Corporate Governance Report 2016
Compensation Report 2016
Financial Statements 2016

Nestlé 150 Years of Good Food, Good Life

Contents

Corporate Governance Report 2016

Situation at 31 December 2016

(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 2016 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 31 December 2016.

To avoid duplication of information, cross-referencing to other reports is made in some sections, namely the Annual Review 2016, the Financial Statements 2016 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 or on: www.nestle.com/investors/corporate-governance/articles.

The Consolidated Financial Statements of the Nestlé Group 2016 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 2016, page 60 for the overview of Directors and Officers.

1.1.1 Description of the issuer's operational group structure

For the general organisation chart of Nestlé S.A., refer to page 26 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 2016).

1.1.2 All listed companies belonging to the issuer's 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 31 December 2016, the market capitalization of Nestlé S.A. was CHF 226 310 410 000. For further information see also page 65 of the Annual Review 2016 and visit our website on www.nestle.com/investors.

Please refer to the Consolidated Financial Statements of the Nestlé Group 2016, page 144 for the list of companies of the Nestlé Group, joint arrangements and associates, with an indication of the company name, registered office, share capital, place of listing, securities' ISIN number, their market capitalisation and the Company's participation.

1.1.3 The non-listed companies belonging to the issuer's group

Please refer to the Consolidated Financial Statements of the Nestlé Group 2016, page 144 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 on 18 July 2016 holding, directly or indirectly, 4.57% of Nestlé S.A.'s share capital. Apart from the foregoing, Nestlé S.A. is not aware of any other shareholder holding, as at 31 December 2016, Nestlé S.A. shares in excess of 3% of the share capital.

During 2016, the Company published on the electronic publication platform of the SIX Swiss Exchange disclosure notifications pertaining (i) to the holding of its own shares which fell below the threshold of 3% on 20 June 2016 as a consequence of the cancellation of shares following completion of its most recent Share Buy-Back Programme of CHF 8 billion on 7 December 2015; and (ii) to the holding of Nestlé S.A. shares by BlackRock, Inc., New York/U.S.A., which reported holdings of 5.01% on 30 June 2016 and 4.57% on 18 July 2016, respectively.

With respect to nominees, Chase Nominees Ltd, London, was a registered Nominee N (refer to point 2.6.3. below) of 273 449 336 shares, i.e. 8.8% of the shares of the Company as at 31 December 2016. 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. 7.8% of the shares of the Company. Also on 31 December 2016, Nortrust Nominees Ltd, London, was a registered Nominee N of 120 879 113 shares of the Company, representing 3.9% 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 311 216 000. The conditional share capital is CHF 10 000 000. Nestlé S.A. does not have any authorised 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 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. 3^{bis} 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 Buy-Back Programme of CHF 8 billion, initiated by the Company on 25 August 2014 and completed on 7 December 2015. The resulting cancellation of shares was approved at the 2015 and 2016 Annual General Meetings.

On 16 April 2015, the Annual General Meeting resolved to reduce the share capital by 36 400 000 shares to CHF 318 840 000.

On 7 April 2016, the Annual General Meeting resolved to cancel 76 240 000 shares resulting in a reduction of the share capital to the present CHF 311 216 000.

For the breakdown of capital ("equity") for 2016, 2015 and 2014 see the Consolidated statement of changes in equity in the Consolidated Financial Statements of the Nestlé Group 2016 and 2015.

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 3 112 160 000 at 31 December 2016.

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. Holdings of a Nominee N, or Nominees N acting as an organised 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 authorised 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 31 December 2016, there are no outstanding convertible bonds or warrants/options issued by Nestlé S.A. or by subsidiaries on Nestlé S.A. shares. The only options issued by Nestlé S.A. are employee options allocated under the Nestlé Management Stock Option Plan (MSOP). Grants under this plan were discontinued in 2013.

3. Board of Directors

3.1 Members of the Board of Directors

Name	Year of birth	Nationality	Education/Qualifications [a]	First Election	Expires [b]
Peter Brabeck-Letmathe Chairman	1944	Austrian	Economics	1997	2017
Paul Bulcke CEO	1954	Belgian	Economics and Business Administration	2008	2017
Andreas Koopmann Vice Chairman	1951	Swiss	Mechanical Engineering and Business Administration	2003	2017
Beat Hess	1949	Swiss	Law	2008	2017
Renato Fassbind	1955	Swiss	Economics, Business Administration and Accountancy	2015	2017
Steven G. Hoch	1954	American/Swiss	International Relations and Economics	2006	2017
Naïna Lal Kidwai	1957	Indian	Economics and Business Administration	2006	2017
Jean-Pierre Roth	1946	Swiss	Economics and Finance	2010	2017
Ann M. Veneman	1949	American	Law and Public Policy	2011	2017
Henri de Castries	1954	French	HEC, Law degree and ENA	2012	2017
Eva Cheng	1952	Chinese	Business Administration, History	2013	2017
Ruth K. Oniang'o	1946	Kenyan	Food Science and Human Nutrition	2015	2017
Patrick Aebischer	1954	Swiss	Medicine and Neuroscience	2015	2017

(a) For more complete information on qualifications: please refer to section 3.2 and the individual CVs on www.nestle.com/investors/corporate-governance/management/boardofdirectors
(b) All Board members are elected annually in accordance with Swiss Corporate law and Nestlé S.A.'s Articles of Association.

3.1.1 Management tasks of the members of the Board of Directors

As of 31 December 2016, with the exception of Paul Bulcke, all members of the Board of Directors are non-executive members. Peter Brabeck-Letmathe is active Chairman and has certain responsibilities for the direction and control of the Group including Nestlé Health Science S.A., Nestlé Skin Health S.A. and Nestlé's engagement with L'Oréal.

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

As of 31 December 2016, with the exception of Peter Brabeck-Letmathe, 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 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.

Subject to specific exceptions granted by the Board, members are subject to twelve-year term limits.

3.1.3 Cross-involvement

None.

3.2 Professional background and other activities and functions (*)

Peter Brabeck-Letmathe

Chairman

Peter Brabeck-Letmathe joined the Nestlé Group's operating company as a salesman in Austria in 1968. Between 1970 and 1987, he held a series of responsibilities in Latin America. In 1987, he was transferred to Nestlé's International Headquarters in Vevey, Switzerland, as Vice President and was named Executive Vice President in 1992. At the Annual General Meeting of Shareholders in June 1997, Peter Brabeck-Letmathe was elected member of the Board of Nestlé S.A. In 1997, the Board of Directors of Nestlé S.A. appointed him Chief Executive Officer (CEO). In 2001, he was elected Vice Chairman and in 2005 Chairman of the Board of Directors. As of 10 April 2008, Peter Brabeck-Letmathe relinquished his function as CEO remaining Chairman of the Board of Directors.

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

Peter Brabeck-Letmathe is also a member of the Board of Exxon Mobil Corporation, Texas, USA, of Delta Topco, Jersey, and of the Advisory Board of Amrop Partnership SCRL.

He also represents Nestlé as Vice Chairman at the Foundation Board of the World Economic Forum (WEF) and, on behalf of Nestlé, chairs the 2030 Water Resources Group (WRG). In addition, he is a member of the Hong Kong-Europe Business Council as well as Vice Chairman of the Foundation Board of the Verbier Festival, Switzerland.

Paul Bulcke

CEO

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).

Paul Bulcke is a Board member of Roche Holding Ltd., Switzerland. As a representative of Nestlé, Paul Bulcke serves as Co-Chairman of the Board of Directors of Cereal Partners Worldwide S.A., Switzerland.

Furthermore, Paul Bulcke is also a member of the Board of Trustees of Avenir Suisse, Switzerland, the European Round Table of Industrialists (ERT), Belgium, the Board of the Consumer Goods Forum and its Governance Committee, IMD Foundation Board as well as of the International Business Council of the World Economic Forum (WEF).

Andreas Koopmann

Vice Chairman

Andreas Koopmann began his career in 1979 as Assistant to the Chairman and CEO of Bruno Piatti AG, Switzerland, and from 1980 to 1982 was Assistant to the Group Executive at Motor Columbus AG, Holding, Switzerland. From 1982, he was at Bobst Group, starting as Vice President of Engineering and Manufacturing in Roseland, New Jersey, USA. In 1989, he returned to Switzerland, holding a number of senior positions in the company, including member of the Group Executive Committee in charge of Manufacturing. He was a member of the Board of Directors for Bobst Group from 1998 to 2002 and was appointed CEO in 1995, a position he held until May 2009. From 2010 to 2012, Andreas Koopmann was Chairman of Alstom (Suisse) S.A. and Country President.

Presently, he serves as Chairman of Georg Fischer AG, as a Board member of Credit Suisse Group, the CSD Group, as well as of Sonceboz SA. Andreas Koopmann is also a member of the Board of Directors of economiesuisse.

(*) 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.

Beat 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.

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 – 1997 as Head of Corporate Staff Audit, and then as Chief Financial Officer and member of the Executive Board from 1997 to 2002. Subsequently, he joined Diethelm Keller Holding AG as Chief Executive Officer from 2002 to 2004. He joined Credit Suisse Group AG as Chief Financial Officer and member of the Executive Board from 2004 until 2010.

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

Steven G. Hoch

Steven G. Hoch started his career in 1978 at the Chemical Bank in New York and Zurich, where he held a series of positions in commercial banking, principally advising multinational companies. Steven G. Hoch was Senior Vice President at Bessemer Trust Company, N.A., New York, from 1990 to 1994, and a member of the Executive Committee at Pell Rudman Trust Company, Boston, from 1994 to 2002. Since 2002, he served as a founder and CEO of Highmount Capital LLC, a US-based investment management and fiduciary firm. In 2015, Highmount joined Brown Advisory LLC, where he serves as a Partner and a member of the International Advisory Board.

Steven G. Hoch is Chairman Emeritus of the American Swiss Foundation and serves as Chairman of the Corporation Board of the Woods Hole Oceanographic Institution, USA. He served two terms as a member of the National Board of the Smithsonian Institution, USA, and is an Advisory Board member of the Smithsonian Tropical Research Institute, Panama.

Naïna Lal Kidwai

Naïna Lal Kidwai started her career in 1982 and until 1994 was at ANZ Grindlays Bank Plc.

From 1994 to 2002, she was Vice Chairman and Head of Investment Banking at Morgan Stanley India before moving to HSBC, where she was Chairman of the HSBC Group of Companies in India and on the Board of HSBC Asia Pacific, until her retirement in December 2015. She was elected President of the Federation of Indian Chambers of Commerce & Industry (FICCI) for 2013.

Naïna Lal Kidwai is Chairman of Max Financial Services Ltd and a non-Executive Board member of Cipla Ltd., Larsen+Toubro Ltd., India and Altico India Pvt Ltd. She serves the BRICS Business Council and South Asia Advisory Board of the Harvard Business School, where she is also a Global Advisor. Other engagements include the Advisory Boards of Oxford University India Center, NCAER (National Council of Applied Economics Research) and the US India Investment Forum Steering Committee. Her interests in the environment include being Chair of the Sustainability

Council & Energy Mission at FICCI, Chair of the India Sanitation Coalition, Board member of Shakti Sustainable Energy Foundation and a commissioner for the global commission on the Economy and Climate.

Naïna Lal Kidwai was given the Padma Shri Award by the Indian government in 2007 for her contribution to trade and industry and has been recognised in India and abroad with awards and rankings in lists of top women in business.

Jean-Pierre Roth

Jean-Pierre Roth spent his whole career at the Swiss National Bank, which he joined in 1979. After various senior positions, he was appointed a member of the Governing Board in 1996 before becoming its Chairman in 2001 until 2009. From 2001 he was a member of, and since 2006 the Chairman of the Board of Directors of the Bank of International Settlements until his retirement in 2009. Jean-Pierre Roth also served as Swiss Governor of the International Monetary Fund from 2001 until 2009 and as a Swiss representative on the Financial Stability Board from 2007 until 2009.

As of 2010, Jean-Pierre Roth has been a member of the Board of Swatch Group. Since July 2010, he serves as Chairman of the Board of Directors of Geneva Cantonal Bank.

In May 2014, he joined the Board of MKS (Switzerland) SA, a company active in gold processing and trading. Furthermore, Jean-Pierre Roth is a member of the Advisory Board of the University of Geneva, the Feris Endowment Fund IHEI, Geneva, the Foundation Board and Programme Committee of Avenir Suisse, Switzerland, and the Foundation of the Swiss Pontifical Guard, Vatican City.

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 Alexion Pharmaceuticals, the Global Health Innovative Technology Fund and JUST Capital. She is on a number of advisory boards including BRAC, Terra Vesco, The Feed Project and The Chicago Council Global Agriculture Development Initiative. She is a member of the Council on Foreign Relations and the Trilateral Commission.

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 honours throughout her career.

Ann M. Veneman also serves as member of the Nestlé CSV Council.

Henri de Castries

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 Inc.

In addition to his professional duties, Henri de Castries is Chairman of AXA Hearts in Action, AXA's volunteer community outreach program and is a member of the Board of the Association pour l'Aide aux Jeunes Infirmes, an organisation dedicated to helping disabled youth.

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 had also received numerous awards and honours for her business leadership and community service.

Presently, Eva Cheng serves on the Boards of Trinity Limited, Haier Electronics Group Co. Ltd. in Hong Kong, China, and Amcor Ltd., Australia. She is also the Executive Director of the Our Hong Kong Foundation, a member of the Executive Committee of the All-China Women's Federation, a Director of China Children and Teenagers Foundation, a Member of the China People's Political Consultative Conference – Guangdong Commission and a Permanent Honorary Director of the Chinese General Chamber of Commerce in Hong Kong.

Ruth K. Oniang'o

Ruth K. Oniang'o was formerly Professor of Food Science and Nutrition at Jomo Kenyatta University of Agriculture and Technology, Nairobi, Kenya, and is adjunct Professor of Nutrition at Tufts University, USA. She is also Founder and Executive Director of the Rural Outreach Program Kenya, as well as Founder and Editor-in-Chief of the African Journal of Food, Agriculture, Nutrition and Development (AJFAND).

Ruth K. Oniang'o is a former Member of Parliament in Kenya and she works in rural developments focused on women smallholder farmers, and the youth.

Furthermore, she chairs the Boards of the Sasakawa Africa Association (SAA) and the Sasakawa Africa Fund for Extension Education (SAFE). Other engagements include being a Board member of the USTADI Foundation, Kenya, and a Trustee of the Board of CABI Centre for Agriculture and Biosciences International.

Ruth K. Oniang'o also serves as a member of the Nestlé CSV Council. Furthermore, she has earned a distinguished service medal from the Government of Kenya.

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 in neurosciences and Director of the Neurodegenerative Disease Research Laboratory 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 1991, he became the Chairman of the Section of Artificial Organs, Biomaterials and Cellular Technology of the Division of Biology and Medicine of Brown University. 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 is 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 serves as Board member of Lonza Group Ltd, and Logitech International S.A. and is Chairman of the Advisory Board of the Novartis Venture Fund. Furthermore, Patrick Aebischer is a member of the Foundation Boards of the Verbier Festival and the Montreux Jazz Festival, Switzerland.

3.3 Mandates outside Nestlé

Pursuant to art. 21sexies 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 surpreme 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. 21sexies.

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 are compliant with 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 point 3.5.2 below (Nomination and Sustainability Committee).

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

3.5 Internal organisational 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
Peter Brabeck-Letmathe Chairman	• (Chair)		•	
Paul Bulcke CEO	•			
Andreas Koopmann Vice Chairman	•	•	• (Chair)	
Beat Hess	•	• (Chair)		
Renato Fassbind	•			• (Chair)
Steven G. Hoch			•	
Naïna Lal Kidwai				•
Jean-Pierre Roth		•		
Ann M. Veneman			•	
Henri de Castries				•
Eva Cheng				•
Ruth K. Oniang'o				
Patrick Aebischer		•		

3.5.2 Tasks and area of responsibility for each Committee of the Board of Directors (1)

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.

The **Chairman's and Corporate Governance Committee** consists of the Chairman, the Vice Chairman, 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.

The **Compensation Committee** consists of the Vice Chairman and a minimum of two other 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 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 Compensation Report.

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

The **Nomination and Sustainability Committee** consists of a Chairperson, who is an independent and non-executive member of the Board, 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. The nomination process for the Board of Directors is highly structured and seeks to ensure a balance of necessary competencies and an appropriate diversity of its members. 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. Furthermore, it reviews reports and gives advice on measures which ensure the long-term sustainability of the Company in its economic, social and environmental dimension and monitors the Company's performance against selected external sustainability indexes. It reviews 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.

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 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, it 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 KPMG (external auditors) and the Nestlé Group 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 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 2016	Frequency	Average duration (hours)
Board of Directors of Nestlé S.A.	10 times	3:30
Chairman's and Corporate Governance Committee	9 times	4:00
Compensation Committee	5 times	1:00
Nomination and Sustainability Committee	5 times	1:10
Audit Committee	4 times	2:45

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 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 2016 Nestlé in China.

The average attendance at the Board meetings was 100%. 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%. Board meetings, with the exception of certain Chairman's and *in camera* sessions, are attended by all members of the Executive Board. In addition, selected members of the Executive Board and senior management participate in certain Committee meetings.

The Company performs annual self-evaluations of the Board and its Committees including confidential, anonymous feedback and individual interviews. Findings are appropriately addressed.

In 2016, special meetings related to the conclusion of the Board's succession planning for the position of Chairman and CEO (see page 28 of this Report).

3.5.4 Lead Director

The Lead Director assumes the role of a prime intermediary between the Board and the Chairman. He may convene and chairs Board meetings and *in camera* sessions where the Chairman is not present or conflicted. In 2016, the Vice-Chairman acted as Lead Director.

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 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 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 organisation;
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 overindebtedness;

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

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 authorisation to subdelegate, the power to manage the Company's and the Group's business, subject to law, the Articles of Association and the Regulations of the Board of Directors.

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, on a regular basis, informed on material matters involving the Company's and the Group's business. The members of the Executive Board attend the Board of Directors meetings and report on significant projects and events. In addition, regular written reports are provided, including consolidated financial information, capital investment, 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 of Directors receives regular and ad hoc reports from the Board's Committees, the Chairman, the CEO as well as from the Executive Board. The minutes of Committee meetings are made available to the full Board. The Board pays a visit to a major market every year, where it meets members of senior management.

Furthermore, 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 organisation and processes.

Members of the Executive Board and other senior management attend the Audit Committee meetings, except for certain *in camera* sessions.

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.
- the Nestlé Group and Market Audit function, the corporate internal auditors, which has a direct link to the Audit Committee. It comprises a unit of international auditors who travel worldwide, completing audit assignments.
- Group Risk Management provides assistance to all corporate entities with regard to risk management and a top-level risk assessment is performed once a year for all businesses. Group Risk Services provides assistance to all corporate entities with regard to loss prevention, claims handling and insurance. For more information, please refer to the Annual Review 2016.
- Group Compliance and other risk- and control-related functions provide additional guidance and oversight. Risk and compliance activities are regularly co-ordinated through the Group Compliance Committee to ensure a holistic, entity-wide approach. For more information, please refer to page 64 of the Annual Review 2016.

