mandate agreement.
7 Compensation may be paid by Nestlé or companies controlled by it.
8 The Board of Directors values compensation according to the principles that apply to the compensation report.

III^{ter}. Contracts with members of the Board of Directors and of the Executive Board

Article 21^{quinquies}

Basic principles

1 Nestlé or companies controlled by it may enter into agreements with members of the Board of Directors relating to their compensation for a fixed term or for an indefinite term; term and notice period may not exceed one year.

2 Nestlé or companies controlled by it may enter into contracts of employment with members of the Executive Board for a definite period of time not to exceed one year or for an indefinite period of time with a notice period not to exceed 12 months.

3 Contracts of employment with members of the Executive Board may contain a prohibition of competition for the time after the end of employment for a duration of up to 2 years. The annual consideration for such prohibition shall not exceed 50% of the total annual compensation last paid to such member of the Executive Board.

III^{quater}. Mandates outside Nestlé; Loans

Article 21^{sexies}

Mandates outside Nestlé

1 No member of the Board of Directors may hold more than 4 additional mandates in listed companies and 5 additional mandates in non-listed companies.

2 No member of the Executive Board may hold more than 2 additional mandates in listed companies and 4 additional mandates in non-listed companies. Each of these mandates shall be subject to approval by the Board of Directors.

3 The following mandates are not subject to these limitations:

a) mandates in companies which are controlled by Nestlé;

b) mandates which a member of the Board of Directors or of the Executive Board holds at the request of Nestlé or companies controlled by it. No Member of the Board of Directors or of the Executive Board shall hold more than 10 such mandates; and

c) mandates in associations, charitable organizations, foundations, trusts and employee welfare foundations. No Member of the Board of Directors or of the Executive Board shall hold more than 10 such mandates.

4 Mandates shall mean mandates in the supreme governing body of a legal entity which is required to be registered in the commercial register or a comparable foreign register. Mandates in different legal entities which are under joint control are deemed one mandate.

5 The Board of Directors shall promulgate regulations that, taking into account the position of the respective member, determine additional restrictions.

Article 21^{septies}

Loans

Loans to a member of the Board of Directors or the Executive Board may only be granted at market conditions and may, at the time of grant, not exceed the respective member's most recent total annual compensation.

IV. Business report and appropriation of profit resulting from the balance sheet

Article 22

Financial year

The financial year shall commence on 1 January and shall end on 31 December.

Article 23

Business report

For every financial year the Board of Directors shall prepare a business report consisting of the annual financial statements of Nestlé, of the annual report and the consolidated financial statements.

Article 24

Appropriation of profit resulting from the balance sheet

The profit shall be allocated by the General Meeting within the limits set by applicable law. The Board of Directors shall submit its proposals to the General Meeting.

V. Announcements, Communications

Article 25

Notices

All notices and communications to be made by Nestlé shall be considered duly made if published in the "Swiss Official Gazette of Commerce", unless the law provides otherwise.

Articles of Association amended by the Annual General Meeting of April 11, 2019

Financial Statements 2019

Consolidated Financial Statements of the Nestlé Group 2019

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 Reais	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
Sales	3	**92 568**	**91 439**
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)
Trading operating profit	3	**13 674**	**13 789**
Other operating income	4	3 717	2 535
Other operating expenses	4	(1 313)	(2 572)
Operating profit		**16 078**	**13 752**
Financial income	5	200	247
Financial expense	5	(1 216)	(1 008)
Profit before taxes, associates and joint ventures		**15 062**	**12 991**
Taxes	13	(3 159)	(3 439)
Income from associates and joint ventures	14	1 001	916
Profit for the year		**12 904**	**10 468**
of which attributable to non-controlling interests		295	333
of which attributable to shareholders of the parent (Net profit)		12 609	10 135
As percentages of sales			
Trading operating profit		14.8%	15.1%
Profit for the year attributable to shareholders of the parent (Net profit)		13.6%	11.1%
Earnings per share (in CHF)			
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
Profit for the year recognized in the income statement		**12 904**	**10 468**
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
Other comprehensive income for the year	17	**(1 054)**	**(297)**
Total comprehensive income for the year		**11 850**	**10 171**
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
Assets			
Current assets			
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
Total current assets		**35 663**	**41 003**
Non-current assets			
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
Total non-current assets		**92 277**	**96 012**
Total assets		**127 940**	**137 015**

In millions of CHF

	Notes	2019	2018
Liabilities and equity			
Current liabilities			
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	2	393	2 502
Total current liabilities		**41 615**	**43 030**
Non-current liabilities			
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
Total non-current liabilities		**33 463**	**35 582**
Total liabilities		**75 078**	**78 612**
Equity	17		
Share capital		298	306
Treasury shares		(9 752)	(6 948)
Translation reserve		(21 526)	(20 432)
Other reserves		(45)	(183)
Retained earnings		83 060	84 620
Total equity attributable to shareholders of the parent		**52 035**	**57 363**
Non-controlling interests		827	1 040
Total equity		**52 862**	**58 403**
Total liabilities and equity		**127 940**	**137 015**

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

In millions of CHF

	Notes	2019	2018
Operating activities			
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
Cash flow before changes in operating assets and liabilities		**18 683**	**18 375**
Decrease/(increase) in working capital	16	349	472
Variation of other operating assets and liabilities	16	(94)	(37)
Cash generated from operations		**18 938**	**18 810**
Interest paid		(1 028)	(684)
Interest and dividend received		162	192
Taxes paid		(2 854)	(3 623)
Dividends and interest from associates and joint ventures	14	632	703
Operating cash flow		**15 850**	**15 398**
Investing activities			
Capital expenditure	8	(3 695)	(3 869)
Expenditure on intangible assets	9	(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)
Investing cash flow		**8 356**	**(14 266)**
Financing activities			
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
Financing cash flow		**(21 156)**	**(4 117)**
Currency retranslations		(221)	(313)
Increase/(decrease) in cash and cash equivalents		**2 829**	**(3 298)**
Cash and cash equivalents at beginning of year		4 640	7 938
Cash and cash equivalents at end of year	16	**7 469**	**4 640**

(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**
Equity as at January 1, 2018	**311**	**(4 537)**	**(19 612)**	**(181)**	**84 962**	**60 943**	**1 271**	**62 214**
Profit for the year	—	—	—	—	10 135	**10 135**	333	**10 468**
Other comprehensive income for the year	—	—	(893)	(12)	723	**(182)**	(115)	**(297)**
Total comprehensive income for the year	—	—	(893)	(12)	10 858	**9 953**	218	**10 171**
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 [(a)]	(5)	4 113	—	—	(4 108)	**—**	—	**—**
Total transactions with owners	(5)	(2 411)	—	—	(11 103)	**(13 519)**	(449)	**(13 968)**
Other movements	—	—	73	10	(97)	**(14)**	—	**(14)**
Equity as at December 31, 2018	**306**	**(6 948)**	**(20 432)**	**(183)**	**84 620**	**57 363**	**1 040**	**58 403**
Equity as at January 1, 2019	**306**	**(6 948)**	**(20 432)**	**(183)**	**84 620**	**57 363**	**1 040**	**58 403**
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)**
Total comprehensive income for the year	—	—	(1 094)	(7)	12 634	**11 533**	317	**11 850**
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 [(a)]	(8)	6 862	—	—	(6 854)	**—**	—	**—**
Total transactions with owners	(8)	(2 804)	—	—	(14 047)	**(16 859)**	(532)	**(17 391)**
Other movements	—	—	—	145	(147)	**(2)**	2	**—**
Equity as at December 31, 2019	**298**	**(9 752)**	**(21 526)**	**(45)**	**83 060**	**52 035**	**827**	**52 862**

(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.

