

Rating object	Rating information		
Nestlé Finance International Ltd. Creditreform ID: 9370236514 Incorporation: 1930 (Main) Industry: Financing company Board of Directors: Marina Vanderveken-Verhulst, Saskia Deknock, Jean-Marc Ueberecken, Laurent Schummer, Bruno Chazard <u>List of rating objects:</u> Long-Term Corporate Issuer: Nestlé Finance International Ltd. Long-Term (LT) Local Currency (LC) Senior Unsecured Issues	Corporate Issuer Rating: AA / stable	Typ: Initial rating Unsolicited	
	Senior Unsecured Issues (DIP): AA	Other: n.r.	
	Rating Date: 31 October 2018 Monitoring until: withdrawal of the rating Publication: 07 November 2018 Rating methodology: CRA „Corporate Issuer Ratings“ CRA „Non-financial Corporate Issue Ratings“	Rating history: www.creditreform-rating.de	

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Analysts

Artur Kapica
Lead Analyst
A.Kapica@creditreform-rating.de

Christian Konieczny
Co-Analyst
C.Konieczny@creditreform-rating.de

Neuss, Germany

Abstract**Company**

Nestlé Finance International Ltd. (“NFI”), established in 1930, is a Luxembourg-domiciled financing company. It is a fully consolidated subsidiary of Nestlé S.A. (“Nestlé” or “the Group”), one of the world’s leading food and beverage companies. NFI’s main business purpose is to finance Nestlé S.A. and its subsidiaries, primarily through the issue of bonds on the capital market under a Debt Issuance Programme (DIP). NFI distributes the issue proceeds as internal loans to Nestlé S.A. and its subsidiaries. Nestlé S.A. (the guarantor) provides an unconditional and irrevocable two-year guarantee for all principal and interest rate payments of the bonds that NFI has issued under the DIP.

Due to the financial, corporate and legal ties (including ties of liability) between NFI and Nestlé, Nestlé Finance International Ltd. can only be assessed within the wider scope of the Group. We therefore derive the unsolicited Corporate Issuer Rating of Nestlé Finance International Ltd. from the unsolicited Corporate Issuer Rating of Nestlé S.A. (Group) (AA / stable), which we issued on 3 April 2017 and to which we refer in this rating report. The rating of Nestlé S.A. can be accessed on the Creditreform Rating AG web page. The unsolicited Corporate Issuer Rating of Nestlé S.A. has been continuously monitored since the initial rating. The rating has not been changed since the release of the original rating report.

Rating result

We have derived the result of the unsolicited Corporate Issuer Rating of Nestlé Finance International Ltd. from the result of the unsolicited Corporate Issuer Rating of Nestlé S.A. and provided NFI with an identical rating of AA. For further details concerning the rating of Nestlé S.A. (AA / stable), we refer to the rating report that was released on 3 April 2017. In addition to the close financial, corporate and legal ties that exist between NFI and Nestlé, it was the unconditional and irrevocable guarantee issued by the parent company (Nestlé S.A.) that was essential for our assessment of Nestlé Finance International Ltd. and the bonds it has issued.

Outlook

The one-year outlook of the unsolicited Corporate Issuer Rating for Nestlé Finance International Ltd. is stable, reflecting the Nestlé Group’s overall business development (which is largely meeting the targets of the long-term business plan), the Group’s continuously solid financial ratios, its well-established and highly diversified global product portfolio and its strong market position.

Relevant rating factors

Table 1: Financials of Nestlé S.A. | Source: Consolidated Financial Statements of Nestlé Group 2017, standardized by CRA

Financial ratios ´ extract ¹ Basis: consolidated financial statements per 31.12. (IFRS)	CRA standardized figures	
	2016	2017
Revenues	CHF 89.8 billion	CHF 89.8 billion
EBITDA	CHF 16.3 billion	CHF 13.3 billion
EBIT	CHF 13.2 billion	CHF 10.1 billion
EAT	CHF 8.9 billion	CHF 7.5 billion
Total assets adj.	CHF 112.6 billion	CHF 112.7 billion
Equity ratio adj. ²	44.9%	43.2%
Return on investment	8.5%	7.2%
Return on sales	9.9%	8.4%
Net debt / EBITDA adj.	3.2	4.2
Ratio of interest expenses to debt mod.	1.2%	1.2%

Suggestion:

General Rating Factors summarize the key issues that – in the view of the analysts as per the date of the rating – have a significant or long-term impact on the rating, positive (+) as well as negative (-).