4. Executive Board*

4.1 Members of the Executive Board

Name	Year of birth	Nationality	Education/Current function
Paul Bulcke	1954	Belgian	Economics and Business Administration CEO
Luis Cantarell	1952	Spanish	Economics and Business Administration EVP: Zone EMENA (Europe, Middle East and North Africa)
Laurent Freixe	1962	French	Business Administration EVP: Zone Americas
Chris Johnson	1961	American	Economics and Business Administration EVP: Nestlé Business Excellence
Patrice Bula	1956	Swiss	Economics and Business Administration EVP: Strategic Business Units, Marketing, Sales and Nespresso
Wan Ling Martello	1958	American	Business Administration and Accountancy, Postgraduate in Management Information Systems EVP: Zone Asia, Oceania and Sub-Saharan Africa
Stefan Catsicas	1958	Swiss	Natural Sciences and Postgraduate in Neurosciences EVP: Chief Technology Officer: Innovation, Technology and R&D
Marco Settembri	1959	Italian	Business Administration EVP: Nestlé Waters
François-Xavier Roger	1962	French	Business Administration and Accounting EVP: CFO (includes Finance and Control, Legal, IP, M&A, Tax, Treasury, Investor Relations)
Magdi Batato	1959	Swiss	Mechanical Engineering and PhD in Thermodynamics EVP: Operations
Peter Vogt	1955	Swiss	Economics and Finance & Accounting Deputy EVP: Human Resources
Martial Rolland	1963	French	International Management and Business Administration Deputy EVP: Nestlé Professional
Heiko Schipper	1969	Dutch	Business Economics Deputy EVP: Nestlé Nutrition
David P. Frick	1965	Swiss	Law SVP: Corporate Governance, Compliance and Corporate Services

(EVP: Executive Vice President; SVP: Senior Vice President)
For complete information, please refer to individual CVs on www.nestle.com/investors/corporate-governance/management/executiveboard
* As of 31 December 2016. For certain changes as of 1 January 2017, see page 42 of this report.

4.2 Professional background and other activities and functions (*)

Paul Bulcke
Please refer to point 3.2 above.

Luis Cantarell

In 1976, Luis Cantarell joined Nestlé España S.A. and was subsequently appointed Head of the Nutrition Division of Nestlé Spain and Market Head of Nestlé Portugal. He started in the Group's nutrition business as Senior Vice President responsible for the Nutrition Strategic Business Division in 2001. In November 2005, Luis Cantarell was appointed Executive Vice President, Nestlé S.A., in charge of Zone Europe. From 2008 to 2010, he was responsible for Zone Americas. From 2011 to 2014, Luis Cantarell was President and CEO of Nestlé Health Science S.A. and in 2012 he additionally assumed responsibility for Nestlé Nutrition. Effective October 2014, Luis Cantarell took over Zone EMENA (Europe, Middle East and North Africa) and remained on the Board of Nestlé Health Science S.A.

Luis Cantarell is a member of the Board of Grupo J. Uriach, S.L., Barcelona, Spain.

As a representative of Nestlé, Luis Cantarell is Chairman of Froneri Ltd. as well as a Board member of Lactalis Nestlé Produits Frais S.A.S, France, a member of the Boards of Directors of Cereal Partners Worldwide S.A. and of Beverage Partners Worldwide S.A., Switzerland.

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.

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.

Chris Johnson is a Board member of GS1, Belgium and Treasurer of the Swiss-American Chamber of Commerce.

(*) 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.

Patrice Bula

Patrice Bula joined Nestlé 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.

As of 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 and Sales, and Nespresso.

Patrice Bula serves on the Board of Schindler Holding Ltd., Switzerland.

As a representative of Nestlé, Patrice Bula serves as a Board member of Beverage Partners Worldwide S.A., of Cereal Partners Worldwide S.A., Switzerland, and of Froneri Ltd., UK.

He is a Board member of both Yinlu Food Group Companies and Hsu Fu Chi Group Companies, China.

Wan Ling Martello

Wan Ling Martello joined Nestlé S.A. as Executive Vice President in November 2011 and was the Chief Financial Officer from April 2012 until May 2015. As of May 2015, she was appointed Executive Vice President of Nestlé S.A. in charge of Zone AOA (Asia, Oceania and Sub-Saharan Africa). Wan Ling Martello came to Nestlé S.A. from Walmart Stores Inc., where she was EVP, Global eCommerce in 2010 and 2011. From 2005 to 2009, she was SVP, CFO & Strategy for Walmart International. Prior to Walmart, Wan Ling Martello built her career in the consumer packaged goods industry. She worked at Kraft in increasingly broader finance roles from 1985 to 1995. She was the Corporate Controller at Borden Foods during its turnaround years owned by KKR in 1995 until 1998. Wan Ling Martello was the CFO and then the President of the U.S. business of NCH, a former subsidiary of AC Nielsen, from 1998 to 2005.

Wan Ling Martello serves on the Board of Alibaba Group Holding Ltd., China.

As a representative of Nestlé, Wan Ling Martello is a member of the Board of Cereal Partners Worldwide S.A., Switzerland.

Stefan Catsicas

Stefan Catsicas started his career at the pharmaceutical company Glaxo in Geneva, Switzerland, as Head of Neurobiology at the company's Institute of Molecular Biology. He continued his career in academia at the University of Lausanne as Professor and Chairman of the Cell Biology and Morphology Institute, and later as Vice President Research and Professor of Cellular Engineering at the Swiss Federal Institute of Technology (EPFL) in Lausanne, Switzerland.

In 2005, Stefan Catsicas co-founded a private group of biotechnology companies and he returned to academia in 2011 as Provost and Executive Vice President of the King Abdullah University of Science and Technology in Saudi Arabia.

Effective September 2013, Stefan Catsicas was appointed to the Executive Board of Nestlé S.A. as Executive Vice President, Chief Technology Officer, Head of Innovation, Technology, Research and Development.

Furthermore, Stefan Catsicas serves on the Boards of Biomedical Research Council of A*STAR, Singapore, "Fondation Latsis Internationale", Switzerland, as well as on the Board of "Fondation Solar Impulse", Switzerland, the International Board of Governors of the New York Academy of Sciences, USA, and the Economic Advisory Board of Swiss Innovation Park, Switzerland.

Marco Settembri

Marco Settembri joined Nestlé S.A. with Nestlé Italiana 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.

François-Xavier Roger

François-Xavier Roger joined Nestlé S.A. as Executive Vice President in July 2015 as 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. As of 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 joined 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.

Peter Vogt

Peter Vogt joined Nestlé in 1980 as a trainee in marketing before being appointed in Japan as Product Specialist. He returned to the Swiss market in 1985. Starting 1987, Peter Vogt resumed his international career with a series of assignments in Asia, first as Manager Hong Kong, then as Marketing Division Manager in Malaysia in April 1990 and finally as Market Head Sri Lanka until the end of 1995. In 1996, he returned to Europe to take over the Swiss Frozen Food & Ice Cream business and became Market Head Nordic Region in 2000. From 2002 to 2004, he was in charge of the newly created Nestlé Ice Cream Europe unit. Peter Vogt returned to Asia as Market Head Indonesia in 2005 and was nominated Market Head Malaysia and Singapore in 2009.

As of March 2013, Peter Vogt was appointed to the Executive Board of Nestlé S.A. as Deputy Executive Vice President, Human Resources and Centre Administration.

Martial Rolland

Martial Rolland joined Nestlé in 1988. He started his international career in 1989 in India, first in sales, then in marketing.

He was then transferred to Thailand as Group Brand Manager and, in September 1995, to Pakistan as Commercial Manager, heading both marketing and sales functions. In 2000, he moved to Turkey to run Nestlé's dairy company, before taking over as Market Head. In 2004, Martial Rolland returned to India to take over the position of Market Head for South Asia Region (SAR). He became Market Head of France in 2010.

Effective May 2013, Martial Rolland was appointed to the Executive Board of Nestlé S.A. as Deputy Executive Vice President in charge of Nestlé Professional.

Heiko Schipper

Heiko Schipper joined Nestlé in 1996 as a trainee in marketing before being appointed in Bangladesh as Regional Sales Manager in the course of the same year. He was then, in 1999, transferred to Nestlé Indonesia as Group Product Manager Dairy.

In 2003, he returned to Nestlé's International Headquarters in Vevey, Switzerland, in the position of Marketing Advisor, Dairy SBU. Starting 2005, Heiko Schipper resumed his international career with a series of assignments in Asia. First as Business Executive Manager, Dairy, Philippines, then as Business Executive Manager, Dairy (2007), as Regional Business Head, Infant Nutrition & Dairy (2010), and finally as Managing Director, Nestlé Food & Beverage Division of Nestlé Greater China Region. At the end of 2013, he returned to Nestlé's International Headquarters where he was appointed Global Business Head, Infant Nutrition at Nestlé Nutrition.

As of October 2014, Heiko Schipper was appointed to the Executive Board of Nestlé S.A. as Deputy Executive Vice President, Head of Nestlé Nutrition.

David P. Frick

David P. Frick began his career at the Meilen District Court in Zurich and as an assistant to the Banking Law Chair at Zurich University Law School.

From 1994, he was an attorney in the International Corporate and Litigation practice groups of Cravath, Swaine & Moore, the New York law firm.

In 1999, he became Group General Counsel and Managing Director of Credit Suisse Group, Zurich, where he was appointed a Member of the Executive Board and served as the company's Head of Legal and Compliance.

David P. Frick joined Nestlé S.A. in 2006 and serves as Senior Vice President, Corporate Governance, Compliance and Corporate Services.

He is a member of the Board of Allianz Suisse, Switzerland and represents Nestlé on the Board of Aéroport International de Genève.

Furthermore, he is a member of the Board of economiesuisse and chairs its Legal Commission. David P. Frick represents Nestlé at SwissHoldings and serves on the SIX Regulatory Board, ICC Switzerland and the Legal Committee for the Swiss-American Chamber of Commerce.

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:

a) mandates in companies which are controlled by Nestlé;
b) 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
c) 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 surpreme 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.

Compensation, shareholdings and loans

5. Compensation, shareholdings and loans

Please refer to the Compensation Report 2016.

Shareholders' participation

6. Shareholders' participation

6.1 Voting rights restrictions and representation

6.1.1/ 6.1.3 Voting rights restrictions and rules on granting exceptions / 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 which in aggregate are in excess of 5% of the share capital to the following Nominees N: Chase Nominees, 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, the Board of Directors has conferred to Credit Suisse 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 proxy 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 proxy for participation in the General Meeting of shareholders. There are no specific provisions relating to these 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 33⅓% 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 22 May 1993, and KPMG SA (replacing KPMG Klynveld Peat Marwick Goerdeler SA) were first appointed on 23 April 2009 as auditors of Nestlé S.A.

On 7 April 2016, 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 31 December 2013.

8.2 Auditing fees

The total of the auditing fees paid to KPMG in their capacity as Group auditors for 2016 amounts to CHF 47 million.

8.3 Additional fees

Fees paid to KPMG as Group auditors related to additional services for 2016 amount to CHF 18.4 million, including CHF 11.5 million for mergers, acquisitions and disposals services, CHF 3.9 million for IS/IT advisory support, CHF 1.7 million for tax services and CHF 1.3 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 2016, KPMG participated in all four Audit Committee meetings at the end of which they met with the Audit Committee without the Group's management being present.

Nestlé Group Audit (corporate internal auditors) met four times with the Audit Committee. In addition, the head of internal audit regularly met with the Chairman of the Audit Committee for interim updates.

Information policy

The Audit Committee reviews annually the appropriateness of retaining KPMG as the auditor of the Nestlé Group and Nestlé S.A., prior to proposing to the Board and to the Annual General Meeting of Nestlé S.A. the election of KPMG as auditors. 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 KPMG through regular briefings of its Chairman. The lead auditor is rotated every seven years in accordance with Swiss law. 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 due diligence on mergers, acquisitions and 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.

9. Information policy

Investor Relations – guiding principles

Nestlé is committed to managing an open and consistent communication policy with shareholders, potential investors 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

Nestlé produces each year a detailed Annual Review, which reviews the business. It also provides detailed audited Financial Statements for the year under review, prepared according to the International Financial Reporting Standards (IFRS). These are complemented by the Half-Yearly Report.

Nestlé publishes its full-year and half-year results, and its first-quarter and nine-months' sales figures; it also publishes press releases at the time of any potentially price-sensitive event, such as significant acquisitions and divestments, joint venture agreements and alliances. Major announcements, such as results of corporate activity, are accompanied by a presentation which is broadcast "live" on the internet and which anyone can choose to access, whether or not that person is a shareholder.

Furthermore, Nestlé has an active investor relations programme, including both group meetings and one-to-one meetings. This includes the Annual General Meeting, as well as presentations at the time of its full-year and half-year results. The Group also has a programme of roadshows, which take place in most financial centres around the world, and hosts themed events for institutional investors and investment analysts at which members of line management give an overview of their particular areas of responsibility. These meetings focus either on 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 an investment decision.

Specifically on governance topics, the Company engages into 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 utilises the World Wide Web (www.nestle.com/investors) to ensure a rapid and equitable distribution of information. Nestlé does not just rely on people visiting the site to be updated on the latest developments within the Group: anyone can sign up on the site to be alerted automatically by Nestlé whenever there is a change to the Investor Relations website; also press releases are distributed to major wire and news services. There are links to non-financial information that may be of interest to investors, including areas such as the environment, sustainability, the Nestlé Corporate Business Principles and the Nestlé Code of Business Conduct. A Corporate calendar of relevant dates is displayed on page 65 of the Annual Review 2016 and available on the Corporate website (www.nestle.com/investors/events).

The Nestlé Investor Relations Department can be contacted, either through the website, or by telephone, fax, e-mail or letter.

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General Organisation of Nestlé S.A.

at 31 December 2016

Executive Board

Paul Bulcke
Luis Cantarell
Laurent Freixe
Chris Johnson
Patrice Bula
Wan Ling Martello
Stefan Catsicas
Marco Settembri
François-Xavier Roger
Magdi Batato
Peter Vogt
Martial Rolland
Heiko Schipper
David P. Frick

- Chairman of the Board of Directors — **Peter Brabeck-Letmathe**
  - Chief Executive Officer — **Paul Bulcke**
    - Nestlé Health Science — **Greg Behar**
    - Nestlé Skin Health — **Stuart Raetzman** *ad interim*
    - Corporate Governance Compliance & Corporate Services — **David P. Frick**
    - Corporate Communications — **Eugenio Simioni**
    - Human Resources — **Peter Vogt**
    - Operations — **Magdi Batato**
    - Finance & Control — **François-Xavier Roger**
    - Nestlé Business Excellence — **Chris Johnson**
    - Strategic Business Units, Marketing and Sales — **Patrice Bula**
    - Innovation Technology and R&D — **Stefan Catsicas**
    - Nestlé Waters — **Marco Settembri**
    - Nestlé Nutrition — **Heiko Schipper**
    - Nestlé Professional — **Martial Rolland**
    - Zone EMENA: Europe, Middle East & North Africa — **Luis Cantarell**
    - Zone AOA: Asia, Oceania and sub-Saharan Africa — **Wan Ling Martello**
    - Zone AMS: Americas — **Laurent Freixe**

Compensation Report 2016

Compensation Report 2016

Introduction

The future success of Nestlé is dependent on its ability to attract, motivate and retain the right talented employees. Among the various programmes 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.

As in previous years, this Compensation Report shall be submitted to the advisory vote of the shareholders at the Annual General Meeting 2017.

At the Annual General Meeting of Nestlé S.A. on 6 April 2017, Peter Brabeck-Letmathe, Chairman of the Board of Directors, will not stand for re-election in line with the Company's governance. The Board of Directors has proposed Paul Bulcke, Nestlé's CEO until 31 December 2016, for election as Chairman. In order to prepare for this future role as active, non-executive Chairman and to respect a minimum cooling-off period, Mr Bulcke has resigned from his position as CEO on 31 December 2016, and will retire on 31 March 2017. To replace Mr Bulcke as CEO, the Board has appointed Mr Ulf Mark Schneider as the new CEO of Nestlé S.A., as from 1 January 2017, and proposed him for election to the Board of Directors at the 2017 Annual General Meeting. Mr Schneider joined Nestlé on 1 September 2016 for an introduction period, during which he was not yet part of the Executive Board. In light of these changes and to ensure continuity, no significant change is foreseen in how Nestlé approaches the compensation of its executives for 2017.

At the 2016 Annual General Meeting, shareholders approved the total compensation budgets for the Board of Directors and the Executive Board with large majorities.

As explained at that time, to ensure complete accountability, the shareholders will this year be able to retrospectively vote on the compensation report and payouts in a consultative vote.

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 31 December 2016, 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 and Executive Board as a whole	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

(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.

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 Vice Chairman of the Board and two other non-executive members of the Board.

The members of the CC have been elected by the shareholders for one year. The Chairperson was appointed by the Board of Directors. On 31 December 2016, the composition of the CC was as follows:

Chairman	Members
Beat Hess	Andreas Koopmann
	Jean-Pierre Roth
	Patrick Aebischer

The tasks and areas of responsibility of the CC are described on page 12 of the Corporate Governance Report 2016.

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 so determined to 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 "clawback" 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 2016 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, Syngenta, 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 100 000	CHF 40 000
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 31 December 2016

	Chairman's and Corporate Governance Committee	Compensation Committee	Nomination and Sustainability Committee	Audit Committee
Peter Brabeck-Letmathe Chairman	• (Chair)		•	
Paul Bulcke CEO	•			
Andreas Koopmann Vice Chairman	•	•	• (Chair)	
Beat Hess	•	• (Chair)		
Renato Fassbind	•			• (Chair)
Steven G. Hoch			•	
Naïna Lal Kidwai				•
Jean-Pierre Roth		•		
Ann M. Veneman			•	
Henri de Castries				•
Eva Cheng				•
Ruth K. Oniang'o				
Patrick Aebischer		•		

The above fees and allowances cover the period between the Annual General Meeting 2016 and the Annual General Meeting 2017. 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. For valuation purposes, the shares are discounted by 16.038% to account for the blocking period of three years. In 2016, the value was CHF 58.82.

Compensation Payout 2016

At the Annual General Meeting of 7 April 2016, the shareholders approved a maximum compensation for the Board of Directors of CHF 10.5 million for 2016. The total actual compensation pay-out for 2016 including social security contributions was CHF 9 958 513.

Audited (*)

Summary of compensation 2016**

	Cash in CHF (a)	Number of shares	Discount value of shares in CHF (b)	Total Cash & Shares	Social security & addit. fees (c)	Total Compensation
Peter Brabeck-Letmathe, Chairman	1 600 000	60 414	3 553 551	5 153 551	28 200	5 181 751
Paul Bulcke, Chief Executive Officer (d)	–	–	–	–	–	–
Andreas Koopmann, Vice Chairman	340 000	4 640	272 925	612 925	28 200	641 125
Beat Hess	330 000	4 497	264 514	594 514	28 200	622 714
Renato Fassbind	330 000	4 497	264 514	594 514	28 200	622 714
Steven G. Hoch	175 000	2 285	134 404	309 404	–	309 404
Naïna Lal Kidwai	205 000	2 713	159 579	364 579	17 913	382 492
Jean-Pierre Roth	190 000	2 499	146 991	336 991	15 638	352 629
Ann M. Veneman	175 000	2 285	134 404	309 404	25 000	334 404
Henri de Castries	205 000	2 713	159 579	364 579	17 913	382 492
Eva Cheng	205 000	2 713	159 579	364 579	17 052	381 631
Ruth K. Oniang'o	155 000	1 999	117 581	272 581	37 338	309 919
Patrick Aebischer (e)	190 000	–	–	190 000	19 481	209 481
Total for 2016	**4 100 000**	**91 255**	**5 367 621**	**9 467 621**	**263 135**	**9 730 757**

Summary of compensation 2015**

	Cash in CHF (a)	Number of shares	Discount value of shares in CHF (b)	Total Cash & Shares	Social security & addit. fees (c)	Total Compensation
Peter Brabeck-Letmathe, Chairman	1 600 000	65 946	4 097 225	5 697 225	28 200	5 725 425
Paul Bulcke, Chief Executive Officer (d)	–	–	–	–	–	–
Andreas Koopmann, Vice Chairman	340 000	4 392	272 875	612 875	28 200	641 075
Beat Hess	330 000	4 257	264 487	594 487	28 200	622 687
Renato Fassbind	330 000	4 257	264 487	594 487	28 200	622 687
Daniel Borel	190 000	2 365	146 937	336 937	15 714	352 651
Steven G. Hoch	175 000	2 163	134 387	309 387	–	309 387
Naïna Lal Kidwai	205 000	2 568	159 550	364 550	18 001	382 551
Jean-Pierre Roth	190 000	2 365	146 937	336 937	15 714	352 651
Ann M. Veneman	175 000	2 163	134 387	309 387	25 000	334 387
Henri de Castries	205 000	2 568	159 550	364 550	18 001	382 551
Eva Cheng	205 000	2 568	159 550	364 550	18 001	382 551
Ruth K. Oniang'o	155 000	1 892	117 550	272 550	37 398	309 948
Patrick Aebischer (e)	155 000	–	–	155 000	7 210	162 210
Total for 2015	**4 255 000**	**97 504**	**6 057 922**	**10 312 922**	**267 839**	**10 580 761**

** For all Board members except the Chairman and the CEO, the above table shows the annual compensation paid 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 as part of Board membership and Committee fees are valued at the closing price of the share on the SIX Swiss Exchange on the ex-dividend date, discounted by 16.038% to account for the blocking period of three years.