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.

2.2 Acquisitions of businesses

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

In millions of CHF

	2019				2018
	Total	Starbucks Alliance	Atrium Innovations	Other	**Total**
Property, plant and equipment	**131**	4	58	62	**124**
Intangible assets [(a)]	**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)**
Fair value of identifiable net assets/(liabilities)	**(8)**	**4 974**	**1 184**	**113**	**6 271**

(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
	Total	Starbucks Alliance	Atrium Innovations	Other	**Total**
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)**
Goodwill	**110**	**2 094**	**1 032**	**234**	**3 360**

In millions of CHF

	2019				2018
	Total	Starbucks Alliance	Atrium Innovations	Other	**Total**
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**	—	—	—	**—**
Cash outflow on acquisitions	**125**	**7 068**	**2 146**	**298**	**9 512**

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

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.

2.3 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)**	—	—	—	**—**
Net assets disposed of or impaired after classification as held for sale	**6 453**	**228**	**6 681**	**2 640**	**328**	**351**	**3 319**
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**
Total disposal consideration, net of disposal costs	**10 037**	**192**	**10 229**	**1 523**	**2 606**	**139**	**4 268**
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**
Cash inflow on disposals, net of disposal costs	**9 774**	**185**	**9 959**	**1 523**	**2 658**	**129**	**4 310**

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 [a)]) 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.

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**
Assets held for sale	**2 310**	**461**	**2 771**	**8 590**	**238**	**8 828**
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)**
Liabilities directly associated with assets held for sale	**(132)**	**(261)**	**(393)**	**(2 408)**	**(94)**	**(2 502)**
Net assets held for sale	**2 178**	**200**	**2 378**	**6 182**	**144**	**6 326**

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.

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.

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.

3.1 Operating segments
Revenue and results

In millions of CHF

	Sales (a)	Underlying Trading operating profit (b)	Trading operating profit	Net other trading income/(expenses) (c)	of which impairment of property, plant and equipment	of which restructuring costs	Depreciation and amortization
							2019
Zone EMENA	18 834	3 567	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 (d)	11 157	2 089	2 026	(63)	7	(18)	(527)
Unallocated items (e)	—	(2 224)	(2 303)	(79)	(16)	(20)	(203)
Total	**92 568**	**16 260**	**13 674**	**(2 586)**	**(783)**	**(553)**	**(3 713)**

In millions of CHF

	Sales (a)	Underlying Trading operating profit (b)	Trading operating profit	Net other trading income/(expenses) (c)	of which impairment of property, plant and equipment	of which restructuring costs	Depreciation and amortization
							2018 *
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 (d)	12 323	2 036	1 794	(242)	(59)	(14)	(716)
Unallocated items (e)	—	(2 255)	(2 429)	(174)	(14)	(79)	(200)
Total	**91 439**	**15 521**	**13 789**	**(1 732)**	**(500)**	**(651)**	**(3 924)**

* 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.

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
Total	**28 284**	**48 390**	**(779)**	**(774)**	**5 482**

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
Total	**29 423**	**57 138**	**(626)**	**(122)**	**14 711**

(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.

3.2 Products

Revenue and results

In millions of CHF

	Sales	Underlying Trading operating profit (a)	Trading operating profit	Net other trading income/(expenses) (b)	of which impairment of property, plant and equipment	of which restructuring costs
						2019
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 (c)	—	(2 224)	(2 303)	(79)	(16)	(20)
Total	**92 568**	**16 260**	**13 674**	**(2 586)**	**(783)**	**(553)**

In millions of CHF

	Sales	Underlying Trading operating profit (a)	Trading operating profit	Net other trading income/(expenses) (b)	of which impairment of property, plant and equipment	of which restructuring costs
						2018 *
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 (c)	—	(2 255)	(2 429)	(174)	(14)	(79)
Total	**91 439**	**15 521**	**13 789**	**(1 732)**	**(500)**	**(651)**

* 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.

Invested capital and other information

In millions of CHF

	Invested capital	Goodwill and intangible assets	Impairment of goodwill and non-commercialized intangible assets (b)	Impairment of intangible assets (c)
				2019
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)
Total	**30 179**	**55 346**	**(779)**	**(774)**

In millions of CHF

	Invested capital	Goodwill and intangible assets	Impairment of goodwill and non-commercialized intangible assets (b)	Impairment of intangible assets (c)
				2018
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)
Total	**32 274**	**53 656**	**(626)**	**(122)**

(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.

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

In millions of CHF

	2019	2018
Underlying Trading operating profit (a)	**16 260**	**15 521**
Net other trading income/(expenses)	(2 586)	(1 732)
Trading operating profit	**13 674**	**13 789**
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
Operating profit	**16 078**	**13 752**
Net financial income/(expense)	(1 016)	(761)
Profit before taxes, associates and joint ventures	**15 062**	**12 991**

(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
Subtotal	51 648	53 653
Intangible assets and goodwill as per Note 3.1 (a)	48 390	57 138
Other assets	27 902	26 224
Total assets	**127 940**	**137 015**

(a) Including Intangible assets and goodwill classified as assets held for sale of CHF 1670 million (2018: CHF 6802 million), see Note 2.4.

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
EMENA	**26 499**	**26 890**
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
AMS	**42 281**	**41 063**
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
AOA	**23 788**	**23 486**
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
Total sales	**92 568**	**91 439**
of which developed markets	53 732	53 040
of which emerging markets	38 836	38 399

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
Total	**92 568**	**75 482**	**91 439**	**80 292**

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

(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.

4.2 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
Other operating income		**3 717**	**2 535**
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)
Other operating expenses		**(1 313)**	**(2 572)**
Total net other operating income/(expenses)		**2 404**	**(37)**

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)
Net financing cost of net financial debt		**(865)**	**(608)**
Interest income on defined benefit plans		39	35
Interest expense on defined benefit plans		(188)	(186)
Net interest income/(expense) on defined benefit plans	10	**(149)**	**(151)**
Other		(2)	(2)
Net financial income/(expense)		**(1 016)**	**(761)**

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)
	9 343	**9 125**

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.

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**
Total	**12 076**	**(310)**	**11 766**	**11 478**	**(311)**	**11 167**

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
	18 803	**17 800**

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	8.1	25 552	26 837
Right-of-use assets – leased	8.2b	3 210	3 119
		28 762	**29 956**

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.