Current Rating Factors are the key factors that have, in addition to the Underlying Rating Factors, an impact on the current rating.

Prospective Rating Factors are factors and possible events that – in the view of the analysts as per the date of the rating – would most likely have a stabilizing or positive effect (+) and a weakening or negative effect (-) on future ratings, if they would enter. This is not a full list of possible future events with potential relevance for future ratings. Circumstances can arise that are not included in the list of prospective factors whose effects are impossible to assess at the time of the rating, either because these effects are uncertain or because the underlying events are deemed unlikely to occur.

General rating factors

+ Each Note of NFI is unconditionally and irrevocably guaranteed by Nestlé S.A.
+ Proven capital market viability

- Dependence upon other group entities

For further general rating factors, we refer to the rating report of the unsolicited corporate issuer rating of Nestlé S.A. as of 03 April 2017.

Current factors (rating 2018)

+ persistently low interest rates

For further current rating factors, we refer to the rating report of the unsolicited corporate issuer rating of Nestlé S.A. as of 03 April 2017.

Prospective rating factors

For further prospective rating factors, we refer to the rating report of the unsolicited corporate issuer rating of Nestlé S.A. as of 03 April 2017.

¹ The financial ratios disclosed in this report have been standardized for analytical purposes according to the methodology of Creditreform Rating AG ("CRAG"). Values that were standardized under the CRAG methodology may differ or deviate from similarly labelled ratios in the original documents or communications that were disclosed by the rated companies themselves. For example: the CRAG ratio of "Net debt / EBITDA adj." refers to the total liabilities of the company under review (here: the Nestlé Group).

² For the purposes of our analysis, we reduced the equity by 50 % of the goodwill that was disclosed in the annual financial statement. This reflects our assumption that the goodwill has an intrinsic value.

Best case scenario

In our best-case scenario for one year, we assume a rating of AA. The best case scenario of Nestlé Finance International Ltd. is derived from the best case scenario of the unsolicited corporate issuer rating of Nestlé S.A. as of 03 April 2017 (AA / stable).

Best case: AA

Worst case: AA-

Note:

The scenarios are based on the information available at the time of the rating. Within the forecast horizon, some circumstances could occur that would lead to a rating change out of the indicated range.

Worst case scenario

In our worst-case scenario for one year, we assume a rating of AA-. The worst case scenario of Nestlé Finance International Ltd. is derived from the worst case scenario of the unsolicited corporate issuer rating of Nestlé S.A. as of 03 April 2017 (AA / stable).

Business development and outlook

In its capacity as a financing company within the Nestlé S.A. (Group), Nestlé Finance International Ltd. conducts its business activities in a direct connection with the finance requirements of Nestlé S.A. and its subsidiaries. Analogously, NFI's business development is dependent on the ability of Nestlé S.A. and its subsidiaries to duly service the intercompany loans they have received by meeting all their respective payment obligations. Overall, the future development of NFI will be determined by the Nestlé Group's business development, its strategy and its capital or investment requirements, taking into account all the general risks of its business model. This is why we believe that a consolidated view of NFI's business development and business outlook is the necessary and appropriate approach for this rating assessment.

Following the business year 2017 that brought mixed results – i.e. stagnating revenues of CHF 89.8 billion (2016: CHF 89.8 billion) and an EAT of CHF 7.5 billion that fell significantly short of the previous year's figure of CHF 8.9 billion, reflecting restructuring costs and a write-down – Nestlé expects its operating business to undergo a more positive development in the current business year.