(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 227 756 in 2016 and CHF 258 261 in 2015. For details of additional fees see page 34.

(d) The CEO's compensation is disclosed in its entirety under compensation of the Executive Board.

(e) As long as he remained President of EPFL (until 31 December 2016) and in accordance with an agreement with the Swiss Federal Council, Mr Patrick Aebischer did not receive any shares, and transfered his net cash compensation to EPFL.

(*) 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.

Peter Brabeck-Letmathe, 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 Chairmanship of Nestlé Health Science S.A. as well as Nestlé Skin Health S.A., and the direct leadership of Nestlé's interests in L'Oréal (Vice Chairman of the Board of Directors). He also represents Nestlé at the Foundation Board of the World Economic Forum (WEF) and on behalf of Nestlé chairs the 2030 Water Resource Group (WRG). He is a member of the Hong Kong-Europe Business Council. The remuneration includes all compensation received in relation to these activities. His total compensation was:

Audited

		2016		2015
	Number	Value in CHF	Number	Value in CHF
Cash compensation		1 600 000		1 600 000
Blocked shares (discounted value)	60 414	3 553 551	65 946	4 097 225
Total Cash & Shares		**5 153 551**		**5 697 225**
Company contribution to compulsory Swiss social security (a)		28 200		28 200
Total compensation		5 181 751		5 725 425

(a) 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 224 040 in 2016 and CHF 253 249 in 2015.

Shares and stock options ownership of the non-executive members of the Board of Directors and closely related parties on 31 December 2016

	Number of shares held (b)	Number of options held (c)
Peter Brabeck-Letmathe, Chairman	3 581 827	127 000
Andreas Koopmann, Vice Chairman	97 176	–
Beat Hess	37 262	–
Renato Fassbind	18 754	–
Steven G. Hoch	164 475	–
Naïna Lal Kidwai	14 442	–
Jean-Pierre Roth	12 216	–
Ann M. Veneman	14 844	–
Henri de Castries	14 442	–
Eva Cheng	10 255	–
Ruth K. Oniang'o	3 891	–
Patrick Aebischer	–	–
Total as at 31 December 2016	**3 969 584**	**127 000**
Total as at 31 December 2015	4 027 425	477 600

(b) Including shares subject to a three-year blocking period.
(c) The ratio is one option for one Nestlé S.A. share.

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. 21septies 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 Ms A.M. Veneman and to Ms R.K. Oniang'o who serve as members of the Creating Shared Value (CSV) Council, and CHF 10 000 paid to Mr Patrick Aebischer who serves 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 2016 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 2016, 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 to 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.

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

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 2016, the main Long-Term Incentive instrument was the Performance Share Unit Plan (PSUP), following the discontinuation of the Restricted Stock Unit Plan (RSUP). PSUs have a vesting period of three years, with a further holding period of two years, 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 and relative Total Shareholder Return (TSR) performance.

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 appropriately for the added responsibilities of positions held. This is reflected in the relative remuneration levels of the Executive Board.

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 40). Whenever appropriate, the benchmark values are adjusted for the size of Nestlé. The market competitiveness 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 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 performance goals 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. 21^{quater} 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 (art. 21^{quater} 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.

Objectives 2016

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

In 2016, the following target levels were applicable
– CEO: 150%;
– Executive Vice President: 100%;
– Deputy Executive Vice President: 80%.

For the CEO, 100% of the target was linked to the Nestlé Group performance. 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, 30% to functional objectives and 20% to their individual performance (quantitative and qualitative objectives); for Zone or Business Heads, 30% is tied to Group performance, 50% to business goals they are directly responsible for, and 20% to individual performance (quantitative and qualitative objectives). 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 2017.

Every year, the Board of Directors defines a set of quantitative operational targets, which comprise the main element in determining the annual Nestlé Group performance for the following year (weighting: 80%). Additional quantitative and qualitative targets, set by the Board of Directors in line with the Nestlé strategic roadmap, are also used to determine the Nestlé Group performance (weighting: 20%). Non-financial objectives include measures related to the Company's sustainability and its corporate social responsibility in line with our Creating Shared Value strategy.

Group objectives

Quantitative operational targets are linked to measurable operational objectives. Examples include real internal growth, organic growth, trading operating profit or free cash flow.

Additional quantitative targets are linked to the Nestlé strategic roadmap. Examples include the proportion of products with Nutrition, Health & Wellness benefits, market shares, operational excellence savings, capital expenditure, or working capital reduction.

Group qualitative targets are linked to the strategic roadmap, as well as to sustainability and to Nestlé in the society. Examples include portfolio prioritization and resource allocation, sugar, salt and saturated fat reduction, delivering to the Nestlé in society report commitments, strengthening Nestlé's values and culture, or the continued drive for excellence on quality, safety, sustainability and compliance.

Individual objectives

Functional objectives, business goals and individual 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, and 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 2016

In 2016, 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 2016 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 41.

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 two performance measures of the PSUP are met over the full three-year vesting period. These two criteria are:

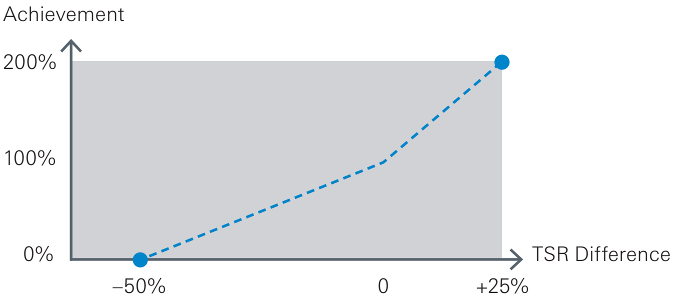
- the relative Total Shareholder Return (TSR) of the Nestlé S.A. share in relation to the STOXX Global 1800 Food & Beverage Net Return Index (prior to 2014 the STOXX Europe 600 Food & Beverage Net Return Index); and
- the growth of underlying Earnings per Share in constant currencies.

Total Shareholder Return performance in relation to peers and growth of underlying Earnings per Share are the two most commonly used measures to determine senior management long-term performance in the industry. Nestlé considers that these two metrics together reflect a rounded view of the Company's performance over a multi-annual period.

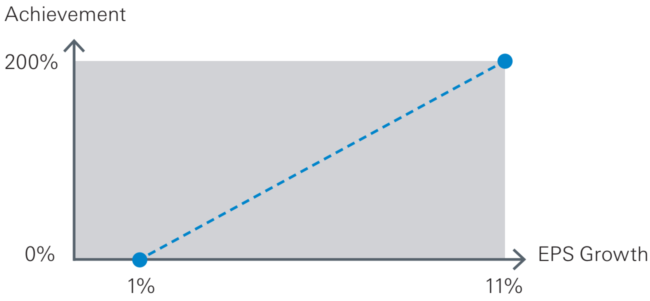
Each of the two measures has equal weighting in determining the vesting level of the initial PSU award.

The following charts show the different potential levels of achievement for each of the two measures for the 2016 PSUP grant.

TSR Difference (Nestlé vs. Index)



Average Underlying EPS Growth (constant currencies)



The total vesting level will be determined by applying, at the end of the vesting period, each one of the two measures to 50% of the grant, and by adding up both elements.

The vesting range of the PSU starts at 0% and is capped at 200% of the inital 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 (there are no Company cars provided to members of the Executive Board), 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 during 2013. Beneficiaries of the Plan born in 1958 or before maintain their membership in the former plan.

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 benchmarks need to take account of Nestlé's overall size, its sector and geographic location. The Compensation Committee has therefore decided the most appropriate way to assess the competitiveness of the compensation for the Executive Board is by comparing 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
The Company strongly encourages share ownership by the members of the Executive Board to ensure alignment with shareholder interests over time. As of the end of 2016, excluding unvested long-term incentive awards, the collective share ownership of the members of the Executive Board was equal to approximately twice their combined annual total compensation.

Since 2015, 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.

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. 21^{septies} of the Articles of Association).

Contracts of employment and severance payments
As of 31 December 2016, 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 (except vested Stock Options which remain exercisable for a period of thirty days upon termination for cause); Long-Term Incentives (except Stock Options) immediately vest in all other cases of termination of employment. There are no severance payments or change of control provisions ("golden parachutes").

Since 1 January 2016, the compensation of the members of the Executive Board is subject to forfeiture or clawback if the compensation paid or granted is rejected by the General Meeting of Nestlé S.A. in a final vote.

Mr Ulf Mark Schneider joined Nestlé on 1 September 2016 from the Fresenius Group, where he had been CEO since 2003. On 30 September 2016, he received equivalent replacement awards for long-term incentives granted to him by his former employer Fresenius, which were forfeited as a result of his resignation, in the form of Nestlé PSUs (total replacement value of CHF 13.2 million). They are subject to the three-year vesting period plus two-year holding period.

As of 1 January 2017, Mr Ulf Mark Schneider was appointed Chief Executive Officer of the Nestlé Group. His annual base salary has been fixed by the Board of Directors at CHF 2.4 million; he will also receive the corresponding short and long-term incentives in line with Nestlé's compensation policy as indicated on page 39.

(*) Companies include: ABB, Air Liquide, Anheuser-Busch Inbev, ASML, AstraZeneca, BASF, Bayer, BP, BAT, BT Group, Daimler, Deutsche Telekom, Diageo, Eni, GlaxoSmithKline, Imperial Brands, L'Oréal, LVMH, National Grid, Novartis, Novo Nordisk, Reckitt Benckiser, Rio Tinto, Roche, Royal Dutch Shell, Sanofi, SAP, Schneider Electric, Siemens, Syngenta, Telefonica, Total, Unilever, Vinci, Vodafone.

Benchmarks

See above elements of compensation for members of the Executive Board.

Audited

Compensation 2016 for members of the Executive Board

At the Annual General Meeting of 16 April 2015, the shareholders approved a maximum compensation for members of the Executive Board of CHF 60 million for 2016.
The total compensation paid to members of the Executive Board in 2016, including contributions towards future pension benefits and total social security contributions, was CHF 51 903 926.

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

	2016	2015
Annual Base Salary	14 481 250	14 962 500
Short-Term Bonus (cash)	7 917 061	9 084 874
Short-Term Bonus (discounted value of Nestlé S.A. share)	6 907 297	6 085 321
Performance Share Units (fair value at grant)	14 422 467	15 392 769
Other benefits	1 541 365	1 585 761
Total	**45 269 440**	**47 111 225**
% Fixed/Variable	35.4 – 64.6	35.1 – 64.9
Company contributions towards future pension benefits (in line with Nestlé's Pension Benefit Policy described above)	4 314 427	4 924 110
Company contributions to compulsory Swiss social security [(a)]	394 800	408 900
Additional remuneration and fees paid to members of the Executive Board	–	–
Total including the elements above	49 978 667	52 444 235

The above compensation table includes the following:

	2016	2015
Number of Nestlé S.A. shares granted	112 515	100 451
Number of Performance Share Units granted under the PSUP	219 020	216 708

(a) 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 1 925 259 in 2016 and CHF 2 017 328 in 2015.

Explanations

- On 31 December 2016, the Executive Board consisted of 14 members.
- Other benefits include a car allowance, contribution towards health insurance premiums, long-term service awards and expatriate benefits.
- 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 2017, discounted by 16.038% to account for the three-year blocking period.
- Performance Share Units granted in 2016 are disclosed at fair value at grant, which corresponds to CHF 65.85. 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 19.1 of the Consolidated Financial Statements of the Nestlé Group 2016, 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 102% in 2016, based on the achievement of the relevant Group and individual quantitative and qualitative objectives (2015: 100%).
- The Performance Share Units granted in 2014 vest in March 2017 with a payout of 72% of the initial PSU award (PSUs granted in 2013 vested in 2016 with a payout of 100%).

Events after the balance sheet date (all on 1 January 2017)
- Mr Ulf Mark Schneider was appointed member of the Executive Board and succeeded Mr Paul Bulcke as CEO.
- Mr Paul Bulcke stepped down as CEO and left the Executive Board.
- Mr Luis Cantarell retired (succeeded by Mr Marco Settembri, in charge of Zone EMENA).
- Mr Martial Rolland left the Executive Board (re-integration of Nestlé Professional).
- Mr Maurizio Patarnello was appointed member of the Executive Board (in charge of Nestlé Waters, replacing Mr Marco Settembri).
- Mr Gregory Behar was appointed member of the Executive Board (in charge of Nestlé Health Science).

Audited

Highest total compensation for a member of the Executive Board

In 2016, the highest total compensation for a member of the Executive Board was conferred to Paul Bulcke, the CEO. The amounts below are included in the Executive Board compensation disclosed above.

	2016 Number	2016 Value in CHF	2015 Number	2015 Value in CHF
Annual Base Salary		2 500 000		2 500 000
Short-Term Bonus (cash)		–		–
Short-Term Bonus (discounted value of Nestlé S.A. share)	48 722	2 991 044	48 337	2 928 255
Performance Share Units (fair value at grant)	53 070	3 494 660	50 835	3 610 810
Other benefits		28 020		28 884
Total		**9 013 724**		**9 067 949**
% Fixed/Variable		28.0 – 72.0		27.9 – 72.1
Company contribution towards future pension benefits		2 170 556		2 076 056
Company contribution to compulsory Swiss social security [(a)]		28 200		28 200
Total including the elements above		11 212 480		11 172 205

Other benefits include a car allowance and a contribution towards health insurance premiums.

(a) 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 433 753 in 2016 and CHF 438 799 in 2015.

Explanations

– 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 2017, discounted by 16.038% to account for the three-year blocking period.
– Performance Share Units granted in 2016 are disclosed at fair value at grant, which corresponds to CHF 65.85.
– Please also refer to the explanations provided on page 41.

Payout levels

– The Short-Term Bonus payout for the CEO was 95% in 2016, based on the achievement of Group quantitative and qualitative objectives (2015: 93%).
– The Performance Share Units granted in 2014 vest in March 2017 with a payout of 72% of the initial PSU award (PSUs granted in 2013 vested in 2016 with a payout of 100%).

Shares and stock options held by members of the Executive Board

Total number of management stock options held on 31 December 2016 by members of the Executive Board

Grant date	Vesting date	Expiry date	Exercise price in CHF	Stock options outstanding
01.03.2012	01.03.2015	28.02.2019	55.57	890 170
03.03.2011	03.03.2014	02.03.2018	52.58	382 300
Total				**1 272 470**

Shares and stock options ownership of the members of the Executive Board and closely related parties on 31 December 2016

	Number of shares held (a)	Number of options held (b)
Paul Bulcke, Chief Executive Officer	897 204	781 000
Luis Cantarell	199 170	143 170
Laurent Freixe	48 805	–
Chris Johnson	51 072	125 400
Patrice Bula	136 487	101 800
Wan Ling Martello	71 522	121 100
Stefan Catsicas	5 400	–
Marco Settembri	21 750	–
François-Xavier Roger	3 604	–
Magdi Batato	9 330	–
Peter R. Vogt	46 681	–
Martial Rolland	26 679	–
Heiko Schipper	2 800	–
David P. Frick	48 586	–
Total as at 31 December 2016	**1 569 090**	**1 272 470**
Total as at 31 December 2015	1 310 850	1 570 970

(a) Including shares subject to a three-year blocking period, respectively two-year holding period.
(b) The ratio is one option for one Nestlé S.A. share.

Audited

Other audited information regarding the Executive Board

Loans to members of the Executive Board

On 31 December 2016, there were no loans outstanding to any member of the Executive Board.

Additional fees and remuneration of the Executive Board

In 2016, there were no additional fees or remuneration paid to any members of the Executive Board.

Compensation and loans for former members of the Executive Board

In 2016, one former member of the Executive Board received a compensation of CHF 1 583 982 (including company contributions for pension and social security), as per the terms of his contract of employment until retirement. Another former member of the Executive Board received a fee of CHF 50 000. On 31 December 2016, 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 2016, 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 31 December 2016. 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 32 to 44 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 31 December 2016 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, 15 February 2017

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

Articles of Association of Nestlé S.A.

Amended by the Annual General Meeting of 7 April 2016

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 311 216 000 (three hundred and eleven million two hundred and sixteen thousand Swiss francs) divided into 3 112 160 000 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 7 April 2016

Consolidated Financial Statements of the Nestlé Group 2016

Principal exchange rates

CHF per

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

Consolidated income statement for the year ended 31 December 2016

In millions of CHF

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

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

In millions of CHF

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

Consolidated balance sheet as at 31 December 2016

before appropriations

In millions of CHF

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

In millions of CHF

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

Consolidated cash flow statement for the year ended 31 December 2016

In millions of CHF

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

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

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

In millions of CHF

	Share capital	Treasury shares	Translation reserve	Other reserves	Retained earnings	Total equity attributable to shareholders of the parent	Non-controlling interests	Total equity
Equity as at 31 December 2014 as originally published	**322**	**(3 918)**	**(17 255)**	**—**	**90 981**	**70 130**	**1 754**	**71 884**
Reclassification following the changes in presentation	—	—	953	1 418	(2 371)	**—**	—	**—**
Equity restated as at 31 December 2014	**322**	**(3 918)**	**(16 302)**	**1 418**	**88 610**	**70 130**	**1 754**	**71 884**
Profit for the year	—	—	—	—	9 066	**9 066**	401	**9 467**
Other comprehensive income for the year	—	—	(3 549)	(55)	(250)	**(3 854)**	(84)	**(3 938)**
Total comprehensive income for the year	—	—	(3 549)	(55)	8 816	**5 212**	317	**5 529**
Dividends	—	—	—	—	(6 950)	**(6 950)**	(424)	**(7 374)**
Movement of treasury shares	—	(6 322)	—	—	39	**(6 283)**	—	**(6 283)**
Equity compensation plans	—	239	—	—	(56)	**183**	—	**183**
Changes in non-controlling interests	—	—	—	—	(21)	**(21)**	1	**(20)**
Reduction in share capital (a)	(3)	2 512	—	—	(2 509)	**—**	—	**—**
Total transactions with owners	(3)	(3 571)	—	—	(9 497)	**(13 071)**	(423)	**(13 494)**
Other movements	—	—	—	(18)	85	**67**	—	**67**
Equity restated as at 31 December 2015	**319**	**(7 489)**	**(19 851)**	**1 345**	**88 014**	**62 338**	**1 648**	**63 986**
Profit for the year	—	—	—	—	8 531	**8 531**	352	**8 883**
Other comprehensive income for the year	—	—	1 052	(148)	(154)	**750**	(9)	**741**
Total comprehensive income for the year	—	—	1 052	(148)	8 377	**9 281**	343	**9 624**
Dividends	—	—	—	—	(6 937)	**(6 937)**	(432)	**(7 369)**
Movement of treasury shares	—	803	—	—	(27)	**776**	—	**776**
Equity compensation plans	—	207	—	—	(27)	**180**	—	**180**
Changes in non-controlling interests (b)	—	—	—	—	(991)	**(991)**	(168)	**(1 159)**
Reduction in share capital (a)	(8)	5 489	—	—	(5 481)	**—**	—	**—**
Total transactions with owners	(8)	6 499	—	—	(13 463)	**(6 972)**	(600)	**(7 572)**
Other movements	—	—	—	1	(58)	**(57)**	—	**(57)**
Equity as at 31 December 2016	**311**	**(990)**	**(18 799)**	**1 198**	**82 870**	**64 590**	**1 391**	**65 981**

(a) Reduction in share capital, see Note 17.1.
(b) Movements reported under retained earnings include the impact of the acquisitions during the period (see Note 2.5) as well as a put option for the acquisition of non-controlling interests.