In millions of CHF

	Land and buildings	Machinery and equipment	Tools, furniture and other equipment	Vehicles	**Total**
Net carrying amount					
At January 1, 2019	11 469	12 959	2 248	161	**26 837**
Capital expenditure [(a)]	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 [(b)]	(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)**
At December 31, 2019	**10 895**	**12 427**	**2 091**	**139**	**25 552**
Gross value	17 395	30 904	7 352	427	**56 078**
Accumulated depreciation and impairments	(6 500)	(18 477)	(5 261)	(288)	**(30 526)**
Net carrying amount					
At January 1, 2018	11 717	13 461	2 292	196	**27 666**
Capital expenditure [(a)]	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)**
At December 31, 2018	**11 469**	**12 959**	**2 248**	**161**	**26 837**
Gross value	17 747	31 293	8 069	560	**57 669**
Accumulated depreciation and impairments	(6 278)	(18 334)	(5 821)	(399)	**(30 832)**

(a) Including borrowing costs.
(b) 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).

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.

8.2a 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**
Net carrying amount				
At January 1, 2019	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)**
At December 31, 2019	**2 727**	**291**	**192**	**3 210**
Net carrying amount				
At January 1, 2018	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**
At December 31, 2018	**2 523**	**428**	**168**	**3 119**

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.

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.

In millions of CHF

	Goodwill	Brands and intellectual property rights	Operating rights and others	Management information systems	Total intangible assets	of which internally generated
Net carrying amount						
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 [(a)]	(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
At December 31, 2019	**28 896**	**11 306**	**5 328**	**1 190**	**17 824**	**1 080**
of which indefinite useful life [(b)]	—	11 276	4 690	—	15 966	—
of which non-commercialized intangible assets	—	25	187	—	212	—
At December 31, 2019						
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)
Net carrying amount						
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)	(165)	(320)	(122)
Impairments [(c)]	(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)
At December 31, 2018	**31 702**	**12 195**	**5 349**	**1 090**	**18 634**	**913**
of which indefinite useful life [(b)]	—	12 172	4 700	—	16 872	—
of which non-commercialized intangible assets	—	18	190	—	208	—
At December 31, 2018						
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 Yinlu cash generating unit (see Note 4.1 and 9.1.1).
(b) Of which CHF 4651 million (2018: CHF 4660 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.

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**
Total	**—**	**755**	**755**	**55**	**890**	**945**
of which related parties	—	487	**487**	—	635	**635**

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.

9.1 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.

9.1.2 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
2019						
Goodwill CGU						
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%
Subtotal	13 635					
Other CGUs	15 261					
Total Goodwill	**28 896**					
Intangible assets with indefinite useful life CGU						
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%
Subtotal	9 844					
Other CGUs	6 122					
Total Intangible assets with indefinite useful life	**15 966**					
2018						
Goodwill CGU						
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 (a)	2 509	5 years	0% to 1%	Improvement	1.7%	8.4%
Subtotal	16 360					
Other CGUs	15 342					
Total Goodwill	**31 702**					
Intangible assets with indefinite useful life CGU						
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%
Subtotal	9 998					
Other CGUs	6 874					
Total Intangible assets with indefinite useful life	**16 872**					

(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.

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.

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 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**
Net defined benefit liabilities/(assets)	**2 480**	**2 112**	**4 592**	**2 505**	**1 899**	**4 404**
Other employee benefit liabilities			**1 049**			**1 028**
Net liabilities			**5 641**			**5 432**
Reflected in the balance sheet as follows:						
Employee benefit assets			**(510)**			**(487)**
Employee benefit liabilities			**6 151**			**5 919**
Net liabilities			**5 641**			**5 432**

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	**26 242**	18 201	4 703	1 518	**24 422**
Fair value of plan assets	(18 024)	(5 356)	(1 150)	**(24 530)**	(16 361)	(4 968)	(1 329)	**(22 658)**
Excess of liabilities/(assets) over funded obligations	1 875	(265)	102	**1 712**	1 840	(265)	189	**1 764**
Present value of unfunded obligations	376	2 099	375	**2 850**	377	1 920	314	**2 611**

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**
At January 1	25 101	1 932	**27 033**	28 209	2 080	**30 289**
of which funded defined benefit plans	24 364	58	**24 422**	27 347	62	**27 409**
of which unfunded defined benefit plans	737	1 874	**2 611**	862	2 018	**2 880**
Currency retranslations	(185)	(73)	**(258)**	(572)	(103)	**(675)**
Service cost	534	26	**560**	680	30	**710**
of which current service cost	631	50	**681**	735	53	**788**
of which past service cost and (gains)/losses arising from settlements	(97)	(24)	**(121)**	(55)	(23)	**(78)**
Interest expense	622	104	**726**	595	99	**694**
Actuarial (gains)/losses	2 778	316	**3 094**	(1 872)	26	**(1 846)**
Benefits paid on funded defined benefit plans	(1 424)	(10)	**(1 434)**	(1 432)	(7)	**(1 439)**
Benefits paid on unfunded defined benefit plans	(63)	(136)	**(199)**	(58)	(162)	**(220)**
Modification of the scope of consolidation	(10)	(4)	**(14)**	(3)	(1)	**(4)**
Classification to/(from) held for sale	(75)	(8)	**(83)**	(211)	(30)	**(241)**
Transfer from/(to) defined contribution plans	(330)	(3)	**(333)**	(235)	—	**(235)**
At December 31	**26 948**	**2 144**	**29 092**	**25 101**	**1 932**	**27 033**
of which funded defined benefit plans	26 176	66	**26 242**	24 364	58	**24 422**
of which unfunded defined benefit plans	772	2 078	**2 850**	737	1 874	**2 611**

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**
At January 1	(22 625)	(33)	**(22 658)**	(24 656)	(35)	**(24 691)**
Currency retranslations	127	—	**127**	503	2	**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**
At December 31	**(24 498)**	**(32)**	**(24 530)**	**(22 625)**	**(33)**	**(22 658)**

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

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**
Defined benefit expenses	**478**	**129**	**607**	**630**	**128**	**758**
Defined contribution expenses			**330**			**330**
Total			**937**			**1 088**

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)**
Remeasurement of defined benefit plans	**(144)**	**(314)**	**(458)**	**726**	**(26)**	**700**

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

		2019	2018	2019	2018
Country	Mortality table	Life expectancy at age 65 for a male member currently aged 65		Life expectancy at age 65 for a female member currently aged 65	
EMENA					
Switzerland	LPP 2015	21.6	21.6	23.2	23.1
United Kingdom	S2NA	21.2	21.8	23.4	23.1
Germany	Heubeck Richttafeln 2005	20.6	20.6	24.1	24.1
AMS					
USA	Pri-2012	20.7	20.9	22.7	23.0

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

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	**15.0**	14.8	12.1	12.2	**14.0**

11. Provisions and contingencies

Provisions
Provisions comprise liabilities of uncertain timing or amount that arise from restructuring plans, environmental, litigation and other risks. Provisions are 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**
At January 1, 2019	835	29	573	376	**1 813**
Currency retranslations	(17)	(1)	(24)	(7)	**(49)**
Provisions made during the year [(a)]	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**
At December 31, 2019	**816**	**30**	**696**	**422**	**1 964**
of which expected to be settled within 12 months					**802**
At January 1, 2018	929	25	544	468	**1 966**
Currency retranslations	(19)	1	(53)	(6)	**(77)**
Provisions made during the year [(a)]	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)**
At December 31, 2018	**835**	**29**	**573**	**376**	**1 813**
of which expected to be settled within 12 months					**780**

(a) Including discounting of provisions.