According to the consolidated business report for the first six months of this year, Nestlé generated revenues of CHF 43.9 billion from January to June, representing an organic growth rate of 2.8 %. Due to efficiency gains and successful restructuring measures, the underlying operative result increased by 3.5 % to CHF 7.1 billion, equivalent to a margin of 16.1 %. Cost savings were, however, offset by increases in the prices for raw materials, packaging and distribution as well as a 100 percent rise in the restructuring costs and other net expenses, following which the operative result fell by approx. 1.3 % to CHF 6.4 billion. The result for the period under review, meanwhile, increased by 18 % to CHF 6.0 billion, largely reflecting the proceeds from sales of existing businesses. These figures mean that Nestlé's current business development complies with the targets of the company's long-term (five-year) business plan, which expects a mid-single digit revenue growth and a 1.5 to 2.5 percent increase of the margin (of the underlying operative result) to 17.5/18.5 % for the period between 2016 and 2020.

For further details about the Group's structural risks, business risks and financial risks as well as additional rating-relevant factors, we refer to Creditreform's unsolicited Corporate Issuer Rating of Nestlé S.A. from 3 April 2017 as well as to the information that has since been released by Nestlé S.A.

Issue rating details

In order to allow the Group to meet its funding needs, Nestlé Finance International Ltd. ("the Issuer") also issues a variety of bonds under a Debt Issuance Programme (DIP). This rating exclusively analyses the EUR-denominated (local currency or "LC") long-term senior unsecured issues, which are included in the ECB's list of eligible marketable assets and which have been issued by Nestlé Finance International Ltd. The ECB list of eligible marketable assets can be accessed on the web page of the European Central Bank. The bonds constitute uncollateralized and non-subordinated liabilities of the company which are pari passu (of equal rank and seniority) with respect to each other as well as with all other uncollateralized and non-subordinate liabilities of the Issuer. According to its most recently released prospectus from 18 May 2018, Nestlé S.A. (the Guarantor) assumes an unconditional and irrevocable two-year guarantee for the full and timely payment of all

principal and interest rate payments. Bonds that have been issued under the DIP furthermore benefit from negative pledges of the Issuer and the Guarantor as well as from a cross default provision.

The objects of this rating are Nestlé Finance International Ltd. and the long-term EUR-denominated bonds it has issued under the DIP (which are included in the ECB list). This rating provides no analysis or assessment of bonds that have been issued under the DIP in other currencies and/or by Nestlé Holdings, Inc.

The following tables give overviews of the ratings attributed by CRA as well as of the current DIP.

Table 2: Summary of CRA Ratings | Source: CRA

Rating objects	Detail information	
	Date	Rating
Nestlé S.A. (Issuer)	03.04.2017	AA / stable
Nestlé Finance International Ltd. (Issuer)	05.10.2018	AA / stable
Long-Term Local Currency Senior Unsecured Issues (DIP)	05.10.2018	AA
Other	--	n.r.

Table 3: Overview of the Debt Issuance Programme | Source: Nestlé DIP Prospectus per 18. Mai 2018

Issue overview DIP			
Programme Volume	Not defined / specified	Maturity	Depending on the respective bond
Issuer	Nestlé Finance International Ltd. (NFI)	Coupon	Depending on the respective bond
Arranger	Credit Suisse	Currency	Depending on the respective bond
Credit Enhancement	Guaranteed by Nestlé S.A.	ISIN	Depending on the respective bond

At the time of the rating, the following EUR-Notes are rated by Creditreform Rating AG:

Table 4: Overview of NIF's LT LC senior unsecured issues | Source: Nestlé

ISIN	EUR volume	Issue date	Maturity	Unsolicited rating
XS0805500062	500.000.000,00	19.07.2012	19.07.2019	AA
XS0925668625	500.000.000,00	02.05.2013	04.05.2020	AA
XS0969795680	500.000.000,00	12.09.2013	10.09.2021	AA
XS1132789949	500.000.000,00	07.11.2014	08.11.2021	AA
XS0826531120	850.000.000,00	12.09.2012	12.09.2022	AA
XS1319652902	500.000.000,00	16.11.2015	16.05.2023	AA
XS1707074941	500.000.000,00	02.11.2017	18.01.2024	AA
XS1707075328	750.000.000,00	02.11.2017	02.11.2029	AA
XS1707075245	750.000.000,00	02.11.2017	02.11.2037	AA

All future LT LC senior unsecured Notes that will be issued by Nestlé Finance International Ltd. under the DIP, denominated in euro and which are included in the list of ECB-eligible marketable assets, will, until further notice, receive the same ratings than the current LT LC senior unsecured Notes. Notes issued in another currency than euro or other types of debt instruments (i.e. undated deeply subordinated fixed rate resettable notes or social bonds) have not been rated by CRA so far. The current ratings and information about the issuer and / or its issues can be found on the website of Creditreform Rating AG.

Appendix

Rating history

Corporate issuer rating Nestlé S.A.:

Event	Rating date	Publication date	Monitoring period until	Result
Initial rating	03.04.2017	10.04.2017	Withdrawal of the rating	AA / stable

Corporate issuer rating Nestlé Finance International Ltd.:

Event	Rating date	Publication date	Monitoring period until	Result
Initial rating	31.10.2018	07.11.2018	Withdrawal of the rating	AA / stable

LT LC senior unsecured issues issued by Nestlé Finance International Ltd.:

Event	Rating date	Publication date	Monitoring period until	Result
Initial rating	31.10.2018	07.11.2018	Withdrawal of the rating	AA

Regulatory and legal disclosures

The present rating is an unsolicited rating. Creditreform Rating AG was not commissioned by the issuer with the preparation of the rating. The present analysis was prepared on a voluntary basis.

The rating is based on the analysis of published information and on internal evaluation factors. The quantitative analysis is primarily based on the last annual report of the issuer, the base prospectuses and on press releases of the company. The information and documents meet the requirements and are in accordance with the published Creditreform Rating AG's rating methodology.

The rating was conducted on the basis of Creditreform Rating's "Corporate Issue Ratings" methodology. A complete description of Creditreform Rating's rating methodologies is published on the following internet page: www.creditreform-rating.de.

The documents submitted and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodology. A complete description of Creditreform Rating's rating methodologies and Creditreform's basic document "Rating Criteria and Definitions" is published on the following internet page:

www.creditreform-rating.de/en/regulatory-requirements/

This rating was carried out by analysts Artur Kapica and Christian Konieczny, both located in Neuss, Germany. A management meeting did not take place.

The rating was presented to the rating committee on 31 October 2018. The company examined the rating report prior to publication and was given at least one full working day to appeal the rating committee's decision and to provide additional information. The rating decision was not amended following this examination.

The rating will be monitored until CRA removes the rating and sets it to not-rated (n.r.).

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Please note:

This report has been prepared in an English version only. This is the only binding version.

Conflict of interest

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our 'Rating Committee' policy, all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

Corporate issuer rating:

1. Annual report
2. Website
3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating
2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the CRA website. Furthermore, CRA considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The 'Basic Data' information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the 'Basic Data' card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within 'Basic Data' information card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website:

<https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

An explanatory statement of the meaning of Creditreform's default rates are available in the credit rating methodologies disclosed on the website. Further information can also be found on the CRA website in the document "Rating Criteria and Definitions".

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Creditreform Rating AG

Contacts

Creditreform Rating AG
Hellersbergstraße 11
41460 Neuss
Germany

Phone +49 (0) 2131 / 109-626

Fax +49 (0) 2131 / 109-627

E-mail info@creditreform-rating.de
www.creditreform-rating.de

CEO: Dr. Michael Munsch

Chairman of the Board: Prof. Dr. Helmut Rödl
HR Neuss B 10522