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

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

Accounting policies

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

Key accounting judgements, estimates and assumptions

The preparation of the Consolidated Financial Statements requires Group Management to exercise judgement and to make estimates and assumptions that affect the application of policies, reported amounts of revenues, expenses, assets and liabilities and disclosures. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Those areas affect mainly provisions and contingencies (see Note 11), goodwill and intangible assets with indefinite useful life impairment tests (see Note 9), employee benefits (see Note 10), allowance for doubtful receivables (see Note 7) and taxes (see Note 13).

Foreign currencies

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

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

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

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

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

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

Valuation methods, presentation and definitions

Revenue

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

Other revenue is primarily license fees from third parties which have been earned during the period.

Expenses

Cost of goods sold is determined on the basis of the cost of production or of purchase, adjusted for the variation of inventories. All other expenses, including those in respect of advertising and promotions, are recognised when the Group receives the risks and rewards of ownership of the goods or when it receives the services. Additional details of specific expenses are provided in the respective notes.

Changes in presentation – Consolidated statement of comprehensive income

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

2015 comparatives have been restated.

Changes in presentation – Consolidated statement of changes in equity

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

2015 comparatives have been restated.

Changes in accounting standards

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

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

Changes in accounting standards that may affect the Group after 31 December 2016

The following new accounting standards, interpretations and amendments to existing standards have been published and are mandatory for the accounting period beginning on 1 January 2017 or later. The Group has not early adopted them.

IFRS 9 – Financial Instruments

The standard addresses the accounting principles for the financial reporting of financial assets and financial liabilities, including classification, measurement, impairment, derecognition and hedge accounting. It will be mandatory for the accounting period beginning on 1 January 2018.

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

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

The impact of the new impairment model is also under review. This analysis requires the identification of the credit risk associated with the counterparties and, considering that the majority of Group's financial assets are trade receivables, integrates as well some statistical data reflecting the actual past experience of occurred loss for default.

Furthermore, the Group is reviewing the definition of the hedging relationship in line with the risk management activities and policies, with a specific attention to the identification of the components in the pricing of the commodities.

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

The Group is assessing whether the new standard will be implemented with a restatement of previous period. In the absence of such restatement, the Group will recognise any difference between the carrying amount of financial instruments under IAS 39 and the carrying amount under IFRS 9 in the opening retained earnings (or other equity components) of the accounting period including the date of initial application.

IFRS 15 – Revenue from Contract with Customers
This standard combines, enhances and replaces specific guidance on recognising revenue with a single standard.

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

i) a small proportion of sales (less than 0.5% of annual sales) is expected to be recognised on average 2 days later under the new standard, but the impact at the end of the period is compensated by a similar effect at the start of the year leading to a net nil impact at Group level;
ii) an estimated amount of CHF 0.3 billion in payments to customers currently treated as distribution costs would be reclassified as deductions from sales under the new standard.

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

IFRS 16 – Leases
This standard will replace IAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases.

The main effect on the Group is that IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for almost all leases and will therefore result in an increase of total property, plant and equipment and total financial debt of approximately CHF 3 billion. All things being equal, under the new standard trading operating profit would increase by less than CHF 0.3 billion due to the replacement of the operating lease expense with amortisation of the lease assets. This increase would be partially or entirely offset by higher interest expense resulting in an insignificant impact on net profit. The Group is currently assessing the precise impact of this new standard.

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

Improvements and other amendments to IFRS/IAS
A number of standards have been modified on miscellaneous points. These include Disclosure Initiative (Amendments to IAS 7), Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12) and Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).

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

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

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

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

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

Business combinations
Business combinations are accounted for using the acquisition method. Where not all of the equity of a subsidiary is acquired the non-controlling interests are recognised at the non-controlling interest's share of the acquiree's net identifiable assets. Upon obtaining control in a business combination achieved in stages, the Group remeasures its previously held equity interest at fair value and recognises a gain or a loss to the income statement.

2.1 Modification of the scope of consolidation

Acquisitions
In 2016, among others, the acquisitions during the year include:
– Proactiv business from Guthy-Renker, worldwide, acne treatment, (Nutrition and Health Science), 75%, May.

None of the acquisitions of the year were significant.

In 2015, among others, the acquisitions included:
– Merrick Pet Care, USA, natural and organic pet food products, (PetCare), 100%, September.

None of the acquisitions of 2015 were significant.

Disposals

In 2016, the following significant disposal was made:

– Ice cream business in Europe, Egypt, the Philippines, Brazil and Argentina, frozen food business in Europe but excluding pizza and retail frozen food in Italy as well as chilled dairy business in the Philippines (Milk products and Ice Cream as well as Prepared dishes and cooking aids), 100%, end of September.
  This disposal relates to the creation of the joint venture Froneri (see Note 14.3).

None of the other disposals of the year were significant.

In 2015, none of the disposals of the year were significant.

2.2 Acquisitions of businesses

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

In millions of CHF	2016	2015
Property, plant and equipment	8	114
Intangible assets [(a)]	560	163
Inventories and other assets	64	69
Financial debt	—	(1)
Employee benefits, deferred taxes and provisions	—	(92)
Other liabilities	(43)	(25)
Fair value of identifiable net assets	**589**	**228**

(a) Mainly trademarks and trade names.

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

The goodwill arising on acquisitions and the cash outflow are:

In millions of CHF	2016	2015
Fair value of consideration transferred	682	529
Non-controlling interests [(a)]	100	1
Subtotal	782	530
Fair value of identifiable net assets	(589)	(228)
Goodwill	**193**	**302**

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

In millions of CHF

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

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

Acquisition-related costs

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

2.3 Disposals of businesses

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

In 2016, the loss on disposals (see Note 4.2) is mainly composed of the disposal of businesses related to the creation of the joint venture Froneri and of other non-significant disposals. With regards of Froneri, the net loss on disposal amounts to CHF 90 million. It includes the result of recycling in the income statement of the cumulative translation losses in other comprehensive income of CHF 385 million as well as some costs related to the creation of this joint venture. In 2015, the loss on disposals was mainly composed of impairments of various disposal groups held for sale which were not individually significant and the recycling in the income statement of cumulative translation losses in other comprehensive income related to disposals.

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

In 2016 and 2015, cash inflow on disposals of businesses relates to several non-significant disposals. With regards to the disposal of the ice cream and frozen food business in 2016, a non-cash consideration of CHF 1243 million was received from Froneri in the form of equity and shareholder loans.

2.4 Assets held for sale

Assets held for sale and disposal groups

Non-current assets held for sale and disposal groups are presented separately in the current section of the balance sheet when the following criteria are met: the Group is committed to selling the asset or disposal group, an active plan of sale has commenced, and the sale is expected to be completed within 12 months. Immediately before the initial classification of the assets and disposal groups as held for sale, the carrying amounts of the assets (or all the assets and liabilities in the disposal groups) are measured in accordance with the applicable accounting policy. Assets held for sale and disposal groups are subsequently measured at the lower of their carrying amount and fair value less cost to sell. Assets held for sale are no longer amortised or depreciated.

As of 31 December 2015, the main disposal group related to the creation of the joint venture Froneri (see Note 14.3). It has been disposed of during 2016 at the completion of the transaction. None of the other businesses classified as held for sale were individually significant.

2.5 Acquisitions of non-controlling interests

Acquisitions and disposals of non-controlling interests

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

During the year, the Group increased its ownership interests in certain subsidiaries, the most significant ones being in Israel and China. The consideration paid to non-controlling interests in cash amounted to CHF 1208 million and the decrease of non-controlling interests amounted to CHF 267 million. Part of the consideration was recorded as a liability in previous years for approximately CHF 311 million. The equity was negatively impacted by CHF 630 million.

3. Analyses by segment

Nestlé is organised into three geographic zones and several globally managed businesses. The Company manufactures and distributes food and beverage products in the following categories: powdered and liquid beverages, water, milk products and ice cream, prepared dishes and cooking aids, confectionery and petcare. Nestlé also manufactures and distributes nutritional science products through its globally managed business Nestlé Health Science and science-based solutions that contribute to the health of skin, hair and nails through Nestlé Skin Health. The Group has factories in 86 countries and sales in 191 countries and employs around 328 000 people.

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

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

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

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

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

Segment results represent the contribution of the different segments to central overheads, unallocated research and development costs and the trading operating profit of the Group. Specific corporate expenses as well as specific research and development costs are allocated to the corresponding segments.

Depreciation and amortisation includes depreciation of property, plant and equipment and amortisation of intangible assets.

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

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

Goodwill and intangible assets are not included in invested capital since the amounts recognised are not comparable between segments due to differences in the intensity of acquisition activity and changes in accounting standards which were applicable at various points in time when the Group undertook significant acquisitions. Nevertheless, an allocation of goodwill and intangible assets by segment and product and the related impairment expenses are provided.

Inter-segment eliminations represent inter-company balances between the different segments.

Invested capital and goodwill and intangible assets by segment represent the situation at the end of the year, while the figures by product represent the annual average, as this provides a better indication of the level of invested capital.

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

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

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

3.1 Operating segments
Revenue and results

In millions of CHF

2016

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

In millions of CHF

2015

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

(a) Inter-segment sales are not significant.
(b) Included in Trading operating profit.
(c) Mainly Nestlé Professional, Nespresso, Nestlé Health Science and Nestlé Skin Health.
(d) Refer to the Segment reporting accounting policies above for the definition of unallocated items.

Invested capital and other information

In millions of CHF

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

In millions of CHF

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

(a) Mainly Nestlé Professional, Nespresso, Nestlé Health Science and Nestlé Skin Health.
(b) Refer to the Segment reporting accounting policies above for the definition of unallocated items.

3.2 Products
Revenue and results

In millions of CHF

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

In millions of CHF

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

(a) Included in Trading operating profit.
(b) Refer to the Segment reporting accounting policies above for the definition of unallocated items.

Invested capital and other information

In millions of CHF

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

In millions of CHF

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

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

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

In millions of CHF

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

3.3b Reconciliation from invested capital to total assets

In millions of CHF

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

3.4 Customers

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

3.5 Geography

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

The analysis of sales is stated by customer location.

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

In millions of CHF

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

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

Other trading income/(expenses)
These comprise restructuring costs, impairment of property, plant and equipment and intangible assets, litigations and onerous contracts, result on disposal of property, plant and equipment, and specific other income and expenses that fall within the control of operating segments.

Restructuring costs are restricted to dismissal indemnities and employee benefits paid to terminated employees upon the reorganisation of a business. It does not include dismissal indemnities paid for normal attrition, poor performance, professional misconduct, etc.

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

4.1 Net other trading income/(expenses)

In millions of CHF

	Notes	2016	2015
Other trading income		**99**	**78**
Restructuring costs		(300)	(165)
Impairment of property, plant and equipment and intangible assets	8/9	(201)	(238)
Litigations and onerous contracts [(a)]		(155)	(277)
Miscellaneous trading expenses		(57)	(48)
Other trading expenses		**(713)**	**(728)**
Total net other trading income/(expenses)		**(614)**	**(650)**

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

4.2 Net other operating income/(expenses)

In millions of CHF

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

5. Net financial income/(expense)

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

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

In millions of CHF

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

6. Inventories

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

In millions of CHF

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

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

7. Trade and other receivables

7.1 By type

In millions of CHF

	2016	2015
Trade receivables	10 023	9 696
Other receivables	2 388	2 556
	12 411	**12 252**

The five major customers represent 12% (2015: 12%) of trade and other receivables, none of them individually exceeding 7% (2015: 7%).

7.2 Past due and allowance for doubtful receivables

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

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

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

8. Property, plant and equipment

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

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

The useful lives are as follows:

Buildings	20 – 40 years
Machinery and equipment	10 – 25 years
Tools, furniture, information technology and sundry equipment	3 – 10 years
Vehicles	3 – 8 years

Land is not depreciated.

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

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

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

In millions of CHF

	Land and buildings	Machinery and equipment	Tools, furniture and other equipment	Vehicles	Total
Gross value					
At 1 January 2016	16 359	28 554	7 254	732	**52 899**
Currency retranslations	50	200	109	6	**365**
Capital expenditure (a)	1 124	2 048	782	56	**4 010**
Disposals	(94)	(561)	(497)	(63)	**(1 215)**
Reclassification (to)/from held for sale (b)	(39)	(58)	14	—	**(83)**
Modification of the scope of consolidation	(20)	(17)	(9)	—	**(46)**
At 31 December 2016	**17 380**	**30 166**	**7 653**	**731**	**55 930**
Accumulated depreciation and impairments					
At 1 January 2016	(5 263)	(15 468)	(5 144)	(448)	**(26 323)**
Currency retranslations	(58)	(139)	(44)	(2)	**(243)**
Depreciation	(462)	(1 551)	(709)	(73)	**(2 795)**
Impairments	(46)	(96)	(15)	—	**(157)**
Disposals	49	489	467	56	**1 061**
Reclassification to/(from) held for sale (b)	46	48	(31)	(2)	**61**
Modification of the scope of consolidation	7	9	4	—	**20**
At 31 December 2016	**(5 727)**	**(16 708)**	**(5 472)**	**(469)**	**(28 376)**
Net at 31 December 2016	**11 653**	**13 458**	**2 181**	**262**	**27 554**
Gross value					
At 1 January 2015	17 233	30 003	8 042	828	**56 106**
Currency retranslations	(1 285)	(2 150)	(458)	(42)	**(3 935)**
Capital expenditure (a)	925	2 117	765	65	**3 872**
Disposals	(81)	(588)	(492)	(60)	**(1 221)**
Reclassification (to)/from held for sale (b)	(491)	(794)	(582)	(62)	**(1 929)**
Modification of the scope of consolidation	58	(34)	(21)	3	**6**
At 31 December 2015	**16 359**	**28 554**	**7 254**	**732**	**52 899**
Accumulated depreciation and impairments					
At 1 January 2015	(5 506)	(16 078)	(5 605)	(496)	**(27 685)**
Currency retranslations	343	1 058	387	26	**1 814**
Depreciation	(447)	(1 519)	(814)	(81)	**(2 861)**
Impairments	(18)	(72)	(10)	—	**(100)**
Disposals	72	520	457	55	**1 104**
Reclassification to/(from) held for sale (b)	273	571	425	48	**1 317**
Modification of the scope of consolidation	20	52	16	—	**88**
At 31 December 2015	**(5 263)**	**(15 468)**	**(5 144)**	**(448)**	**(26 323)**
Net at 31 December 2015	**11 096**	**13 086**	**2 110**	**284**	**26 576**

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

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

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

Impairment of property, plant and equipment

Consideration is given at each balance sheet date to determine whether there is any indication of impairment of the carrying amounts of the Group's property, plant and equipment. Indication could be unfavourable development of a business under competitive pressures or severe economic slowdown in a given market as well as reorganisation of the operations to leverage their scale.

In assessing value in use, the estimated future cash flows are discounted to their present value, based on the time value of money and the risks specific to the country where the assets are located. The risks specific to the asset are included in the determination of the cash flows.

Impairment of property, plant and equipment arises mainly from the plans to optimise industrial manufacturing capacities by closing or selling inefficient production facilities.

9. Goodwill and intangible assets

Goodwill
Goodwill is initially recognised during a business combination (see Note 2). Subsequently it is measured at cost less impairment.

Intangible assets
This heading includes intangible assets that are internally generated or acquired, either separately or in a business combination, when they are identifiable and can be reliably measured. Internally generated intangible assets (essentially management information system software) are capitalised provided that there is an identifiable asset that will be useful in generating future benefits in terms of savings, economies of scale, etc. Payments made to third parties in order to in-license or acquire intellectual property rights, compounds and products are capitalised as they are separately identifiable and are expected to generate future benefits.

Indefinite life intangible assets mainly comprise certain brands, trademarks and intellectual property rights. They are not amortised but tested for impairment annually or more frequently if an impairment indicator is triggered. The assessment of the classification of intangible assets as indefinite is reviewed annually.

Finite life intangible assets are amortised over the shorter of their contractual or useful economic lives. They comprise mainly management information systems, patents and rights to carry on an activity (e.g. exclusive rights to sell products or to perform a supply activity). Finite life intangible assets are amortised on a straight-line basis assuming a zero residual value: management information systems over a period ranging from 3 to 5 years; other finite intangible assets over the estimated useful life or the related contractual period, generally 5 to 20 years or longer, depending on specific circumstances. Useful lives and residual values are reviewed annually. Amortisation of intangible assets is allocated to the appropriate headings of expenses by function in the income statement.

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

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

In millions of CHF

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

(a) Goodwill: acquisition of businesses amounts to CHF 193 million and disposal of businesses to CHF 73 million.
(b) Annual impairment tests are performed in connection with goodwill impairment tests. Depending on the items tested, the level at which the test is applied is the goodwill CGU or lower.

In millions of CHF

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

(a) Mainly relates to the disposal of businesses with regards of the creation of the joint venture Froneri.
(b) Goodwill: acquisition of businesses amounts to CHF 302 million and disposal of businesses to CHF 37 million.
(c) Annual impairment tests are performed in connection with goodwill impairment tests. Depending on the items tested, the level at which the test is applied is the goodwill CGU or lower.

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

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

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

In millions of CHF

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

Impairment of goodwill and intangible assets

Goodwill and indefinite life intangible assets are tested for impairment at least annually and when there is an indication of impairment. Finite life intangible assets are tested when there is an indication of impairment.

The annual impairment tests are performed at the same time each year and at the cash generating unit (CGU) level. The Group defines its CGU for goodwill impairment testing based on the way that it monitors and derives economic benefits from the acquired goodwill. For indefinite life intangible assets, the Group defines its CGU as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The impairment tests are performed by comparing the carrying value of the assets of these CGU with their recoverable amount, based on their value in use, which corresponds to their future projected cash flows discounted at an appropriate pre-tax rate of return. Usually, the cash flows correspond to estimates made by Group Management in financial plans and business strategies covering a period of five years after making adjustments to consider the assets in their current condition. They are then projected to perpetuity using a multiple which corresponds to a steady or declining growth rate. The Group assesses the uncertainty of these estimates by making sensitivity analyses. The discount rate reflects the current assessment of the time value of money and the risks specific to the CGU (essentially country risk). The business risk is included in the determination of the cash flows. Both the cash flows and the discount rates include inflation.

An impairment loss in respect of goodwill is never subsequently reversed.

9.1 Impairment

9.1.1 Impairment charge during the year

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

In 2015, there were various impairments of goodwill (predominantly in Zone AOA) and intangible assets (predominantly in Unallocated items). None of them were individually significant.

9.1.2 Annual impairment tests

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

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

In millions of CHF

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

For all CGUs, the recoverable amount is higher than its carrying amount. The recoverable amount has been determined based upon a value-in-use calculation. Cash flows have been projected over the next 5 years, except for Nestlé Skin Health for which a 10 year period has been used due to the product development cycle. They have been extrapolated using a steady or declining terminal growth rate and discounted at a pre-tax weighted average rate.