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.

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.

12.1 Financial assets and liabilities
12.1a By class and by category

In millions of CHF

				2019				2018
Classes	At amortized cost [(a)]	At fair value to income statement	At fair value to Other comprehensive income	**Total categories**	At amortized cost [(a)]	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	104	1 070	2	**1 176**	128	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**
Liquid assets [(b)] and non-current financial assets	10 540	2 261	73	**12 874**	9 487	3 328	53	**12 868**
Trade and other receivables	11 766	—	—	**11 766**	11 167	—	—	**11 167**
Derivative assets [(c)]	—	254	—	**254**	—	183	—	**183**
Total financial assets	**22 306**	**2 515**	**73**	**24 894**	**20 654**	**3 511**	**53**	**24 218**
Trade and other payables	(19 232)	—	—	**(19 232)**	(18 190)	—	—	**(18 190)**
Financial debt	(37 164)	—	—	**(37 164)**	(40 394)	—	—	**(40 394)**
Derivative liabilities [(c)]	—	(420)	—	**(420)**	—	(448)	—	**(448)**
Total financial liabilities	**(56 396)**	**(420)**	**—**	**(56 816)**	**(58 584)**	**(448)**	**—**	**(59 032)**
Net financial position	**(34 090)**	**2 095**	**73**	**(31 922)**	**(37 930)**	**3 063**	**53**	**(34 814)**
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 12.1d.
(b) Liquid assets are composed of cash and cash equivalents and short-term investments.
(c) Include derivatives held in hedge relationships and those that are undesignated (categorized as held-for-trading), see Note 12.2d.

12.1b Fair value hierarchy of financial instruments

The Group classifies the fair value of its financial instruments in the following hierarchy, based on the inputs used in their valuation:
- 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)
Prices quoted in active markets (Level 1)	**900**	**1 866**
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)
Valuation techniques based on observable market data (Level 2)	**1 177**	**1 085**
Valuation techniques based on unobservable input (Level 3)	**91**	**165**
Total financial instruments at fair value	**2 168**	**3 116**

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

12.1c Changes in liabilities arising from financing activities

In millions of CHF	2019	2018
At January 1	(40 630)	(29 962)
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
At December 31	**(37 401)**	**(40 630)**
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)

12.1d 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
Subtotal							16 486	18 093

In millions of CHF

Issuer		Face value in millions	Coupon	Effective interest rate	Year of issue/ maturity	Comments	2019	2018
Subtotal from previous page							16 486	18 093
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
Other bonds							242	249
Total carrying amount (*)							**22 505**	**24 869**
of which due within one year							2 210	1 943
of which due after one year							20 295	22 926
Fair value (*) of bonds, based on prices quoted (level 2)							23 941	25 119

(*) 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.

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 [(a)]	977	1 163
	13 128	**13 051**

(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.

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
2019	**Trade and other payables**	**(18 803)**	**(154)**	**(248)**	**(32)**	**(19 237)**	**(19 232)**
	Commercial paper (a)	(8 072)	—	—	—	(8 072)	(8 053)
	Bonds (a)	(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)
	Total financial debt	**(14 674)**	**(5 047)**	**(8 473)**	**(14 612)**	**(42 806)**	**(37 164)**
	Financial liabilities (excluding derivatives)	**(33 477)**	**(5 201)**	**(8 721)**	**(14 644)**	**(62 043)**	**(56 396)**
	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)
	Net derivatives	**(180)**	**(43)**	**(103)**	**(113)**	**(439)**	**(166)**
	of which derivatives under cash flow hedges (b)	58	(5)	—	—	53	53
2018	**Trade and other payables**	**(17 800)**	**(58)**	**(303)**	**(29)**	**(18 190)**	**(18 190)**
	Commercial paper (a)	(9 193)	—	—	—	(9 193)	(9 165)
	Bonds (a)	(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)
	Total financial debt	**(15 504)**	**(3 517)**	**(12 325)**	**(15 410)**	**(46 756)**	**(40 394)**
	Financial liabilities (excluding derivatives)	**(33 304)**	**(3 575)**	**(12 628)**	**(15 439)**	**(64 946)**	**(58 584)**
	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)
	Net derivatives	**(91)**	**(290)**	**(135)**	**(146)**	**(662)**	**(265)**
	of which derivatives under cash flow hedges (b)	(39)	(6)	(2)	—	(47)	(46)

(a) Commercial paper of CHF 7102 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.

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.

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
Fair value hedges [a]						
Foreign currency and interest rate risk on net financial debt	8 045	57	278	9 435	56	273
Cash flow hedges						
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	872	—	15	1 380	—	17
Designated in a hedging relationship	18 724	239	407	20 143	178	441
Undesignated derivatives		15	13		5	7
		254	**420**		**183**	**448**
Conditional offsets [b]						
Derivative assets and liabilities		(35)	(35)		(34)	(34)
Use of cash collateral received or deposited		(33)	(122)		(21)	(124)
Balances after conditional offsets		186	263		128	290

(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.

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.

13.1 Taxes recognized in the income statement

In millions of CHF

	2019	2018
Components of taxes		
Current taxes [a]	(3 084)	(4 003)
Deferred taxes	35	545
Taxes reclassified to other comprehensive income	(134)	22
Taxes reclassified to equity	24	(3)
Total taxes	**(3 159)**	**(3 439)**
Reconciliation of taxes		
Expected tax expense at weighted average applicable tax rate	(2 726)	(2 925)
Tax effect of non-deductible or non-taxable items [b]	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)
Total taxes	**(3 159)**	**(3 439)**

(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.

13.2 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**
At December 31, 2019	**(1 400)**	**(2 074)**	**1 458**	**1 219**	**322**	**(475)**
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	—	678	(19)	(110)	(141)	**408**
Modification of the scope of consolidation	(2)	(169)	—	10	8	**(153)**
Other movements	(22)	—	—	6	—	**(16)**
At December 31, 2018	**(1 362)**	**(1 951)**	**1 372**	**901**	**316**	**(724)**

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)
Net assets/(liabilities)	**(475)**	**(724)**

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
	2 736	**2 833**

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

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).

Income from associates and joint ventures

In millions of CHF	2019	2018
Share of results	1 005	919
Loss on disposals	(4)	(3)
	1 001	**916**

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
Total assets	**47.6**	**43.3**
Total current liabilities	11.8	11.4
Total non-current liabilities	3.8	1.6
Total liabilities	**15.6**	**13.0**
Total equity	**32.0**	**30.3**
Total sales	**33.2**	**31.1**
Profit from continuing operations	4.2	4.5
Profit from discontinued operations	–	–
Other comprehensive income	1.7	0.5
Total comprehensive income	**5.9**	**5.0**

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
Carrying amount of L'Oréal	**8.8**	**8.5**

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
	16 078	**13 752**

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)
	2 605	**4 623**

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	1 661	1 043
Accruals and deferred income	475	294
	349	**472**

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
	(94)	**(37)**

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)
Free cash flow	**11 934**	**10 765**
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
(Increase)/decrease of net financial debt	**3 192**	**(8 961)**
Net financial debt at beginning of year	(30 330)	(21 369)
Net financial debt at end of year	**(27 138)**	**(30 330)**
of which		
Current financial debt	(14 032)	(14 694)
Non-current financial debt	(23 132)	(25 700)
Cash and cash equivalents	7 469	4 500
Short-term investments	2 794	5 801
Derivatives [(a)]	(237)	(237)

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

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
Cash and cash equivalents as per balance sheet	**7 469**	**4 500**
Cash and cash equivalents classified as held for sale	—	140
Cash and cash equivalents as per cash flow statement	**7 469**	**4 640**

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.

17.3 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
	96.0	**88.5**

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**
At January 1, 2019	3 063.0	(88.5)	**2 974.5**
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	**—**
At December 31, 2019	**2 976.0**	**(96.0)**	**2 880.0**
At January 1, 2018	3 112.2	(54.6)	**3 057.6**
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	**—**
At December 31, 2018	**3 063.0**	**(88.5)**	**2 974.5**

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.

17.6 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

2019

	Translation reserve	Fair value reserves	Hedging reserves	Reserves of associates and joint ventures	Retained earnings	**Total equity attributable to shareholders of the parent**	Non-controlling interests	**Total equity**
Currency retranslations								
– 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**
Other comprehensive income for the year	**(1 094)**	**—**	**(59)**	**52**	**25**	**(1 076)**	**22**	**(1 054)**

In millions of CHF

2018

	Translation reserve	Fair value reserves	Hedging reserves	Reserves of associates and joint ventures	Retained earnings	**Total equity attributable to shareholders of the parent**	Non-controlling interests	**Total equity**
Currency retranslations								
– 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**
Other comprehensive income for the year	**(893)**	**(40)**	**46**	**(18)**	**723**	**(182)**	**(115)**	**(297)**

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**
At December 31, 2019	**—**	**69**	**(114)**	**(45)**
At January 1, 2018	40	(73)	(148)	**(181)**
Other comprehensive income for the year	(40)	46	(18)	**(12)**
Other movements	—	10	—	**10**
At December 31, 2018	**—**	**(17)**	**(166)**	**(183)**

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
Total (a)	**9**	**9**

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

Executive Board

The total annual remuneration of the members of the Executive Board comprises a salary, a bonus (based on the 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 [(a)]	11	15
Pension	2	4
Total [(b)]	**42**	**50**

(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.

KPMG

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

Financial information – 5 year review

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

	2019		2018
Results			
Sales	92 568		91 439
Underlying Trading operating profit (a)	16 260		15 521
as % of sales	17.6%		17.0%
Trading operating profit (a)	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	(c)	7 230
Depreciation of property, plant and equipment (d)	3 488		3 604
Balance sheet and Cash flow statement			
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 (a)	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 (a)	11 934		10 765
Capital additions (d)	5 482		14 711
as % of sales	5.9%		16.1%
Data per share			
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 (a)	4.41		4.02
Dividend	2.70	(c)	2.45
Pay-out ratio based on basic earnings per share	62.8%	(c)	72.9%
Stock prices (high)	113.20		86.50
Stock prices (low)	79.86		72.92
Yield (b)	2.4/3.4	(c)	2.8/3.4
Market capitalization	**301 772**		**237 363**
Number of employees (in thousands)	**291**		**308**

(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.

2017	2016	2015	
			Results
89 590	89 469	88 785	Sales
14 771	14 307	14 032	Underlying Trading operating profit [(a)]
16.5%	16.0%	15.8%	as % of sales
13 277	13 693	13 382	Trading operating profit [(a)]
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 [(d)]
			Balance sheet and Cash flow statement
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 [(a)]
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 [(a)]
6 569	5 462	4 883	Capital additions [(d)]
7.3%	6.1%	5.5%	as % of sales
			Data per share
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 [(a)]
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 [(b)]
256 223	**226 310**	**229 947**	**Market capitalization**
323	**328**	**335**	**Number of employees (in thousands)**

Companies of the Nestlé Group, joint arrangements and associates

In the context of the SIX Swiss Exchange Directive on Information relating to Corporate Governance, the disclosure criteria of the principal affiliated companies are as follows:
- operating companies are disclosed if their sales exceed CHF 10 million or equivalent;
- financial companies are disclosed if either their equity exceeds CHF 10 million or equivalent and/or the total balance sheet is higher than CHF 50 million or equivalent.
- joint ventures and associates are disclosed if the share held by the Group in their profit exceeds CHF 10 million or equivalent and/or the Group's investment in them exceeds CHF 50 million or equivalent

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

All companies listed below are fully consolidated except for:
1) Joint ventures accounted for using the equity method;
2) Joint operations accounted for in proportion to the Nestlé contractual specified share (usually 50%);
3) Associates accounted for using the equity method.

Countries within the continents are listed according to the alphabetical order of the country names.
Percentage of capital shareholding corresponds to voting powers unless stated otherwise.
Δ Companies listed on the stock exchange
◊ Sub-holding, financial and property companies

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Europe						
Austria						
Nespresso Österreich GmbH & Co. OHG		Wien		100%	EUR	35 000
Nestlé Österreich GmbH		Wien		100%	EUR	7 270 000
Azerbaijan						
Nestlé Azerbaijan LLC		Baku	100%	100%	USD	200 000
Belarus						
LLC Nestlé Bel	°	Minsk	100%	100%	BYN	410 000
Belgium						
Nespresso Belgique S.A.		Bruxelles		100%	EUR	550 000
Nestlé Belgilux 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
Bosnia and Herzegovina						
Nestlé Adriatic BH d.o.o.		Sarajevo	100%	100%	BAM	2 151

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Bulgaria						
Nestlé Bulgaria A.D.		Sofia		100%	BGN	10 234 933
Croatia						
Nestlé Adriatic d.o.o.		Zagreb	100%	100%	HRK	14 685 500
Czech Republic						
Mucos Pharma CZ, s.r.o.		Pruhonice		100%	CZK	160 000
Nestlé Cesko s.r.o.		Praha		100%	CZK	300 000 000
Tivall CZ, s.r.o.		Krupka		100%	CZK	400 000 000
Denmark						
Nestlé Danmark A/S		Copenhagen		100%	DKK	44 000 000
Nestlé Professional Food A/S		Faxe		100%	DKK	12 000 000
Glycom A/S	3)	Copenhagen	35.7%	35.7%	DKK	1 735 725
Finland						
Puljonki Oy		Juuka		100%	EUR	85 000
Suomen Nestlé Oy		Espoo		100%	EUR	6 000 000
France						
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.	◊	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.	◊	Issy-les-Moulineaux		100%	EUR	254 825 042
Nestlé Waters France S.A.S.	◊	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.	◊	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	1)	Noisiel		50%	EUR	3 000 000
L'Oréal S.A. [a]	Δ3)	Paris	23.3%	23.3%	EUR	111 623 441
Listed on the Paris stock exchange, market capitalization EUR 147.3 billion, quotation code (ISIN) FR0000120321						
Lactalis Nestlé Produits Frais S.A.S.	3)	Laval	40%	40%	EUR	69 208 832