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

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

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

- The pre-tax discount rates have been computed based on external sources of information.
- The cash flows for the first five years were based upon financial plans approved by Group Management which are consistent with the Group's approved strategy for this period. They are based on past performance and current initiatives.
- The terminal growth rates have been determined to reflect the long-term view of the nominal evolution of the business.

Management believes that no reasonably possible change in any of the above key assumptions would cause the CGU's recoverable amount to fall below the carrying value of the CGUs except for the CGU DSD for Frozen Pizza and Ice Cream – USA. For this CGU, the following changes in the material assumptions lead to a situation where the value in use equals the carrying amount:

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

10. Employee benefits

10.1 Employee remuneration

The Group's salaries of CHF 12 427 million (2015: CHF 12 123 million) and welfare expenses of CHF 4290 million (2015: CHF 4219 million) represent a total of CHF 16 717 million (2015: CHF 16 342 million). In addition, certain Group employees are eligible to long-term incentives in the form of equity compensation plans, for which the cost amounts to CHF 227 million (2015: CHF 219 million). Employee remuneration is allocated to the appropriate headings of expenses by function.

10.2 Post-employment benefits

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

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

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

Certain disclosures are presented by geographic area. The three regions disclosed are Europe, Middle East and North Africa (EMENA), Americas (AMS) and Asia, Oceania and sub-Saharan Africa (AOA). Each region includes the corresponding Zones as well as Nestlé Waters, Nestlé Nutrition, Nestlé Professional, Nespresso, Nestlé Health Science and Nestlé Skin Health.

Pensions and retirement benefits

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

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

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

In the United Kingdom, Nestlé's pension plan is an arrangement combining a defined benefit career average section with salary revaluation plus a defined contribution section. It should be noted that the defined benefit section was closed to new entrants during 2016. In the defined benefit section members accrue a pension defined on the average of their salaries during their career at Nestlé since 2010. The salaries are automatically revalued according to inflation subject to caps. Pensions earned before 2010 are also revalued according to inflation subject to a cap and similarly, pensions in payment are mandatorily adjusted, as well. At retirement, there is a lump sum option. Members employed before 1 July 2016 have the option to switch between the defined benefit section and the defined contribution section. The funding of the shortfall of the Nestle UK Pension Fund (a related party) is defined on the basis of a triennial independent actuarial valuation in accordance with local regulations. An amount of GBP 86 million has been paid by Nestle UK Ltd during the year in accordance with the agreed schedule of contributions. The undiscounted future payments after 31 December 2016 related to the shortfall amount to GBP 516 million (GBP 172 million between 2017 and 2018, GBP 258 million between 2019 and 2021 and GBP 86 million in 2022).

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

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

Post-employment medical benefits and other employee benefits

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

Risks related to defined benefit plans

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

– mortality risk: the assumptions adopted by the Group make allowance for future improvements in life expectancy. However, if life expectancy improves at a faster rate

than assumed, this would result in greater payments from the plans and consequently increases in the plans' liabilities. In order to minimise this risk, mortality assumptions are reviewed on a regular basis.
– market and liquidity risks: these are the risks that the investments do not meet the expected returns over the medium to long-term. This also encompasses the mismatch between assets and liabilities. In order to minimise the risks, the structure of the portfolios is reviewed and asset-liability matching analyses are performed on a regular basis.

Plan amendments and restructuring events

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

During the year, there were minor plan amendments and restructuring events which have been recognised as past service costs and curtailments.

Asset-liability management and funding arrangement

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

The overall investment policy and strategy for the Group's funded defined benefit plans is guided by the objective of achieving an investment return which, together with the contributions paid, is sufficient to maintain reasonable control over the various funding risks of the plans. As those risks evolve with the development of capital markets and asset management activities, the Group addresses the assessment and control process of the major investment pension risks. In order to protect the Group's defined benefit plans funding ratio and to mitigate the financial risks, protective measures on the investment strategies are in force. To the extent possible, the risks are shared equally amongst the different stakeholders.

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

In millions of CHF

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

10.2b Funding situation by geographic area of defined benefit plans

In millions of CHF

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

10.2c Movement in the present value of defined benefit obligations

In millions of CHF

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

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

10.2d Movement in fair value of defined benefit plan assets

In millions of CHF

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

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

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

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

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

The plan assets of funded defined benefit plans include property occupied by subsidiaries with a fair value of CHF 26 million (2015: CHF 24 million). Furthermore, funded defined benefit plans are invested in Nestlé S.A. (or related) shares to the extent of CHF 39 million (2015: CHF 43 million). The Group's investment management principles allow such investment only when the position in Nestlé S.A. (or related) shares is passive, i.e. in line with the weighting in the underlying benchmark.

The Group expects to contribute CHF 739 million to its funded defined benefit plans in 2017.

10.2e Expenses recognised in the income statement

In millions of CHF

			2016			2015
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	**Total**	Defined benefit retirement plans	Post-employment medical benefits and other benefits	**Total**
Service cost	798	51	**849**	813	48	**861**
Employees' contributions	(138)	—	**(138)**	(136)	—	**(136)**
Net interest (income)/expense	91	97	**188**	90	87	**177**
Administration expenses	21	—	**21**	19	—	**19**
Defined benefit expenses	**772**	**148**	**920**	**786**	**135**	**921**
Defined contribution expenses			**325**			**287**
Total			**1 245**			**1 208**

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

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

In millions of CHF	2016			2015		
	Defined benefit retirement plans	Post-employment medical benefits and other benefits	**Total**	Defined benefit retirement plans	Post-employment medical benefits and other benefits	**Total**
Actual return on plan assets, excluding interest income	1 427	(2)	**1 425**	(590)	—	**(590)**
Experience adjustments on plan liabilities	251	(45)	**206**	(30)	(51)	**(81)**
Change in demographic assumptions on plan liabilities	(224)	11	**(213)**	(67)	(2)	**(69)**
Change in financial assumptions on plan liabilities	(1 750)	(106)	**(1 856)**	286	76	**362**
Transfer from/(to) unrecognised assets and other	(13)	—	**(13)**	8	—	**8**
Remeasurement of defined benefit plans	**(309)**	**(142)**	**(451)**	**(393)**	**23**	**(370)**

10.2g Principal financial actuarial assumptions

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

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

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

Expressed in years

		2016	2015	2016	2015
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	21.9	20.8	23.9	23.1
United Kingdom	S1NA	21.5	21.5	23.1	23.0
Germany	Heubeck Richttafeln 2005 G modifiziert	20.1	20.1	23.6	23.6
AMS					
USA	RP-2014	20.9	21.1	22.9	23.2

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

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

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

In millions of CHF

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

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

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

Expressed in years

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

11. Provisions and contingencies

Provisions
Provisions comprise liabilities of uncertain timing or amount that arise from restructuring plans, environmental, litigation and other risks. Provisions are recognised when there exists a legal or constructive obligation stemming from a past event and when the future cash outflows can be reliably estimated. Obligations arising from restructuring plans are recognised when detailed formal plans have been established and when there is a valid expectation that such plans will be carried out by either starting to implement them or announcing their main features. Obligations under litigation reflect Group Management's best estimate of the outcome based on the facts known at the balance sheet date.

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

11.1 Provisions

In millions of CHF

	Restructuring	Environmental	Litigation	Other	Total
At 1 January 2015	542	21	2 670	623	**3 856**
Currency retranslations	(24)	(1)	(245)	(18)	**(288)**
Provisions made during the year [(a)]	161	4	501	181	**847**
Amounts used	(153)	(3)	(363)	(81)	**(600)**
Reversal of unused amounts	(39)	—	(475)	(132)	**(646)**
Reclassification (to)/from held for sale	(28)	—	(2)	(2)	**(32)**
Modification of the scope of consolidation	—	—	1	27	**28**
At 31 December 2015	**459**	**21**	**2 087**	**598**	**3 165**
of which expected to be settled within 12 months					**564**
Currency retranslations	4	1	72	10	**87**
Provisions made during the year [(a)]	284	10	422	179	**895**
Amounts used	(120)	(1)	(287)	(56)	**(464)**
Reversal of unused amounts	(56)	(4)	(174)	(161)	**(395)**
Reclassification (to)/from held for sale	12	—	(2)	1	**11**
Modification of the scope of consolidation	—	—	—	(39)	**(39)**
At 31 December 2016	**583**	**27**	**2 118**	**532**	**3 260**
of which expected to be settled within 12 months					**620**

(a) Including discounting of provisions.

Restructuring

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

Litigation

Litigation provisions have been set up to cover tax, legal and administrative proceedings that arise in the ordinary course of the business. These provisions cover numerous separate cases whose detailed disclosure could be detrimental to the Group interests. The Group does not believe that any of these litigation proceedings will have a material adverse impact on its financial position. The timing of outflows is uncertain as it depends upon the outcome of the proceedings. In that instance, these provisions are not discounted because their present value would not represent meaningful information. Group Management does not believe it is possible to make assumptions on the evolution of the cases beyond the balance sheet date.

Other

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

11.2 Contingencies

The Group is exposed to contingent liabilities amounting to a maximum potential payment of CHF 1893 million (2015: CHF 1350 million) representing potential litigations of CHF 1874 million (2015: CHF 1322 million) and other items of CHF 19 million (2015: CHF 28 million). Potential litigations relate mainly to labour, civil and tax litigations in Latin America.

Contingent assets for litigation claims in favour of the Group amount to a maximum potential recoverable amount of CHF 201 million (2015: CHF 149 million).

12. Financial instruments

Financial assets
Financial assets are initially recognised at fair value plus directly attributable transaction costs. However when a financial asset at fair value to income statement is recognised, the transaction costs are expensed immediately. Subsequent remeasurement of financial assets is determined by their categorisation that is revisited at each reporting date.

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

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

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

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

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

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

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

Held-for-trading assets and liabilities are derivative financial instruments. Subsequent to initial measurement, these items are carried at fair value and all their gains and losses, realised and unrealised, are recognised in the income statement unless they are part of a hedging relationship (refer to hedge accounting, see Note 12.2d).

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

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

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

Financial liabilities at amortised cost

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

Subsequent to initial measurement, financial liabilities are recognised at amortised cost. The difference between the initial carrying amount of the financial liabilities and their redemption value is recognised in the income statement over the contractual terms using the effective interest rate method. This category includes the following classes of financial liabilities: trade and other payables; commercial paper; bonds and other financial liabilities.

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

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

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

In millions of CHF

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

(a) Carrying amount of these instruments is a reasonable approximation of their fair value. For bonds included in financial debt, see Note 12.1c.
(b) Liquid assets are composed of cash and cash equivalents and short-term investments.
(c) Include derivatives held in hedge relationships and those that are undesignated (categorised as held-for-trading), see Note 12.2d.

12.1b Fair value hierarchy of financial instruments

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

i) The fair value of financial instruments quoted in active markets is based on their quoted closing price at the balance sheet date. Examples include exchange-traded commodity derivatives and other financial assets such as investments in equity and debt securities.

ii) The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques using observable market data. Such valuation techniques include discounted cash flows, standard valuation models based on market parameters for interest rates, yield curves or foreign exchange rates, dealer quotes for similar instruments and use of comparable arm's length transactions. For example, the fair value of forward exchange contracts, currency swaps and interest rate swaps is determined by discounting estimated future cash flows.

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

In millions of CHF

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

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

12.1c Bonds

In millions of CHF

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

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

Several bonds are hedged by currency and/or interest derivatives. The fair value of these derivatives is shown under derivative assets for CHF 98 million (2015: CHF 78 million) and under derivative liabilities for CHF 797 million (2015: CHF 708 million).

(a) Subject to an interest rate and currency swap that creates a liability at fixed rates in the currency of the issuer.
(b) Subject to an interest rate and/or currency swap that creates a liability at floating rates in the currency of the issuer.
(c) This bond is composed of:
– AUD 300 million subject to an interest rate and currency swap that creates a liability at fixed rates in the currency of the issuer; and
– AUD 100 million subject to an interest rate and currency swap that creates a liability at floating rates in the currency of the issuer.
(d) This bond is composed of:
– GBP 400 million issued in 2015 and subject to an interest rate and currency swap that creates a liability at fixed rates in the currency of the issuer; and
– GBP 100 million issued in 2016 and subject to an interest rate and currency swap that creates a liability at floating rates in the currency of the issuer.
(e) Subject to an interest rate swap.
(f) Out of which EUR 375 million is subject to an interest rate swap.

12.2 Financial risks

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

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

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

12.2a Credit risk

Credit risk management

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

The Group aims to minimise its financial credit risk through the application of risk management policies. Credit limits are set based on each counterparty's size and risk of default. The methodology used to set the credit limit considers the counterparty's balance sheet, credit ratings, risk ratios and default probabilities. Counterparties are monitored regularly, taking into consideration the evolution of the above parameters, as well as their share prices and credit default swaps. As a result of this review, changes on credit limits and risk allocation are carried out. The Group avoids the concentration of credit risk on its liquid assets by spreading them over several institutions and sectors.

Trade receivables are subject to credit limits, control and approval procedures in all the subsidiaries. Due to its large geographic base and number of customers, the Group is not exposed to material concentrations of credit risk on its trade receivables (see Note 7). Nevertheless, commercial counterparties are constantly monitored following the similar methodology used for financial counterparties.

The maximum exposure to credit risk resulting from financial activities, without considering netting agreements and without taking into account any collateral held or other credit enhancements, is equal to the carrying amount of the Group's financial assets.

Credit rating of financial assets

This includes liquid assets, non-current financial assets and derivative assets.

In millions of CHF

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

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

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

12.2b Liquidity risk

Liquidity risk management

Liquidity risk is the risk that a company may encounter difficulties in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. Such risk may result from inadequate market depth or disruption or refinancing problems. The Group's objective is to manage this risk by limiting exposures in financial instruments that may be affected by liquidity problems and by maintaining sufficient back-up facilities. The Group does not expect any refinancing issues and in 2016 successfully extended the tenor of both its revolving credit facilities by one year:

- A new USD 4.1 billion and EUR 2.3 billion revolving credit facility with an initial maturity date of October 2017. The Group has the ability to convert the facility into a one year term loan.
- A USD 3.0 billion and EUR 1.8 billion revolving credit facility with a new maturity date of October 2021.

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

Contractual maturities of financial liabilities and derivatives (including interest)

In millions of CHF

		In the first year	In the second year	In the third to the fifth year	After the fifth year	Contractual amount	Carrying amount
2016	**Trade and other payables**	**(18 629)**	**(149)**	**(356)**	**(1 925)**	**(21 059)**	**(21 016)**
	Commercial paper [(a)]	(7 180)	—	—	—	(7 180)	(7 171)
	Bonds [(a)]	(2 210)	(1 956)	(6 938)	(2 204)	(13 308)	(12 435)
	Other financial debt	(3 092)	(118)	(478)	(88)	(3 776)	(3 603)
	Total financial debt	**(12 482)**	**(2 074)**	**(7 416)**	**(2 292)**	**(24 264)**	**(23 209)**
	Financial liabilities (excluding derivatives)	**(31 111)**	**(2 223)**	**(7 772)**	**(4 217)**	**(45 323)**	**(44 225)**
	Non-currency derivative assets	96	9	17	5	127	125
	Non-currency derivative liabilities	(130)	(27)	(28)	—	(185)	(183)
	Gross amount receivable from currency derivatives	14 421	878	1 113	—	16 412	16 307
	Gross amount payable from currency derivatives	(14 511)	(1 017)	(1 383)	—	(16 911)	(16 767)
	Net derivatives	**(124)**	**(157)**	**(281)**	**5**	**(557)**	**(518)**
	of which derivatives under cash flow hedges [(b)]	34	(26)	(28)	—	(20)	(18)
2015	**Trade and other payables**	**(17 038)**	**(39)**	**(77)**	**(1 656)**	**(18 810)**	**(18 767)**
	Commercial paper [(a)]	(5 944)	—	—	—	(5 944)	(5 942)
	Bonds [(a)]	(1 309)	(2 183)	(6 276)	(3 504)	(13 272)	(12 221)
	Other financial debt	(2 748)	(214)	(235)	(69)	(3 266)	(3 067)
	Total financial debt	**(10 001)**	**(2 397)**	**(6 511)**	**(3 573)**	**(22 482)**	**(21 230)**
	Financial liabilities (excluding derivatives)	**(27 039)**	**(2 436)**	**(6 588)**	**(5 229)**	**(41 292)**	**(39 997)**
	Non-currency derivative assets	47	3	—	(6)	44	44
	Non-currency derivative liabilities	(159)	(25)	(45)	(9)	(238)	(235)
	Gross amount receivable from currency derivatives	12 555	1 133	1 923	—	15 611	15 452
	Gross amount payable from currency derivatives	(12 506)	(1 437)	(2 169)	—	(16 112)	(15 945)
	Net derivatives	**(63)**	**(326)**	**(291)**	**(15)**	**(695)**	**(684)**
	of which derivatives under cash flow hedges [(b)]	(13)	(27)	(45)	(2)	(87)	(84)

(a) Commercial paper of CHF 6333 million (2015: CHF 5822 million) and bonds of CHF 171 million (2015: CHF 387 million) have maturities of less than three months.

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

12.2c Market risk

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

Foreign currency risk

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

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

Exchange differences recorded in the income statement represented a loss of CHF 147 million in 2016 (2015: loss of CHF 156 million). They are allocated to the appropriate headings of expenses by function.

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

Value at Risk (VaR) based on historic data for a 250-day period and a confidence level of 95% results in a potential one-day loss for currency risk of less than CHF 10 million in 2016 and 2015.

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

Interest rate risk

The Group is exposed primarily to fluctuation in USD and EUR interest rates. Interest rate risk on financial debt is managed based on duration and interest management targets set by the ALMC through the use of fixed rate debt and interest rate swaps.

Taking into account the impact of interest derivatives, the proportion of financial debt subject to fixed interest rates for a period longer than one year represents 45% (2015: 50%).

Based on the structure of net debt at year end, an increase of interest rates of 100 basis points would cause an additional expense in Net financing cost of net debt of CHF 49 million (2015: CHF 57 million).

Price risk

Commodity price risk

Commodity price risk arises from transactions on the world commodity markets for securing the supplies of green coffee, cocoa beans and other commodities necessary for the manufacture of some of the Group's products.

The Group's objective is to minimise the impact of commodity price fluctuations and this exposure is hedged in accordance with the Nestlé Group policy on commodity price risk management. The regional Commodity Purchasing Competence Centres are responsible for managing commodity price risk on the basis of internal directives and centrally determined limits, generally through the use of exchange-traded commodity derivatives. The commodity price risk exposure of future purchases is managed using a combination of derivatives (mainly futures and options) and executory contracts. As a result of the short product business cycle of the Group, the majority of the anticipated future raw material transactions outstanding at the balance sheet date are expected to occur in the next year.

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

12.2d Derivative assets and liabilities and hedge accounting

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

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

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

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

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

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

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

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

By type

In millions of CHF

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

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

Impact on the income statement of fair value hedges

In millions of CHF	2016	2015
on hedged items	(254)	(189)
on hedging instruments	257	185

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

12.2e Capital risk management

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

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

The operating cash flow-to-net financial debt ratio highlights the ability of a business to repay its debts. As at 31 December 2016, the ratio was 112.0% (2015: 92.7%). The Group's subsidiaries have complied with local statutory capital requirements as appropriate.

13. Taxes

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

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

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

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

13.1 Taxes recognised in the income statement

In millions of CHF

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

(a) Current taxes related to prior years represent a tax income of CHF 4 million (2015: tax income of CHF 118 million).
(b) This item includes a one-time charge of CHF 0.5 billion related to deferred tax, arising in Switzerland, in accordance with a new cantonal tax law.