[a] Voting powers amount to 23.3%

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Georgia						
Nestlé Georgia LLC		Tbilisi	100%	100%	CHF	700 000
Germany						
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	1)	Frankfurt am Main		50%	EUR	511 292
Trinks GmbH	3)	Braunschweig		25%	EUR	2 360 000
Trinks Süd GmbH	3)	München		25%	EUR	260 000
Greece						
Nespresso Hellas S.A.		Maroussi	100%	100%	EUR	500 000
Nestlé Hellas S.A.		Maroussi	100%	100%	EUR	5 269 765
C.P.W. Hellas Breakfast Cereals S.A.	1)	Maroussi		50%	EUR	201 070
Hungary						
Nestlé Hungária Kft.		Budapest		100%	HUF	6 000 000 000
Italy						
Nespresso Italiana S.p.A.		Assago		100%	EUR	250 000
Nestlé Italiana S.p.A.		Assago	100%	100%	EUR	25 582 492
Sanpellegrino S.p.A.		San Pellegrino Terme		100%	EUR	58 742 145
Kazakhstan						
Nestlé Food Kazakhstan LLP		Almaty	100%	100%	KZT	91 900
Lithuania						
UAB "Nestlé Baltics"		Vilnius	100%	100%	EUR	31 856
Luxembourg						
Compagnie Financière du Haut-Rhin S.A.	◊	Luxembourg		100%	EUR	105 200 000
Nespresso Luxembourg Sàrl		Luxembourg		100%	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.	3)	Luxembourg	20%	20%	GBP	16 170 000
Macedonia						
Nestlé Adriatik Makedonija d.o.o.e.l.		Skopje-Karpos		100%	MKD	31 065 780

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

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Slovenia						
Nestlé Adriatic Trgovina d.o.o.	°	Ljubljana	100%	100%	EUR	8 763
Spain						
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
Sweden						
Nestlé Sverige AB		Helsingborg		100%	SEK	20 000 000
Switzerland						
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
Turkey						
Erikli Su ve Mesrubat Sanayi ve Ticaret A.S.		Bursa		100%	TRY	20 700 000
Nestlé Türkiye Gida Sanayi A.S.		Istanbul		99.9%	TRY	35 000 000
Cereal Partners Gida Ticaret Limited Sirketi	1)	Istanbul		50%	TRY	88 080 000

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Ukraine						
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
United Kingdom						
Nespresso UK Ltd		Gatwick		100%	GBP	275 000
Nestec York Ltd		Gatwick		100%	GBP	500 000
Nestlé Holdings (UK) PLC	◊	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
Vitaflo (International) Ltd		Liverpool		100%	GBP	625 379
Cereal Partners UK	1)	Herts		50%	GBP	—
Froneri Ltd (b)	1)	Northallerton	21.8%	44%	EUR	14 534
Phagenesis Ltd	°3)	Manchester	29.2%	29.2%	GBP	16 146

(b) Excluding non voting preference shares. Voting powers amount to 50.0%

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Africa						
Algeria						
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
Angola						
Nestlé Angola Lda		Luanda		100%	AOA	1 791 870 000
Burkina Faso						
Nestlé Burkina Faso S.A.		Ouagadougou		100%	XOF	50 000 000
Cameroon						
Nestlé Cameroun S.A.		Douala		100%	XAF	4 323 960 000
Côte d'Ivoire						
Nestlé Côte d'Ivoire S.A.	Δ	Abidjan		86.5%	XOF	5 517 600 000
Listed on the Abidjan stock exchange, market capitalization XOF 8.7 billion, quotation code (ISIN) CI0009240728						
Egypt						
Caravan Marketing Company S.A.E.		Giza	100%	100%	EGP	33 000 000
Nestlé Egypt S.A.E.		Giza	100%	100%	EGP	80 722 000
Nestlé Waters Egypt S.A.E.		Cairo		63.8%	EGP	90 140 000
Gabon						
Nestlé Gabon, S.A.		Libreville	90%	90%	XAF	344 000 000
Ghana						
Nestlé Central and West Africa Ltd		Accra		100%	GHS	145 746 000
Nestlé Ghana Ltd		Accra		76%	GHS	20 100 000
Kenya						
Nestlé Equatorial African Region Ltd		Nairobi	100%	100%	KES	2 507 242 000
Nestlé Kenya Ltd		Nairobi	100%	100%	KES	226 100 400
Mauritius						
Nestlé's Products (Mauritius) Ltd		Port Louis	100%	100%	MUR	2 488 071
Morocco						
Nestlé Maghreb S.A.	°	Casablanca	100%	100%	MAD	300 000
Nestlé Maroc S.A.		El Jadida	94.7%	94.7%	MAD	156 933 000
Nigeria						
Nestlé Nigeria Plc	Δ	Ilupeju	66.2%	66.2%	NGN	396 328 126
Listed on the Nigerian Stock Exchange, market capitalization NGN 1165.0 billion, quotation code (ISIN) NGNESTLE0006						

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

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Americas						
Argentina						
Eco de Los Andes S.A.		Buenos Aires		50.9%	ARS	92 524 285
Nestlé Argentina S.A.		Buenos Aires	100%	100%	ARS	3 384 352 000
Bolivia						
Industrias Alimentícias Fagal S.R.L.		Santa Cruz		100%	BOB	175 556 000
Nestlé Bolivia S.A.		Santa Cruz		100%	BOB	191 900
Brazil						
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	1)	Caçapava		50%	BRL	7 885 520
Dairy Partners Americas Brasil Ltda	3)	São Paulo	49%	49%	BRL	300 806 368
Dairy Partners Americas Nordeste – Produtos Alimentícios Ltda	3)	Garanhuns		49%	BRL	100 000
Canada						
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
Cayman Islands						
Hsu Fu Chi International Limited	◊	Grand Cayman		60%	SGD	7 950 000
Chile						
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	1)	Santiago de Chile		50%	CLP	3 026 156 114
Aguas CCU – Nestlé Chile S.A.	3)	Santiago de Chile		49.8%	CLP	49 799 375 321
Colombia						
Comestibles La Rosa S.A.		Bogotá	52.4%	100%	COP	126 397 400
Dairy Partners Americas Manufacturing Colombia Ltda		Bogotá	99.8%	100%	COP	200 000 000
Nestlé de Colombia S.A.		Bogotá	100%	100%	COP	1 291 305 400
Nestlé Purina PetCare de Colombia S.A.		Bogotá	<0.1%	100%	COP	17 030 000 000
Costa Rica						
Compañía Nestlé Costa Rica S.A.		Heredia		100%	CRC	18 000 000