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

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

In millions of CHF

	Property, plant and equipment	Goodwill and intangible assets	Employee benefits	Inventories, receivables, payables and provisions	Unused tax losses and unused tax credits	Other	**Total**
At 1 January 2015	(1 660)	(2 513)	1 826	1 075	385	(246)	**(1 133)**
Currency retranslations	69	25	(116)	(116)	(92)	(38)	**(268)**
Deferred tax (expense)/income	(132)	39	6	57	17	106	**93**
Reclassification to/from held for sale	(7)	8	(9)	(9)	(18)	1	**(34)**
Modification of the scope of consolidation	(25)	(79)	2	6	17	1	**(78)**
At 31 December 2015	**(1 755)**	**(2 520)**	**1 709**	**1 013**	**309**	**(176)**	**(1 420)**
Currency retranslations	(52)	(7)	47	41	40	3	**72**
Deferred tax (expense)/income	76	(742)	299	12	(14)	(135)	**(504)**
Reclassification to/from held for sale	4	11	(2)	2	—	16	**31**
Modification of the scope of consolidation	4	10	(4)	(8)	5	(2)	**5**
At 31 December 2016	**(1 723)**	**(3 248)**	**2 049**	**1 060**	**340**	**(294)**	**(1 816)**

In millions of CHF

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

13.3 Unrecognised deferred taxes

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

In millions of CHF

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

At 31 December 2016, the unrecognised deferred tax assets amount to CHF 473 million (2015: CHF 587 million). In addition, the Group has not recognised deferred tax liabilities in respect of unremitted earnings that are considered indefinitely reinvested in foreign subsidiaries. At 31 December 2016, these earnings amount to CHF 22.4 billion (2015: CHF 18.0 billion). They could be subject to withholding and other taxes on remittance.

14. Associates and joint ventures

Associates are companies where the Group has the power to exercise a significant influence but does not exercise control. Significant influence may be obtained when the Group has 20% or more of the voting rights in the investee or has obtained a seat on the Board of Directors or otherwise participates in the policy-making process of the investee.

Joint ventures are contractual arrangements over which the Group exercises joint control with partners and where the parties have rights to the net assets of the arrangement.

Associates and joint ventures are accounted for using the equity method. The interest in the associate or joint venture also includes long-term loans which are in substance extensions of the Group's investment in the associate or joint venture. The net assets and results are adjusted to comply with the Group's accounting policies. The carrying amount of goodwill arising from the acquisition of associates and joint ventures is included in the carrying amount of investments in associates and joint ventures.

In millions of CHF

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

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

As part of the investment, loans granted by the Group to joint ventures amount to CHF 1695 million at 31 December 2016 (2015: CHF 240 million).

Income from associates and joint ventures

In millions of CHF

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

14.1 L'Oréal

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

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

Summarised financial information of L'Oréal

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

Reconciliation of the carrying amount

In billions of CHF	2016	2015
Share held by the Group in the equity of L'Oréal	6.1	5.9
Goodwill and other adjustments	1.4	1.4
Carrying amount of L'Oréal	**7.5**	**7.3**

14.2 Other associates

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

14.3 Joint ventures

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

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

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

15. Earnings per share

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

16. Cash flow statement

16.1 Operating profit

In millions of CHF

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

16.2 Non-cash items of income and expense

In millions of CHF

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

16.3 Decrease/(increase) in working capital

In millions of CHF

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

16.4 Variation of other operating assets and liabilities

In millions of CHF	2016	2015
Variation of employee benefits assets and liabilities	(167)	(125)
Variation of provisions	40	(327)
Other	181	204
	54	**(248)**

16.5 Net cash flows from treasury activities

In millions of CHF	2016	2015
Interest paid	(534)	(522)
Interest and dividends received	96	70
Net cash flows from derivatives used to hedge foreign operations	115	361
Net cash flows from trading derivatives	(4)	(2)
	(327)	**(93)**

16.6 Reconciliation of free cash flow and net financial debt

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

16.7 Cash and cash equivalents at end of year

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

In millions of CHF	2016	2015
Cash at bank and in hand	3 341	1 906
Time deposits	1 292	1 191
Commercial paper	3 357	1 787
	7 990	**4 884**

17. Equity

17.1 Share capital issued

The ordinary share capital of Nestlé S.A. authorised, issued and fully paid is composed of 3 112 160 000 registered shares with a nominal value of CHF 0.10 each (2015: 3 188 400 000 registered shares). Each share confers the right to one vote. No shareholder may be registered with the right to vote for shares which it holds, directly or indirectly, in excess of 5% of the share capital. Shareholders have the right to receive dividends.

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

17.2 Conditional share capital

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

17.3 Treasury shares

Number of shares in millions of units

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

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

17.4 Number of shares outstanding

Number of shares in millions of units

	Shares issued	Treasury shares	Outstanding shares
At 1 January 2015	3 224.8	(56.4)	**3 168.4**
Purchase of treasury shares	—	(88.9)	**(88.9)**
Sale of treasury shares	—	—	**—**
Treasury shares delivered in respect of options exercised	—	1.7	**1.7**
Treasury shares delivered in respect of equity compensation plans	—	3.3	**3.3**
Treasury shares cancelled	(36.4)	36.4	**—**
At 31 December 2015	**3 188.4**	**(103.9)**	**3 084.5**
Purchase of treasury shares	—	(4.0)	**(4.0)**
Sale of treasury shares	—	13.8	**13.8**
Treasury shares delivered in respect of options exercised	—	0.8	**0.8**
Treasury shares delivered in respect of equity compensation plans	—	2.9	**2.9**
Treasury shares cancelled	(76.2)	76.2	**—**
At 31 December 2016	**3 112.2**	**(14.2)**	**3 098.0**

17.5 Translation reserve and other reserves

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

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

The other reserves comprise the fair value reserve and the hedging reserve of the subsidiaries. The fair value reserve includes the gains and losses on remeasuring available-for-sale financial instruments and the hedging reserve consists of the effective portion of the gains and losses on hedging instruments related to hedged transactions that have not yet occurred.

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

17.6 Retained earnings

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

17.7 Non-controlling interests

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

17.8 Other comprehensive income

In millions of CHF

2016

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

In millions of CHF

2015

	Translation reserve	Fair value reserves	Hedging reserves	Reserves of associates and joint ventures	Retained earnings	**Total equity attributable to shareholders of the parent**	Non-controlling interests	**Total equity**
Currency retranslations								
– Recognised	(3 839)	(3)	—	(134)	—	**(3 976)**	(85)	**(4 061)**
– Reclassified to income statement	102	—	—	—	—	**102**	—	**102**
– Taxes	188	—	—	—	—	**188**	—	**188**
	(3 549)	(3)	—	(134)	—	**(3 686)**	(85)	**(3 771)**
Fair value adjustments on available-for-sale financial instruments								
– Recognised	—	(134)	—	—	—	**(134)**	—	**(134)**
– Reclassified to income statement	—	(75)	—	—	—	**(75)**	—	**(75)**
– Taxes	—	65	—	—	—	**65**	—	**65**
	—	(144)	—	—	—	**(144)**	—	**(144)**
Fair value adjustments on cash flow hedges								
– Recognised	—	—	(6)	—	—	**(6)**	1	**(5)**
– Reclassified to income statement	—	—	83	—	—	**83**	—	**83**
– Taxes	—	—	(16)	—	—	**(16)**	—	**(16)**
	—	—	61	—	—	**61**	1	**62**
Remeasurement of defined benefit plans								
– Recognised	—	—	—	—	(370)	**(370)**	—	**(370)**
– Taxes	—	—	—	—	8	**8**	—	**8**
	—	—	—	—	(362)	**(362)**	—	**(362)**
Share of other comprehensive income of associates and joint ventures								
– Recognised	—	—	—	165	112	**277**	—	**277**
– Reclassified to income statement	—	—	—	—	—	**—**	—	**—**
	—	—	—	165	112	**277**	—	**277**
Other comprehensive income for the year	**(3 549)**	**(147)**	**61**	**31**	**(250)**	**(3 854)**	**(84)**	**(3 938)**

17.9 Reconciliation of the other reserves

In millions of CHF

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

17.10 Dividend

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

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

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

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

18. Lease commitments

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

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

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

18.1 Operating leases

In millions of CHF

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

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

18.2 Finance leases

In millions of CHF

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

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

19. Transactions with related parties

19.1 Compensation of the Board of Directors and the Executive Board

Board of Directors

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

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

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

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

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

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

In millions of CHF

	2016	2015
Chairman's compensation	6	6
Other Board members		
Remuneration – cash	3	3
Shares	2	2
Total [(a)]	**11**	**11**

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

Executive Board

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

In millions of CHF

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

(a) Equity compensation plans are equity-settled share-based payment transactions whose cost is recognised over the vesting period as required by IFRS 2.
(b) For the detailed disclosures regarding the remunerations of the Executive Board that are required by Swiss law, refer to the Compensation report of Nestlé S.A. with the audited sections highlighted with a blue bar.

19.2 Transactions with associates and joint ventures

The main transactions with associates and joint ventures are:
- royalties received on brand licensing;
- dividends and interest received as well as loans granted (see Note 14);
- research and development commitments (see Note 9).

19.3 Other transactions

Nestlé Capital Advisers S.A. (NCA), one of the Group's subsidiaries, is an unregulated investment and actuarial adviser, based in Switzerland. Further to actuarial advice, NCA renders investment consulting services to some of the Group's pension funds, either directly or indirectly via the Robusta mutual fund umbrella, but NCA never executes trading and investment transactions. The fees received by NCA in 2016 for those activities amounted to CHF 10 million (2015: CHF 12 million).

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

In addition, Robusta Asset Management Ltd (RAML), a 100% subsidiary of NCA, is in charge of selecting and monitoring investment managers for the Robusta mutual funds pension investment vehicles. RAML has delegated most of its activities to third-parties, including NCA and hence no fee income is generated by RAML. Any remaining expenses are covered by means of fees deducted from its assets under management. The assets under supervision of RAML amounted to CHF 9.5 billion at 31 December 2016 (2015: CHF 9.7 billion). Of this amount CHF 6.5 billion (2015: CHF 6.7 billion) of assets are under direct management of NCM.

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

Furthermore, throughout 2016, no director of the Group had a personal interest in any transaction of significance for the business of the Group.

20. Guarantees

At 31 December 2016 and 31 December 2015, the Group has no significant guarantees given to third parties.

21. Events after the balance sheet date

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

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

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 31 December 2016, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 60 to 135) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

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

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

Key Audit Matters

Revenue recognition

Carrying value of goodwill and indefinite life intangible assets

Income taxes

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

Revenue recognition

Key Audit Matter

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

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

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

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

Our response

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

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

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

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

We assessed transactions taking place at either side of the balance sheet date to evaluate whether revenue was recognised in the correct period.

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

For further information on revenue recognition refer to the following:

– Note 1, “Accounting policies”
– Note 3, “Analyses by segment”

Carrying value of goodwill and indefinite life intangible assets

Key Audit Matter

The Group has goodwill of CHF 33,007 million and indefinite life intangible assets of CHF 16,203 million as at 31 December 2016 which are required to be tested for impairment at least on an annual basis. The recoverability of these assets is dependent on achieving sufficient level of future net cash flows.

Management apply judgement in allocating these assets to individual cash generating units (‘CGUs’)

Our response

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

For a sample of CGUs, identified based on quantitative and qualitative factors, we assessed the historical accuracy of the plans and forecasts by comparing the forecasts used in the prior year model as well as in assessing the future performance and prospects of each CGU and determining the appropriate discount rates.

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

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

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

For further information on the carrying value of goodwill and indefinite life intangible assets refer to the following:
– Note 1, “Accounting policies”
– Note 9, “Goodwill and intangible assets”

Income taxes

Key Audit Matter

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

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

Our response

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

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

For further information on income taxes refer to the following:
– Note 1, “Accounting policies”
– Note 11, “Provisions and contingencies”
– Note 13, “Taxes”

Other Information in the Annual Report

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

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

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

Responsibility of the Board of Directors for the Consolidated Financial Statements

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

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

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

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

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

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

related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

KPMG SA

Scott Cormack Licensed Audit Expert Auditor in Charge	Lukas Marty Licensed Audit Expert

Geneva, 15 February 2017

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

Financial information – 5 year review

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

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

(a) Refer to Note 16.6 for definition.
(b) Profit per share for the year attributable to shareholders of the parent before impairments, restructuring costs, results on disposals and significant one-off items. The tax impact from the adjusted items is also adjusted for.
(c) Calculated on the basis of the dividend for the year concerned, which is paid in the following year, and on high/low stock prices.
(d) As proposed by the Board of Directors of Nestlé S.A.

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

Companies of the Nestlé Group, joint arrangements and associates

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

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

Countries within the continents are listed according to the alphabetical order of the country names.
Percentage of capital shareholding corresponds to voting powers unless stated otherwise.
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						
Galderma Austria GmbH		Linz		100%	EUR	35 000
Nespresso Österreich GmbH & Co. OHG		Wien		100%	EUR	35 000
Nestlé Österreich GmbH		Wien	34.4%	100%	EUR	7 270 000
Azerbaijan						
Nestlé Azerbaijan LLC		Baku	100%	100%	USD	200 000
Belgium						
Centre de Coordination Nestlé S.A.	◊	Bruxelles	91.5%	100%	EUR	4 298 971 818
Nespresso Belgique S.A.		Bruxelles	100%	100%	EUR	550 000
Nestlé Belgilux S.A.		Bruxelles	56.9%	100%	EUR	64 924 438
Nestlé Catering Services N.V.		Bruxelles		100%	EUR	14 035 500
Nestlé Waters Benelux S.A.		Etalle		100%	EUR	5 601 257
Belarus						
LLC Nestlé Bel	°	Minsk	100%	100%	BYR	410 000
Bosnia and Herzegovina						
Nestlé Adriatic BH d.o.o.		Sarajevo	100%	100%	BAM	2 151
Bulgaria						
Nestlé Bulgaria A.D.		Sofia	100%	100%	BGN	10 234 933

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Croatia						
Nestlé Adriatic d.o.o.		Zagreb	100%	100%	HRK	14 685 500
Czech Republic						
Nestlé Cesko s.r.o.		Praha	100%	100%	CZK	300 000 000
Tivall CZ s.r.o.		Krupka		100%	CZK	400 000 000
Denmark						
Glycom A/S	3)	Copenhagen	35.7%	35.7%	DKK	1 383 655
Nestlé Danmark A/S		Copenhagen	100%	100%	DKK	44 000 000
Oscar A/S		Rønnede		100%	DKK	12 000 000
Finland						
Puljonki Oy		Juuka		100%	EUR	85 000
Suomen Nestlé Oy		Helsinki	100%	100%	EUR	6 000 000
France						
Centres de Recherche et Développement Nestlé S.A.S.		Noisiel		100%	EUR	3 138 230
Cereal Partners France SNC	1)	Noisiel		50%	EUR	3 000 000
Galderma International S.A.S.		Courbevoie		100%	EUR	940 020
Galderma Q-Med S.A.S.		Nanterre		100%	EUR	3 769 870
Galderma Research and Development SNC		Biot		100%	EUR	70 518 259
Herta S.A.S.		Noisiel		100%	EUR	12 908 610
L'Oréal S.A.	(a) Δ 3)	Paris	23.1%	23.1%	EUR	112 371 148
Listed on the Paris stock exchange, market capitalisation EUR 97.4 billion, quotation code (ISIN) FR0000120321						
Laboratoires Galderma S.A.S.		Alby-sur-Chéran		100%	EUR	14 015 454
Lactalis Nestlé Produits Frais S.A.S.	3)	Laval	40%	40%	EUR	69 208 832
Nespresso France S.A.S.		Paris		100%	EUR	1 360 000
Nestlé Health Science France S.A.S.		Noisiel		100%	EUR	57 943 072
Nestlé Entreprises S.A.S.	◊	Noisiel	84%	100%	EUR	739 559 392
Nestlé France M.G. S.A.S.		Noisiel		100%	EUR	50 000
Nestlé France S.A.S.		Noisiel		100%	EUR	130 925 520
Nestlé Purina PetCare France S.A.S.		Noisiel		100%	EUR	21 091 872
Nestlé Waters S.A.S.	◊	Issy-les-Moulineaux		100%	EUR	254 893 080
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 Services S.A.S.		Issy-les-Moulineaux		100%	EUR	1 356 796
Nestlé Waters Supply Centre S.A.S.		Issy-les-Moulineaux		100%	EUR	2 577 000
Nestlé Waters Supply Est S.A.S.		Issy-les-Moulineaux		100%	EUR	17 539 660
Nestlé Waters Supply Sud S.A.S.		Issy-les-Moulineaux		100%	EUR	7 309 106
Société de Bouchages Emballages Conditionnement Moderne S.A.S.	3)	Lavardac		50%	EUR	10 200 000
Société des Produits Alimentaires de Caudry S.A.S.		Noisiel		100%	EUR	1 440 000

(a) Voting powers amount to 23.2%

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
France (continued)					
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
Georgia					
Nestlé Georgia LLC °	Tbilisi	100%	100%	CHF	700 000
Germany					
Bübchen-Werk Ewald Hermes Pharmazeutische Fabrik GmbH	Soest		100%	EUR	25 565
C.P.D. Cereal Partners Deutschland GmbH & Co. OHG 1)	Frankfurt am Main		50%	EUR	511 292
Galderma Laboratorium GmbH	Düsseldorf		100%	EUR	800 000
Nestlé Deutschland AG	Frankfurt am Main		100%	EUR	214 266 628
Nestlé Product Technology Centre Lebensmittelforschung GmbH	Singen		100%	EUR	52 000
Nestlé Unternehmungen Deutschland GmbH ◊	Frankfurt am Main		100%	EUR	60 000 000
Nestlé Waters Deutschland GmbH	Frankfurt am Main		100%	EUR	10 566 000
Trinks GmbH 3)	Goslar		25%	EUR	2 360 000
Trinks Süd GmbH 3)	München		25%	EUR	260 000
Greece					
C.P.W. Hellas Breakfast Cereals S.A. 1)	Maroussi		50%	EUR	201 070
Nespresso Hellas S.A.	Maroussi	100%	100%	EUR	500 000
Nestlé Hellas S.A.	Maroussi	100%	100%	EUR	39 119 726
Hungary					
Nestlé Hungária Kft.	Budapest	100%	100%	HUF	6 000 000 000
Italy					
Fastlog S.p.A.	Assago		100%	EUR	154 935
Galderma Italia S.p.A.	Milano		100%	EUR	612 000
Nespresso Italiana S.p.A.	Assago		100%	EUR	250 000
Nestlé Italiana S.p.A.	Assago	100%	100%	EUR	25 582 492
Sanpellegrino S.p.A.	San Pellegrino Terme		100%	EUR	58 742 145
Kazakhstan					
Nestlé Food Kazakhstan LLP	Almaty	100%	100%	KZT	91 900
Lithuania					
UAB „Nestlé Baltics”	Vilnius	100%	100%	EUR	31 856
Luxembourg					
Compagnie Financière du Haut-Rhin S.A. ◊	Luxembourg		100%	EUR	105 200 000
Nespresso Luxembourg Sàrl	Luxembourg	100%	100%	EUR	12 525

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Luxembourg (continued)						
Nestlé Finance International Ltd	◊	Luxembourg	100%	100%	EUR	440 000
Nestlé Treasury International S.A.	◊	Luxembourg	100%	100%	EUR	1 000 000
NTC-Europe S.A.	◊	Luxembourg	100%	100%	EUR	3 565 000
Macedonia						
Nestlé Adriatik Makedonija d.o.o.e.l.		Skopje-Karpos	100%	100%	MKD	31 065 780
Malta						
Nestlé Malta Ltd		Lija	99.9%	100%	EUR	116 470
Moldova						
LLC Nestlé	°	Chisinau	100%	100%	USD	1 000
Netherlands						
East Springs International N.V.	◊	Amsterdam		100%	EUR	25 370 000
Galderma BeNeLux B.V.		Rotterdam		100%	EUR	18 002
Nespresso Nederland B.V.		Amsterdam		100%	EUR	680 670
Nestlé Nederland B.V.		Amsterdam	100%	100%	EUR	11 346 000
Tivall Europe B.V.		Driebergen-Rijsenburg		100%	EUR	1 000 000
Tivall Netherlands B.V.		Zeist		100%	EUR	18 000
Norway						
A/S Nestlé Norge		Oslo		100%	NOK	81 250 000
Poland						
Cereal Partners Poland Torun-Pacific Sp. Z o.o.	1)	Torun	50%	50%	PLN	14 572 838
Galderma Polska Z o.o.		Warszawa		100%	PLN	93 000
Nestlé Polska S.A.		Warszawa	100%	100%	PLN	42 800 000
Nestlé Waters Polska S.A.		Warszawa		100%	PLN	196 100 000
Portugal						
Cereal Associados Portugal A.E.I.E.	1)	Oeiras		50%	EUR	99 760
Nestlé Portugal S.A.		Oeiras		100%	EUR	30 000 000
Prolacto-Lacticínios de São Miguel S.A.		Ponta Delgada		100%	EUR	700 000
Republic of Ireland						
Nestlé (Ireland) Ltd		Dublin		100%	EUR	41 964 052
Wyeth Nutritionals Ireland Ltd		Askeaton		100%	USD	885 599 990
WyNutri Ltd		Dublin		100%	USD	152 000 105
Republic of Serbia						
Nestlé Adriatic S d.o.o., Beograd-Surcin		Beograd-Surcin	100%	100%	RSD	12 222 327 814
Romania						
Nestlé Romania S.R.L.		Bucharest	100%	100%	RON	132 906 800

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Russia						
Cereal Partners Rus, LLC	1)	Moscow	35%	50%	RUB	28 730 860
Nestlé Kuban LLC		Timashevsk	67.4%	100%	RUB	11 041 793
Nestlé Rossiya LLC		Moscow	84.1%	100%	RUB	880 154 115
ooo Galderma LLC		Moscow		100%	RUB	25 000 000
Slovak Republic						
Nestlé Slovensko s.r.o.		Prievidza	100%	100%	EUR	13 277 568
Slovenia						
Nestlé Adriatic Trgovina d.o.o.	°	Ljubljana	100%	100%	EUR	8 763
Spain						
Cereal Partners España A.E.I.E.	1)	Esplugues de Llobregat (Barcelona)		50%	EUR	120 202
Laboratorios Galderma, S.A.		Madrid		100%	EUR	432 480
Nestlé España S.A.		Esplugues de Llobregat (Barcelona)	100%	100%	EUR	100 000 000
Nestlé Purina PetCare España S.A.		Castellbisbal (Barcelona)		100%	EUR	12 000 000
Productos del Café S.A.		Reus (Tarragona)		100%	EUR	6 600 000
Sweden						
Galderma Nordic AB		Uppsala		100%	SEK	31 502 698
Nestlé Sverige AB		Helsingborg		100%	SEK	20 000 000
Q-Med AB		Uppsala		100%	SEK	24 845 500
Tivall Sweden AB		Malmoe		100%	SEK	100 000
Switzerland						
Beverage Partners Worldwide (Europe) AG	◊ 1)	Zürich	50%	50%	CHF	1 000 000
CPW Operations Sàrl	1)	Prilly	50%	50%	CHF	20 000
CPW S.A.	1)	Prilly	50%	50%	CHF	10 000 000
DPA (Holding) S.A.	◊°	Vevey	100%	100%	CHF	100 000
Eckes-Granini (Suisse) S.A.	2)	Henniez		49%	CHF	2 000 000
Entreprises Maggi S.A.	◊	Cham	100%	100%	CHF	100 000
Galderma Pharma S.A.	◊	Lausanne		100%	CHF	48 900 000
Galderma S.A.		Cham		100%	CHF	178 100
Galderma Schweiz AG		Egerkingen		100%	CHF	100 000
Intercona Re AG	◊	Châtel-St-Denis		100%	CHF	35 000 000
Materna-Nestlé GmbH	°	Zug	51%	51%	CHF	20 000
Nestec Ltd		Vevey	100%	100%	CHF	5 000 000
Nestlé Capital Advisers S.A.		Vevey	100%	100%	CHF	400 000
Nestlé Finance S.A.	◊	Cham		100%	CHF	30 000 000
Nestlé Health Science S.A.	°	Epalinges	100%	100%	CHF	100 000
Nestlé Institute of Health Sciences S.A.		Ecublens		100%	CHF	100 000
Nestlé International Travel Retail S.A.		Vevey	100%	100%	CHF	3 514 000

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Switzerland (continued)						
Nestlé Skin Health S.A.	°	Lausanne	100%	100%	CHF	100 000
Nestlé Nespresso S.A.		Lausanne	100%	100%	CHF	2 000 000
Nestlé Operational Services Worldwide S.A.		Bussigny-près-Lausanne	100%	100%	CHF	100 000
Nestlé Waters (Suisse) S.A.		Henniez		100%	CHF	5 000 000
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
Servcom S.A.	°	La Tour-de-Peilz	100%	100%	CHF	50 000
Société des Produits Nestlé S.A.		Vevey	100%	100%	CHF	34 750 000
Sofinol S.A.		Manno		100%	CHF	3 000 000
Somafa S.A.	◊°	Cham	100%	100%	CHF	400 000
Spirig Pharma AG		Egerkingen		100%	CHF	600 000
The Proactiv Company Sàrl		Lausanne		75%	CHF	20 000
Vetropa S.A.	◊°	Fribourg	100%	100%	CHF	2 500 000
Turkey						
Cereal Partners Gida Ticaret Limited Sirketi	1)	Istanbul		50%	TRY	25 020 000
Erikli Dagitim ve Pazarlama A.S.		Bursa		100%	TRY	3 849 975
Erikli Su ve Mesrubat Sanayi ve Ticaret A.S.		Bursa		100%	TRY	12 700 000
Nestlé Türkiye Gida Sanayi A.S.		Istanbul	99.9%	99.9%	TRY	35 000 000
Nestlé Waters Gida ve Mesrubat Sanayi Ticaret A.S.		Bursa		100%	TRY	8 000 000
Ukraine						
LLC Nestlé Ukraine		Kyiv	100%	100%	USD	150 000
LLC Technocom		Kharkiv		100%	UAH	119 658 066
PJSC „Lviv Confectionery Factory Svitoch"		Lviv	97%	97%	UAH	88 111 060
PRJSC Volynholding		Torchyn	90.5%	100%	UAH	100 000
United Kingdom						
Cereal Partners UK	1)	Herts		50%	GBP	—
Froneri Ltd	(b) 1)	Northallerton	22.8%	46.1%	EUR	12 670
Galderma (UK) Ltd		Watford		100%	GBP	1 500 000
Nespresso UK Ltd		Gatwick		100%	GBP	275 000
Nestec York Ltd		Gatwick		100%	GBP	500 000
Nestlé Capital Management Ltd		Gatwick		100%	GBP	2 000 000
Nestlé Holdings (UK) PLC	◊	Gatwick	93.7%	100%	GBP	77 940 000
Nestlé Purina PetCare (UK) Ltd		Gatwick		100%	GBP	44 000 000
Nestlé UK Ltd		Gatwick		100%	GBP	129 972 342
Nestlé Waters UK Ltd		Gatwick		100%	GBP	640
Nestlé Waters (UK) Holdings Ltd	◊	Gatwick		100%	GBP	6 500 000
Osem UK Ltd		London		100%	GBP	2 000
Phagenesis Ltd	3)°	Manchester	5.6%	5.6%	GBP	16 146
Vitaflo (International) Ltd		Liverpool		100%	GBP	625 379

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

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Africa						
Algeria						
Nestlé Algérie SpA		Alger	<0.1%	49%	DZD	2 600 000 000
Nestlé Industrie Algérie SpA	°	Alger	49%	49%	DZD	100 000 000
Nestlé Waters Algérie SpA		Blida		49%	DZD	377 606 250
Angola						
Nestlé Angola Lda		Luanda	99%	100%	AOA	24 000 000
Burkina Faso						
Nestlé Burkina Faso S.A.		Ouagadougou		100%	XOF	50 000 000
Cameroon						
Nestlé Cameroun S.A.		Douala	100%	100%	XAF	4 323 960 000
Chad						
Nestlé Chad S.A.		N'Djamena	100%	100%	XAF	50 000 000
Côte d'Ivoire						
Centre de Recherche et de Développement Nestlé Abidjan S.A.		Abidjan		100%	XOF	10 000 000
Nestlé Côte d'Ivoire S.A.	Δ	Abidjan	79.6%	86.5%	XOF	5 517 600 000
Listed on the Abidjan stock exchange, market capitalisation XOF 58.5 billion, quotation code (ISIN) CI0009240728						
Democratic Republic of the Congo						
Nestlé Congo S.A.R.L		Kinshasa	99.5%	100%	USD	33 200 000
Egypt						
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%	100%	GHS	95 796 000
Nestlé Ghana Ltd		Accra	76%	76%	GHS	20 100 000
Guinea						
Nestlé Guinée S.A.		Conakry	99%	99%	GNF	3 424 000 000
Kenya						
Nestlé Equatorial African Region Ltd		Nairobi	100%	100%	KES	132 000 000
Nestlé Kenya Ltd		Nairobi	100%	100%	KES	226 100 400

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

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Americas						
Argentina						
Eco de Los Andes S.A.		Buenos Aires		50.9%	ARS	92 524 285
Galderma Argentina S.A.		Buenos Aires		100%	ARS	9 900 000
Nestlé Argentina S.A.		Buenos Aires	100%	100%	ARS	233 316 000
Nestlé Waters Argentina S.A.		Buenos Aires		100%	ARS	18 791 615
Bolivia						
Industrias Alimentícias Fagal S.R.L.		Santa Cruz	98%	100%	BOB	133 100 000
Nestlé Bolivia S.A.		Santa Cruz	99%	100%	BOB	191 900
Brazil						
Chocolates Garoto S.A.		Vila Velha		100%	BRL	161 450 000
CPW Brasil Ltda	1)	Caçapava		50%	BRL	7 885 520
Dairy Partners Americas Brasil Ltda	3)	São Paulo	49%	49%	BRL	27 606 368
Dairy Partners Americas Manufacturing Brasil Ltda		São Paulo		100%	BRL	39 468 974
Dairy Partners Americas Nordeste – Produtos Alimentícios Ltda	3)	Garanhuns		49%	BRL	100 000
Galderma Brasil Ltda		São Paulo		100%	BRL	39 741 602
Nestlé Brasil Ltda		São Paulo	100%	100%	BRL	452 985 643
Nestlé Nordeste Alimentos e Bebidas Ltda		Feira de Santana		100%	BRL	259 547 969
Nestlé Sudeste Alimentos e Bebidas Ltda		São Paulo		100%	BRL	109 317 818
Nestlé Sul – Alimentos e Bebidas Ltda		Carazinho		100%	BRL	73 049 736
Nestlé Waters Brasil – Bebidas e Alimentos Ltda		São Paulo	100%	100%	BRL	87 248 341
Ralston Purina do Brasil Ltda	°	Ribeirão Preto	100%	100%	BRL	17 976 826
SOCOPAL – Sociedade Comercial de Corretagem de Seguros e de Participações Ltda	°	São Paulo	100%	100%	BRL	2 155 600
Canada						
G. Production Canada Inc.		Baie D'Urfé (Québec)		100%	CAD	100
Galderma Canada Inc.		Saint John (New Brunswick)		100%	CAD	100
Nestlé Canada Inc.		Toronto (Ontario)	65.7%	100%	CAD	47 165 540
Nestlé Capital Canada Ltd	◊	Toronto (Ontario)		100%	CAD	1 010
Cayman Islands						
Hsu Fu Chi International Limited	◊	Grand Cayman	60%	60%	SGD	7 950 000
Chile						
Aguas CCU – Nestlé Chile S.A.	3)	Santiago de Chile		49.8%	CLP	49 799 375 321
Cereales CPW Chile Ltda	1)	Santiago de Chile		50%	CLP	3 026 156 114
Nestlé Chile S.A.		Santiago de Chile	99.7%	99.7%	CLP	11 832 926 000
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

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Colombia (continued)					
Galderma de Colombia S.A.	Bogotá		100%	COP	2 250 000 000
Nestlé de Colombia S.A.	Bogotá	100%	100%	COP	1 291 305 400
Nestlé Purina PetCare de Colombia S.A.	Bogotá	<0.1%	100%	COP	17 030 000 000
Costa Rica					
Compañía Nestlé Costa Rica S.A.	Heredia	100%	100%	CRC	18 000 000
Cuba					
Coralac S.A.	La Habana		60%	USD	6 350 000
Los Portales S.A.	La Habana		50%	USD	24 110 000
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%	100%	USD	521 583
Industrial Surindu S.A.	Quito	<0.1%	100%	USD	3 000 000
Nestlé Ecuador S.A.	Quito	100%	100%	USD	1 776 760
El Salvador					
Nestlé El Salvador, S.A. de C.V.	San Salvador	100%	100%	USD	4 457 200
Guatemala					
Compañía de Servicios de Distribucion, S.A. °	Guatemala City	100%	100%	GTQ	50 000
Genoveva, S.A. °	Guatemala City	100%	100%	GTQ	4 598 400
Industrias Consolidadas de Occidente, S.A. °	Chimaltenango	100%	100%	GTQ	300 000
Malher S.A.	Guatemala City	100%	100%	GTQ	100 000 000
Malher Export S.A. °	Guatemala City	100%	100%	GTQ	5 000
Nestlé Guatemala S.A.	Guatemala City	35%	100%	GTQ	23 460 600
SERESA, Contratación de Servicios Empresariales, S.A.	Guatemala City	100%	100%	GTQ	5 000
TESOCORP, S.A. °	Guatemala City	100%	100%	GTQ	5 000
Honduras					
Malher de Honduras, S.A. de C.V. °	Tegucigalpa	83.2%	100%	HNL	25 000
Nestlé Hondureña S.A.	Tegucigalpa	95%	100%	PAB	200 000
Jamaica					
Nestlé Jamaica Ltd	Kingston	100%	100%	JMD	49 200 000
Mexico					
CPW México, S. de R.L. de C.V. [1]	México, D.F.		50%	MXN	43 138 000
Galderma México, S.A. de C.V.	México, D.F.		100%	MXN	2 385 000
Malhemex, S.A. de C.V. °	México, D.F.	98%	100%	MXN	50 000

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Mexico (continued)						
Manantiales La Asunción, S.A.P.I. de C.V.	(c)	México, D.F.		40%	MXN	1 035 827 492
Marcas Nestlé, S.A. de C.V.		México, D.F.	<0.1%	100%	MXN	500 050 000
Nescalín, S.A. de C.V.	◊	México, D.F.	100%	100%	MXN	445 826 740
Nespresso México, S.A. de C.V.		México, D.F.	<0.1%	100%	MXN	10 050 000
Nestlé Holding México, S.A. de C.V.	◊°	México, D.F.	100%	100%	MXN	50 000
Nestlé México, S.A. de C.V.		México, D.F.	<0.1%	100%	MXN	607 532 730
Nestlé Servicios Corporativos, S.A. de C.V.		México, D.F.	<0.1%	100%	MXN	170 100 000
Nestlé Servicios Industriales, S.A. de C.V.		México, D.F.		100%	MXN	1 050 000
Productos Gerber, S.A. de C.V.		Queretaro		100%	MXN	5 252 440
Ralston Purina México, S.A. de C.V.		México, D.F.	<0.1%	100%	MXN	9 257 112
Waters Partners Services México, S.A.P.I. de C.V.	(c)	México, D.F.		40%	MXN	620 000
Nicaragua						
Compañía Centroamericana de Productos Lácteos, S.A.		Managua	66.1%	92.6%	NIO	10 294 900
Nestlé Nicaragua, S.A.		Managua	95%	100%	USD	150 000
Panama						
Nestlé Centroamérica, S.A.		Panamá City	100%	100%	USD	1 000 000
Nestlé Panamá, S.A.		Panamá City	100%	100%	PAB	17 500 000
Unilac, Inc.	◊	Panamá City	100%	100%	USD	750 000
Paraguay						
Nestlé Paraguay S.A.		Asunción	100%	100%	PYG	100 000 000
Peru						
Nestlé Marcas Perú, S.A.C.		Lima	50%	100%	PEN	1 000
Nestlé Perú, S.A.		Lima	99.5%	99.5%	PEN	88 998 365
Puerto Rico						
Nestlé Puerto Rico, Inc.		San Juan	100%	100%	USD	500 000
Payco Foods Corporation		Bayamon		100%	USD	890 000
Trinidad and Tobago						
Nestlé Caribbean, Inc.		Valsayn	95%	100%	USD	100 000
Nestlé Trinidad and Tobago Ltd		Valsayn	100%	100%	TTD	35 540 000
United States						
Aimmune Therapeutics, Inc.	3)	Wilmington (Delaware)		15.1%	USD	4 993
Beverage Partners Worldwide (North America)	1)	Wilmington (Delaware)		50%	USD	—
Checkerboard Holding Company, Inc.	◊	Wilmington (Delaware)		100%	USD	1 001
Dreyer's Grand Ice Cream Holdings, Inc.	◊	Wilmington (Delaware)		100%	USD	10
Foundry Foods, Inc.		Wilmington (Delaware)		100%	USD	1
Galderma Research and Development, LLC		Wilmington (Delaware)		100%	USD	2 050 000
Gerber Life Insurance Company	◊	New York		100%	USD	148 500 000

(c) Voting powers amount to 51%

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
United States (continued)					
Gerber Products Company	Fremont (Michigan)		100%	USD	1 000
Lieberman Productions, LLC	Sacramento (California)		75%	USD	—
Malher, Inc.	Stafford (Texas)		100%	USD	1 000
Merrick Pet Care, Inc.	Dallas (Texas)		100%	USD	1 000 000
Merrick Pet Care Holdings Corporation ◊	Wilmington (Delaware)		100%	USD	100
Nespresso USA, Inc.	Wilmington (Delaware)		100%	USD	1 000
Nestlé Capital Corporation ◊	Wilmington (Delaware)		100%	USD	1 000 000
Nestlé Dreyer's Ice Cream Company	Wilmington (Delaware)		100%	USD	1
Nestlé HealthCare Nutrition, Inc.	Wilmington (Delaware)		100%	USD	50 000
Nestlé Health Science US Holdings, Inc. ◊	Wilmington (Delaware)		100%	USD	1
Nestlé Holdings, Inc. ◊	Wilmington (Delaware)		100%	USD	100 000
Nestlé Insurance Holdings, Inc. ◊	Wilmington (Delaware)		100%	USD	10
Nestlé Nutrition R&D Centers, Inc.	Wilmington (Delaware)		100%	USD	10 000
Nestlé Prepared Foods Company	Philadelphia (Pennsylvania)		100%	USD	476 760
Nestlé Purina PetCare Company	St. Louis (Missouri)		100%	USD	1 000
Nestlé Purina PetCare Global Resources, Inc.	Wilmington (Delaware)		100%	USD	1 000
Nestlé R&D Center, Inc.	Wilmington (Delaware)		100%	USD	10 000
Nestlé Regional GLOBE Office North America, Inc.	Wilmington (Delaware)		100%	USD	1 000
NSH Services Inc.	Fort Worth (Texas)		100%	USD	981
Nestlé Transportation Company	Wilmington (Delaware)		100%	USD	100
Nestlé USA, Inc.	Wilmington (Delaware)		100%	USD	1 000
Nestlé Waters North America Holdings, Inc. ◊	Wilmington (Delaware)		100%	USD	10 000 000
Nestlé Waters North America, Inc.	Wilmington (Delaware)		100%	USD	10 700 000
NiMCo US, Inc. ◊	Wilmington (Delaware)	100%	100%	USD	1
Osem USA Inc.	New York		100%	USD	200
Prometheus Laboratories Inc.	Los Angeles (California)		100%	USD	100
Red Maple Insurance Company ◊	Williston (Vermont)		100%	USD	1 200 000
Seres Therapeutics, Inc. 3)	Cambridge (Massachusetts)		16.8%	USD	40 935
Sweet Leaf Tea Company	Austin (Texas)		100%	USD	10
The Häägen-Daaz Shoppe Company, Inc.	West Trenton (New Jersey)		100%	USD	0
The Proactiv Company LLC	Wilmington (Delaware)		75%	USD	—
The Stouffer Corporation ◊	Cleveland (Ohio)		100%	USD	0
Tradewinds Beverage Company	Cincinnati (Ohio)		100%	USD	0
Tribe Mediterranean Foods, Inc.	Wilmington (Delaware)		100%	USD	10 500
TSC Holdings, Inc. ◊	Wilmington (Delaware)		100%	USD	100 000
Vitality Foodservice, Inc.	Dover (Delaware)		100%	USD	1 240
Waggin' Train LLC	Wilmington (Delaware)		100%	USD	—
Zuke's LLC	Wilmington (Delaware)		100%	USD	0
Uruguay					
Nestlé del Uruguay S.A.	Montevideo	100%	100%	UYU	9 495 189
Venezuela					
Nestlé Cadipro, S.A.	Caracas		100%	VEF	50 633 501
Nestlé Venezuela, S.A.	Caracas	100%	100%	VEF	516 590