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Cuba						
Coralac S.A.		La Habana		60%	USD	6 350 000
Los Portales S.A.		La Habana		50%	USD	24 110 000
Nescor, S.A.		Artemisa		50.9%	USD	32 200 000
Dominican Republic						
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
Ecuador						
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
El Salvador						
Nestlé El Salvador, S.A. de C.V.		San Salvador	100%	100%	USD	4 457 200
Guatemala						
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
Honduras						
Nestlé Hondureña S.A.		Tegucigalpa		100%	PAB	200 000
Jamaica						
Nestlé Jamaica Ltd		Kingston		100%	JMD	49 200 000
Mexico						
Malhemex, S.A. de C.V.	°	México, D.F.	100%	100%	MXN	50 000
Manantiales La Asunción, S.A.P.I. de C.V. (c)		México, D.F.		40%	MXN	1 035 827 492
Marcas Nestlé, S.A. de C.V.		México, D.F.	<0.1%	100%	MXN	500 050 000
Nescalín, S.A. de C.V.	◊	México, D.F.	100%	100%	MXN	445 826 740
Nespresso México, S.A. de C.V.		México, D.F.	<0.1%	100%	MXN	10 050 000
Nestlé Holding México, S.A. de C.V.	◊°	México, D.F.	100%	100%	MXN	50 000
Nestlé México, S.A. de C.V.		México, D.F.	<0.1%	100%	MXN	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. (c)		México, D.F.		40%	MXN	620 000

(c) Voting powers amount to 51.0%

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Mexico (continued)						
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
Nicaragua						
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
Panama						
Nestlé Panamá, S.A.		Panamá City	100%	100%	PAB	17 500 000
Unilac, Inc.	◊	Panamá City		100%	USD	750 000
Paraguay						
Nestlé Business Services Latam S.A.	°	Asunción	99.9%	100%	PYG	100 000 000
Nestlé Paraguay S.A.		Asunción		100%	PYG	100 000 000
Peru						
Nestlé Marcas Perú, S.A.C.		Lima	50%	100%	PEN	5 536 832
Nestlé Perú, S.A.		Lima	99.5%	99.5%	PEN	88 964 263
Puerto Rico						
Nestlé Puerto Rico, Inc.		Bayamon		100%	USD	500 000
Payco Foods Corporation		Bayamon		100%	USD	890 000
Trinidad and Tobago						
Nestlé Caribbean, Inc.		Valsayn	95%	100%	USD	100 000
Nestlé Trinidad and Tobago Ltd		Valsayn	100%	100%	TTD	35 540 000
United States						
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

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
United States (continued)						
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.	3)	Wilmington (Delaware)		18.5%	USD	6 330
Axcella Health Inc.	3)	Wilmington (Delaware)		10.3%	USD	23 082
Before Brands, Inc.	3)	Wilmington (Delaware)		32.5%	USD	4 815
Cerecin Inc.	3)	Wilmington (Delaware)		32.1%	USD	68 251
Seres Therapeutics, Inc.	3)	Cambridge (Massachusetts)		9.8%	USD	69 994
Uruguay						
Nestlé del Uruguay S.A.		Montevideo		100%	UYU	9 495 189
Venezuela						
Nestlé Cadipro, S.A.		Caracas		100%	VES	506
Nestlé Venezuela, S.A.		Caracas	100%	100%	VES	5

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Asia						
Afghanistan						
Nestlé Afghanistan Ltd		Kabul	100%	100%	USD	1 000 000
Bahrain						
Nestlé Bahrain Trading WLL		Manama	49%	49%	BHD	200 000
Al Manhal Water Factory (Bahrain) WLL		Manama		63%	BHD	300 000
Bangladesh						
Nestlé Bangladesh Limited		Dhaka	100%	100%	BDT	100 000 000
Greater China Region						
Anhui Yinlu Foods Co., Limited		Chuzhou	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		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
India						
Nestlé India Ltd	Δ	New Delhi	34.3%	62.8%	INR	964 157 160
Listed on the Bombay Stock Exchange, market capitalization INR 1426.0 billion, quotation code (ISIN) INE239A01016						
Indonesia						
P.T. Nestlé Indonesia		Jakarta	90.2%	90.2%	IDR	152 753 440 000
P.T. Nestlé Trading Indonesia	°	Jakarta	1%	90.3%	IDR	60 000 000 000
P.T. Wyeth Nutrition Sduaenam		Jakarta		90%	IDR	2 500 000 000
Iran						
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
Israel						
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
Japan						
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
Jordan						
Ghadeer Mineral Water Co. WLL		Amman		75%	JOD	1 785 000
Nestlé Jordan Trading Company Ltd		Amman	50%	77.8%	JOD	410 000
Kuwait						
Nestlé Kuwait General Trading Company WLL		Safat	49%	49%	KWD	300 000
Lebanon						
Société des Eaux Minérales Libanaises S.A.L.		Hazmieh		100%	LBP	1 610 000 000
Société pour l’Exportation des Produits Nestlé S.A.		Baabda	100%	100%	CHF	1 750 000
SOHAT Distribution S.A.L.		Hazmieh		100%	LBP	160 000 000

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Malaysia						
Nestlé (Malaysia) Bhd.	Δ◊	Petaling Jaya	72.6%	72.6%	MYR	267 500 000
Listed on the Kuala Lumpur stock exchange, market capitalization MYR 34.5 billion, quotation code (ISIN) MYL4707OO005						
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.	°	Petaling Jaya	100%	100%	MYR	1 000 000
Purina PetCare (Malaysia) Sdn. Bhd.		Petaling Jaya	100%	100%	MYR	1 100 000
Wyeth Nutrition (Malaysia) Sdn. Bhd.		Petaling Jaya		100%	MYR	1 969 505
Cereal Partners (Malaysia) Sdn. Bhd.	1)	Petaling Jaya	50%	50%	MYR	2 500 000
Oman						
Nestlé Oman Trading LLC		Muscat	49%	49%	OMR	300 000
Pakistan						
Nestlé Pakistan Ltd	Δ	Lahore	59%	59%	PKR	453 495 840
Listed on the Pakistan Stock Exchange, market capitalization PKR 365.1 billion, quotation code (ISIN) PK0025101012						
Palestinian Territories						
Nestlé Trading Private Limited Company		Bethlehem	97.5%	97.5%	JOD	200 000
Philippines						
Nestlé Business Services AOA, Inc.		Bulacan	100%	100%	PHP	70 000 000
Nestlé Philippines, Inc.		Cabuyao	55%	100%	PHP	2 300 927 400
Penpro, Inc. (d)	◊	Makati City		88.5%	PHP	630 000 000
Wyeth Philippines, Inc.		Makati City	100%	100%	PHP	743 134 900
CPW Philippines, Inc.	1)	Makati City	50%	50%	PHP	7 500 000
Qatar						
Al Manhal Water Factory Co. Ltd WLL		Doha		51%	QAR	5 500 000
Nestlé Qatar Trading LLC		Doha	49%	49%	QAR	1 680 000
Republic of Korea						
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	1)	Cheongju		50%	KRW	52 783 120 000
Saudi Arabia						
Al Anhar Water Factory Co. Ltd		Jeddah		64%	SAR	7 500 000
Al Manhal Water Factory Co. Ltd		Riyadh		64%	SAR	7 000 000
Nestlé Saudi Arabia LLC		Jeddah		75%	SAR	27 000 000
Nestlé Water Factory Co. Ltd		Riyadh		64%	SAR	15 000 000
Pure Water Factory Co. Ltd		Madinah		64%	SAR	5 000 000
SHAS Company for Water Services Ltd		Riyadh		64%	SAR	13 500 000
Springs Water Factory Co. Ltd		Dammam		64%	SAR	5 000 000