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Asia						
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	60%	60%	CNY	303 990 000
Chengdu Hsu Chi Foods Co., Limited		Chengdu		60%	CNY	40 000 000
Chengdu Yinlu Foods Co., Limited	°	Chengdu	60%	60%	CNY	215 800 000
Dongguan Andegu Plastic Packaging Material Limited		Dongguan		60%	HKD	10 000 000
Dongguan Hsu Chi Food Co., Limited		Dongguan		60%	HKD	700 000 000
Galderma Hong Kong Limited		Hong Kong		100%	HKD	10 000
Galderma Trading (Shanghai) Co., Limited		Shanghai		100%	EUR	400 000
Guangzhou Refrigerated Foods Limited		Guangzhou	95.5%	95.5%	CNY	390 000 000
Henan Hsu Fu Chi Foods Co., Limited		Zhumadian		60%	CNY	224 000 000
Hsu Fu Chi International Holdings Limited	◊	Wanchai		60%	USD	100 000
Hubei Yinlu Foods Co., Limited		Hanchuan	60%	60%	CNY	353 000 000
Nestlé (China) Limited		Beijing	100%	100%	CNY	250 000 000
Nestlé Dongguan Limited		Dongguan	100%	100%	CNY	536 000 000
Nestlé Health Science (China) Ltd		Taizhou City		100%	USD	30 000 000
Nestlé Hong Kong Limited		Hong Kong	100%	100%	HKD	250 000 000
Nestlé Hulunbeir Limited		Hulunbeir	100%	100%	CNY	158 000 000
Nestlé Nespresso Beijing Limited		Beijing	100%	100%	CNY	7 000 000
Nestlé Purina PetCare Tianjin Limited		Tianjin	100%	100%	CNY	40 000 000
Nestlé Qingdao Limited		Laixi	100%	100%	CNY	930 000 000
Nestlé R&D (China) Limited		Beijing		100%	CNY	40 000 000
Nestlé Shanghai Limited		Shanghai	95%	95%	CNY	200 000 000
Nestlé Shuangcheng Limited		Shuangcheng	97%	97%	CNY	435 000 000
Nestlé Sources Shanghai Limited		Shanghai	100%	100%	CNY	1 149 700 000
Nestlé Sources Tianjin Limited		Tianjin	95%	95%	CNY	204 000 000
Nestlé Taiwan Limited		Taipei	100%	100%	TWD	100 000 000
Nestlé Tianjin Limited		Tianjin	100%	100%	CNY	785 000 000
Q-Med International Trading (Shanghai) Limited		Shanghai		100%	USD	600 000
Shandong Yinlu Foods Co., Limited		Jinan	60%	60%	CNY	146 880 000
Shanghai Nestlé Product Services Limited		Shanghai		100%	CNY	83 000 000
Shanghai Totole First Food Limited		Shanghai	100%	100%	CNY	72 000 000
Shanghai Totole Food Limited		Shanghai	100%	100%	USD	7 800 000
Sichuan Haoji Food Co., Limited		Puge	80%	80%	CNY	80 000 000
Suzhou Hexing Food Co., Limited		Suzhou	100%	100%	CNY	40 000 000
The Waterman Co., Limited (Shanghai)	°	Shanghai	100%	100%	USD	25 414 500
Wyeth (Hong Kong) Holding Co., Limited	◊	Hong Kong	100%	100%	HKD	3 554 107 000

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Greater China Region (continued)						
Wyeth (Shanghai) Trading Co., Limited		Shanghai		100%	USD	1 000 000
Wyeth Nutritional (China) Co., Limited		Suzhou		100%	CNY	900 000 000
Xiamen Yinlu Foods Group Co., Limited		Xiamen	60%	60%	CNY	496 590 000
Yunnan Dashan Drinks Co., Limited		Kunming	100%	100%	CNY	35 000 000
India						
Galderma India Private Ltd		Mumbai		100%	INR	24 156 000
Nestlé R&D Centre India Private Ltd		New Delhi	100%	100%	INR	2 101 380 000
Nestlé India Ltd	Δ	New Delhi	34.3%	62.8%	INR	964 157 160
Listed on the Bombay stock exchange, market capitalisation INR 581.4 billion, quotation code (ISIN) INE239A01016						
SMA Nutrition India Private Limited	°	New Delhi	97%	100%	INR	22 000 000
Indonesia						
P.T. Nestlé Indofood Citarasa Indonesia	1)	Jakarta	50%	50%	IDR	200 000 000 000
P.T. Nestlé Indonesia		Jakarta	90.2%	90.2%	IDR	152 753 440 000
P.T. Wyeth Nutrition Sduaenam		Jakarta		90%	IDR	2 000 000 000
Iran						
Nestlé Waters Iranian		Tehran		100%	IRR	35 300 000 000
Nestlé Iran (Private Joint Stock Company)		Tehran	89.7%	89.7%	IRR	358 538 000 000
Israel						
Assamim Gift Parcels Ltd		Shoam		73.8%	ILS	103
Beit Hashita-Asis, Food Industries Ltd		Kibbutz Beit Hashita		100%	ILS	100
Migdanot Habait Ltd		Shoam		100%	ILS	4 014
Nespresso Israel Ltd		Tel Aviv	100%	100%	ILS	1 000
Noga Ice Cream Limited Partnership		Shoam		100%	ILS	1 000
Noga Ice Cream Ltd		Shoam		100%	ILS	100
OSEM Food Industries Ltd		Shoam		100%	ILS	176
OSEM Group Commerce Limited Partnership		Shoam		100%	ILS	100
OSEM Investments Ltd		Shoam	100%	100%	ILS	110 644 443
The Joint Company for Bread and Bakery Products Ltd		Shoam		51%	ILS	100 000
Tivall Food Industries Ltd		Kiryat Gat		100%	ILS	41 861 167
Japan						
Galderma K.K.		Tokyo		100%	JPY	10 000 000
GRJ Co., Ltd		Tokyo		75%	JPY	3 000 000
Guthy-Renker Japan Co., Ltd		Tokyo		75%	JPY	10 000 000
Nestlé Japan Ltd		Kobe	100%	100%	JPY	10 000 000 000
Nestlé Nespresso K.K.		Kobe		100%	JPY	10 000 000

Companies	City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Jordan					
Ghadeer Mineral Water Co. WLL	Amman		75%	JOD	1 785 000
Nestlé Jordan Trading Company Ltd	Amman	77.8%	77.8%	JOD	410 000
Kuwait					
Nestlé Kuwait General Trading Company WLL	Safat	49%	49%	KWD	300 000
Lebanon					
Société des Eaux Minérales Libanaises S.A.L.	Hazmieh		100%	LBP	1 610 000 000
Société pour l'Exportation des Produits Nestlé S.A.	Baabda	100%	100%	CHF	1 750 000
SOHAT Distribution S.A.L.	Hazmieh		100%	LBP	160 000 000
Malaysia					
Cereal Partners (Malaysia) Sdn. Bhd. [1]	Petaling Jaya	50%	50%	MYR	2 500 000
Nestlé (Malaysia) Bhd. Δ◊	Petaling Jaya	72.6%	72.6%	MYR	234 500 000
Listed on the Kuala Lumpur stock exchange, market capitalisation MYR 18.3 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	25 000 000
Nestlé Regional Service Centre (Malaysia) Sdn. Bhd. °	Petaling Jaya	100%	100%	MYR	1 000 000
Purina PetCare (Malaysia) Sdn. Bhd.	Petaling Jaya	100%	100%	MYR	1 100 000
Wyeth Nutrition (Malaysia) Sdn. Bhd.	Petaling Jaya		100%	MYR	1 969 505
Myanmar					
Nestlé Myanmar Limited °	Yangon	95%	95%	USD	5 000 000
Oman					
Nestlé Oman Trading LLC	Muscat	49%	49%	OMR	300 000
Pakistan					
Nestlé Pakistan Ltd Δ	Lahore	59%	59%	PKR	453 495 840
Listed on the Pakistan Stock Exchange, market capitalisation PKR 408.1 billion, quotation code (ISIN) PK0025101012					
Palestinian Territories					
Nestlé Trading Private Limited Company	Bethlehem	97.5%	97.5%	JOD	200 000
Philippines					
CPW Philippines, Inc. [1]	Makati City	50%	50%	PHP	7 500 000
Galderma Philippines, Inc.	Manila		100%	PHP	12 500 000
Nestlé Business Services AOA, Inc.	Bulacan	100%	100%	PHP	70 000 000
Nestlé Philippines, Inc.	Cabuyao	55%	100%	PHP	2 300 927 400
Penpro, Inc. [d] ◊	Makati City		88.5%	PHP	630 000 000
Wyeth Philippines, Inc.	Manila	100%	100%	PHP	610 418 100

[d] Voting powers amount to 40%

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
Qatar						
Al Manhal Water Factory Co. Ltd WLL		Doha		51%	QAR	5 500 000
Nestlé Qatar Trading LLC		Doha	49%	49%	QAR	1 680 000
Republic of Korea						
Galderma Korea Ltd		Seoul		100%	KRW	500 000 000
LOTTE-Nestlé (Korea) Co., Ltd	1)	Cheongju	50%	50%	KRW	52 783 120 000
Nestlé Korea Yuhan Chaegim Hoesa		Seoul	100%	100%	KRW	10 100 000 000
Pulmuone Waters Co., Ltd		Gyeonggi-Do		51%	KRW	6 778 760 000
Saudi Arabia						
Al Anhar Water Factory Co. Ltd		Jeddah		64%	SAR	7 500 000
Al Manhal Water Factory Co. Ltd		Riyadh		64%	SAR	7 000 000
Nestlé Saudi Arabia LLC		Jeddah		75%	SAR	27 000 000
Nestlé Water Factory Co. Ltd		Riyadh		64%	SAR	15 000 000
Pure Water Factory Co. Ltd		Madinah		64%	SAR	5 000 000
SHAS Company for Water Services Ltd		Riyadh		64%	SAR	13 500 000
Springs Water Factory Co. Ltd		Dammam		64%	SAR	5 000 000
Singapore						
Galderma Singapore Private Ltd		Singapore		100%	SGD	1 387 000
Nestlé R&D Center (Pte) Ltd		Singapore		100%	SGD	20 000 000
Nestlé Singapore (Pte) Ltd		Singapore	100%	100%	SGD	1 000 000
Nestlé TC Asia Pacific Pte Ltd	◊	Singapore	100%	100%	JPY	10 000 000 000
					SGD	2
Wyeth Nutritionals (Singapore) Pte Ltd		Singapore	100%	100%	SGD	2 059 971 715
Sri Lanka						
Nestlé Lanka PLC	Δ	Colombo	90.8%	90.8%	LKR	537 254 630
Listed on the Colombo stock exchange, market capitalisation LKR 107.5 billion, quotation code (ISIN) LK0128N00005						
Syria						
Nestlé Syria S.A.		Damascus	99.9%	100%	SYP	800 000 000
Thailand						
Galderma (Thailand) Ltd		Bangkok		100%	THB	100 000 000
Nestlé (Thai) Ltd		Bangkok	100%	100%	THB	880 000 000
Nestlé Trading (Thailand) Ltd	°	Bangkok	100%	100%	THB	3 000 000
Perrier Vittel (Thailand) Ltd		Bangkok		100%	THB	235 000 000
Quality Coffee Products Ltd		Bangkok	49%	50%	THB	500 000 000

Companies		City	% capital shareholdings by Nestlé S.A.	% ultimate capital shareholdings	Currency	Capital
United Arab Emirates						
CP Middle East FZCO	1)	Dubai	50%	50%	AED	600 000
Nestlé Dubai Manufacturing LLC		Dubai	49%	49%	AED	300 000
Nestlé Middle East FZE		Dubai	100%	100%	AED	3 000 000
Nestlé Middle East Manufacturing LLC	°	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
Uzbekistan						
Uzbek-Swiss JV Nestlé Uzbekistan LLC		Namangan	96.4%	100%	USD	38 715 463
Namangansut-Nafosat MCHJ LLC	°	Namangan	53.9%	99.9%	USZ	46 227 969
Vietnam						
La Vie Limited Liability Company		Long An		65%	USD	2 663 400
Nestlé Vietnam Ltd		Bien Hoa	100%	100%	VND	1 261 151 497 610
Oceania						
Australia						
Cereal Partners Australia Pty Ltd	1)	Sydney		50%	AUD	107 800 000
Galderma Australia Pty Ltd		Belrose		100%	AUD	2 500 300
Nestlé Australia Ltd		Sydney	100%	100%	AUD	274 000 000
Fiji						
Nestlé (Fiji) Ltd		Lami	33%	100%	FJD	3 000 000
French Polynesia						
Nestlé Polynésie S.A.S.		Papeete	100%	100%	XPF	5 000 000
New Caledonia						
Nestlé Nouvelle-Calédonie S.A.S.		Nouméa	100%	100%	XPF	64 000 000
New Zealand						
CPW New Zealand	1)	Auckland		50%	NZD	—
Nestlé New Zealand Limited		Auckland	100%	100%	NZD	300 000
Papua New Guinea						
Nestlé (PNG) Ltd		Lae	100%	100%	PGK	11 850 000

Technical assistance, research and development units

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

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

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

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

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

150th Financial Statements of Nestlé S.A.

Income statement for the year ended 31 December 2016

In millions of CHF

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

Balance sheet as at 31 December 2016

before appropriations

In millions of CHF

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

Notes to the annual accounts

1. Accounting policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Income from Group companies

This represents dividends and other income from Group companies.

3. Profit on disposal of assets

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

4. Financial income

In millions of CHF

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

5. Expenses recharged from Group companies

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

6. Write-downs and amortisation

In millions of CHF

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

7. Financial expense

In millions of CHF

	2016	2015
Expenses related to loans from Group companies	5	7
Other financial expenses	30	355
	35	**362**

8. Taxes

In millions of CHF

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

9. Cash and cash equivalents

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

10. Other current receivables

In millions of CHF

	2016	2015
Amounts owed by Group companies (current accounts)	707	846
Other receivables	30	29
	737	**875**

11. Financial assets

In millions of CHF

	2016	2015
Loans to Group companies	8 757	8 416
Other investments	6	43
	8 763	**8 459**

12. Shareholdings

In millions of CHF

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

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

13. Interest-bearing liabilities

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

14. Other current liabilities

In millions of CHF

	2016	2015
Amounts owed to Group companies	1 605	4 189
Other liabilities	40	35
	1 645	**4 224**

15. Provisions

In millions of CHF

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

16. Share capital

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

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

At 31 December 2016, the share register showed 163 187 registered shareholders. If unprocessed applications for registration, the indirect holders of shares under American Depositary Receipts and the beneficial owners of shareholders registered as nominees are also taken into account, the total number of shareholders probably exceeds 250 000. The Company was not aware of any shareholder holding, directly or indirectly, 5% or more of the share capital.

17. Changes in equity

In millions of CHF

	Share capital	General legal reserve	Special reserve	Retained earnings	Treasury shares	Total
At 1 January 2016	319	1 917	28 711	12 823	(7 350)	**36 420**
Cancellation of 76 240 000 shares (ex-Share Buy-Back Programme)	(8)	8	(5 489)	—	5 489	**—**
Profit for the year	—	—	—	6 448	—	**6 448**
Dividend for 2015	—	—	—	(6 937)	—	**(6 937)**
Movement of treasury shares	—	—	—	—	943	**943**
Dividend on treasury shares held on the payment date of 2015 dividend	—	—	66	(66)	—	**—**
At 31 December 2016	**311**	**1 924**	**23 288**	**12 268**	**(918)**	**36 874**

18. Treasury shares

In millions of CHF

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

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

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

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

19. Contingencies

At 31 December 2016, the total of the guarantees mainly for credit facilities granted to Group companies and commercial paper programmes, together with the buy-back agreements relating to notes issued, amounted to a maximum of CHF 43 155 million (2015: CHF 41 057 million).

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

In millions of CHF

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

(a) Performance Share Units are disclosed at fair value at grant which corresponds to CHF 65.85 in 2016 (2015: CHF 71.03). Includes 219 020 Performance Share Units granted to Executive Board (2015: 216 708).
(b) Shares are valued at the average closing price of the last ten trading days of January, discounted by 16.038% to account for the blocking period of three years.
(c) Shares are valued at the closing price on the ex-dividend date, discounted by 16.038% to account for the blocking period of three years.

21. Full-time equivalents

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

22. Events after the balance sheet date

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

23. Shares and stock options

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

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

(a) Including shares subject to a three-year blocking period.
(b) The ratio is one option for one Nestlé S.A. share.

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

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

(a) Including shares subject to a three-year blocking period.
(b) The ratio is one option for one Nestlé S.A. share.

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

Proposed appropriation of profit

In CHF

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

(a) Depending on the number of shares issued as of the last trading day with entitlement to receive the dividend (7 April 2017). No dividend is paid on own shares held by the Nestlé Group. The respective amount will be attributed to the special reserve.
(b) The amount of CHF 65 468 057, representing the dividend on 29 096 914 own shares held at the date of the dividend payment, has been transferred to the special reserve.

Provided that the proposal of the Board of Directors is approved by the Annual General Meeting, the gross dividend will amount to CHF 2.30 per share, representing a net amount of CHF 1.4950 per share after payment of the Swiss withholding tax of 35%. The last trading day with entitlement to receive the dividend is 7 April 2017. The shares will be traded ex-dividend as of 10 April 2017. The net dividend will be payable as from 12 April 2017.

The Board of Directors

Cham and Vevey, 15 February 2017

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 31 December 2016, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 165 to 176) for the year ended 31 December 2016 comply with Swiss law and the Company's Articles of Association.

Basis for Opinion

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

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

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

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

Responsibility of the Board of Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

KPMG SA

Scott Cormack Licensed Audit Expert Auditor in Charge	Lukas Marty Licensed Audit Expert

Geneva, 15 February 2017

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

Notes

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Concept
Nestlé S.A., Group Governance and
Group Accounting and Reporting

Photography
Aude Sirvain (cover)