(d) Voting powers amount to 40.0%

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Singapore						
Nestlé R&D Center (Pte) Ltd		Singapore		100%	SGD	20 000 000
Nestlé Singapore (Pte) Ltd		Singapore	100%	100%	SGD	1 000 000
Nestlé TC Asia Pacific Pte Ltd	◊	Singapore	100%	100%	JPY	10 000 000 000
					SGD	2
Wyeth Nutritionals (Singapore) Pte Ltd		Singapore	100%	100%	SGD	2 059 971 715
Sri Lanka						
Nestlé Lanka PLC	Δ	Colombo	90.8%	90.8%	LKR	537 254 630
Listed on the Colombo stock exchange, market capitalization LKR 69.8 billion, quotation code (ISIN) LK0128N00005						
Syria						
Nestlé Syria S.A.		Damascus	99.9%	99.9%	SYP	800 000 000
Thailand						
Nestlé (Thai) 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
United Arab Emirates						
Nestlé Dubai Manufacturing LLC		Dubai	49%	49%	AED	300 000
Nestlé Middle East FZE		Dubai	100%	100%	AED	3 000 000
Nestlé Middle East Manufacturing LLC	°	Dubai	49%	49%	AED	300 000
Nestlé Middle East Marketing FZE		Dubai		100%	AED	1 000 000
Nestlé Treasury Centre-Middle East & Africa Ltd	◊	Dubai	100%	100%	USD	2 997 343 684
Nestlé UAE LLC		Dubai	49%	49%	AED	2 000 000
Nestlé Waters Factory H&O LLC		Dubai		48%	AED	22 300 000
CP Middle East FZCO	1)	Dubai	50%	50%	AED	600 000
Uzbekistan						
Nestlé Food MChJ XK	°	Tashkent	100%	100%	UZS	12 922 977 969
Vietnam						
La Vie Limited Liability Company		Long An		65%	USD	2 663 400
Nestlé Vietnam Ltd		Bien Hoa	100%	100%	KVND	1 261 151 498

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Oceania						
Australia						
Nestlé Australia Ltd		Sydney	100%	100%	AUD	274 000 000
Cereal Partners Australia Pty Ltd	1)	Sydney		50%	AUD	107 800 000
Fiji						
Nestlé (Fiji) Ltd		Lami	33%	100%	FJD	3 000 000
French Polynesia						
Nestlé Polynésie S.A.S.		Papeete		100%	XPF	5 000 000
New Caledonia						
Nestlé Nouvelle-Calédonie S.A.S.		Nouméa		100%	XPF	64 000 000
New Zealand						
Nestlé New Zealand Limited		Auckland		100%	NZD	300 000
CPW New Zealand	1)	Auckland		50%	NZD	—
Papua New Guinea						
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				
Switzerland						
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	
Australia						
CPW R&D Centre	1)	Wahgunyah			R&D	
Chile						
Nestlé Development Centre		Santiago de Chile			D	
Côte d'Ivoire						
Nestlé R&D Centre		Abidjan			R&D	
France						
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.	1)	Beauvais			PTC	

		City of operations				
Germany						
Nestlé Product Technology Centre Food		Singen			PTC	
Greater China Region						
Nestlé R&D Centre		Beijing			R&D	
India						
Nestlé Development Centre		Gurgaon			D	
Republic of Ireland						
Nestlé Development Centre		Askeaton			D	
Singapore						
Nestlé Development Centre		Singapore			D	
United Kingdom						
Nestlé Product Technology Centre Confectionery		York			PTC	
CPW R&D Centre	1)	Staverton			R&D	
United States						
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	1)	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
Total income		**20 897**	**17 741**
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)
Total expenses		**(6 662)**	**(5 473)**
Profit for the year		**14 235**	**12 268**

Balance sheet as at December 31, 2019

before appropriations

In millions of CHF

	Notes	2019	2018
Assets			
Current assets			
Cash and cash equivalents	9	631	262
Other current receivables	10	1 376	942
Prepayments and accrued income		87	65
Total current assets		**2 094**	**1 269**
Non-current assets			
Financial assets	11	13 353	7 857
Shareholdings	12	20 775	28 693
Property, plant and equipment		1	1
Intangible assets	13	—	2 518
Total non-current assets		**34 129**	**39 069**
Total assets		**36 223**	**40 338**
Liabilities and equity			
Current liabilities			
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
Total current liabilities		**3 239**	**4 738**
Non-current liabilities			
Interest-bearing liabilities	14	1 503	1 635
Provisions	16	547	496
Total non-current liabilities		**2 050**	**2 131**
Total liabilities		**5 289**	**6 869**
Equity			
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)
Total equity		**30 934**	**33 469**
Total liabilities and equity		**36 223**	**40 338**

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
	302	**202**

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
	3 082	**1 847**

7. Financial expenses

In millions of CHF

	2019	2018
Expenses related to loans from Group companies	25	51
Other financial expenses	43	17
	68	**68**

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
	478	**673**

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
	1 376	**942**

11. Financial assets

In millions of CHF

	2019	2018
Loans to Group companies	13 329	7 842
Other investments	24	15
	13 353	**7 857**

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)
At December 31	**20 775**	**28 693**

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
Total carrying amount						**1 503**	**1 502**

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
	1 180	**2 107**

16. Provisions

In millions of CHF

	Uninsured risks	Exchange risks	Swiss and foreign taxes	Other	2019 Total	2018 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)**
At December 31	**475**	**—**	**279**	**178**	**932**	**1 092**
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)	—	**—**
At December 31, 2019	**298**	**1 937**	**12 519**	**25 671**	**(9 491)**	**30 934**

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
	95 950 558	**9 491**	**88 520 513**	**6 813**

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 [(a)]	205 850	17	225 780	14
Share plan for short-term bonus Executive Board [(b)]	83 855	7	54 641	4
Share plan for Board members [(c)]	57 552	5	81 040	6
	347 257	**29**	**361 461**	**24**

(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 Committee 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 (a)	Number of shares held (a)
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
Total as at December 31	**1 597 281**	**1 559 560**

(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.

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

	2019		2018	
	Number of shares held (a)	Number of options held (b)	Number of shares held (a)	Number of options held (b)
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
Total as at December 31	**876 482**	**—**	**593 521**	**80 800**

(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
	25 671 144 660	**18 747 687 661**
We propose the following appropriation:		
Dividend for 2019, CHF 2.70 per share on 2 887 141 341 shares [(a)] (2018: CHF 2.45 on 2 984 258 341 shares) [(b)]	7 795 281 621	7 311 432 935
	7 795 281 621	**7 311 432 935**
Profit to be carried forward	**17 875 863 039**	**11 436 254 726**

(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

KPMG

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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