



Nestlé

Good Food, Good Life



Half-Yearly Report
January–June 2016

Letter to our shareholders

Dear fellow shareholder,

The first half of 2016 was in line with our expectation with growth almost entirely driven by volume and product mix, yielding further market share gains. While we continued to address challenges in China, we enjoyed good performances across the US, Europe, South East Asia and Latin America and expect this to continue in the second half. We also expect pricing, which reached historically low levels in the first half, to recover somewhat in the coming months. We grew our gross margin and trading operating profit through further premiumisation, continuous cost discipline and input cost tailwinds. This allowed us to significantly enhance our free cash flow. In these times of rapid change, we keep our focus on profitable growth by further investing in innovation, R&D, brand support and digital to engage with our consumers, meeting their changing needs. Overall our first half performance allows us to reconfirm our outlook for the full year.

Group results

Sales

In the first half of 2016 Nestlé's organic growth was 3.5%, composed of 2.8% real internal growth and 0.7% pricing. Pricing has reached a historically low level owing to deflationary environments across a number of developed markets and low commodity prices. Total sales of CHF 43.2 billion, with a foreign exchange impact of -2.0%. The net result of acquisitions and divestitures reduced sales growth by -0.8%. Organic growth was broad-based across geographies and categories: 4.7% in the Americas (AMS); 2.5% in Europe, Middle East and North Africa (EMENA); 2.3% in Asia, Oceania and sub-Saharan Africa (AOA). Real internal growth was solid and balanced: 2.8% in AMS; 2.8% in EMENA; 2.9% in AOA. Continued strength in developed markets with organic growth of 1.9%, in spite of deflationary pressures, and in emerging markets with 5.4%.

Trading operating profit

Trading operating profit was CHF 6.6 billion, with a margin of 15.3%, up 30 basis points on both a reported basis and in constant currencies. This was driven by a gross margin expansion of 130 basis points through continuous cost discipline, active portfolio management, premiumisation and an input cost tailwind. We delivered this margin improvement whilst continuing to significantly increase our investment in brand support, digital, research and development, and in our new nutrition and health platforms. Consumer facing marketing spend increased by 8.5% in constant currencies. We are

rolling out several key initiatives that are focused on structural efficiencies. One-off costs in 2016 will be off-set by savings.

Net profit

Net profit was CHF 4.1 billion. The reduction of CHF 0.4 billion versus last year was due to a one-off, non-cash adjustment to deferred taxes. Reported earnings per share at CHF 1.33 was down by -7.2% for the same reason. Underlying earnings per share in constant currencies increased by 5.7%.

Cash flow

The Group's operating cash flow was strong at CHF 4.9 billion and free cash flow increased year on year by 41% to CHF 3.3 billion. These improvements were primarily the result of our focus on margins, discipline in capital expenditure and working capital.

Zone AMS

Sales	CHF 12.1 billion
Organic growth	+5.1%
Real internal growth	+2.5%
Trading operating profit margin	17.8%
Trading operating profit margin	-20 basis points

The Zone maintained good growth momentum, with broad-based market share gains.

Good growth in North America was underpinned by strong real internal growth, whilst deflationary pressures weighed on pricing. The successful growth of the frozen meals business continued, supported by innovations and marketing investment, particularly for *Lean Cuisine* and *Stouffer's*. *Coffee-mate* maintained its good growth trajectory, driven by new packaging and flavour extensions. Petcare delivered solid growth, with very strong contributions from *ONE*, *Pro Plan* and *Beyond* in dry dog. First results of the *Beneful* re-launch were promising, with the product now back in positive territory.

In Latin America we saw good performances in many markets despite the volatile environment, with positive real internal growth and pricing. In Brazil our business grew mid single digit, outperforming the market in a recessionary context. The key drivers were ambient dairy and *Nescafé Dolce Gusto*. We began to implement selective price increases towards the end of the period. Mexico's strong performance continued across the entire portfolio. *Nescafé Dolce Gusto*, *Nescafé* soluble coffee and ambient dairy remained the growth drivers. Petcare's positive momentum continued, with double-digit growth in most markets.

The Zone's trading operating profit margin contracted slightly as the impact of currency depreciation in Latin America was not yet fully off-set by price increases. Ongoing operational efficiency savings were largely re-invested behind an increase in consumer facing marketing spend across the Zone.

Zone EMENA

Sales	CHF 8.1 billion
Organic growth	+ 2.6%
Real internal growth	+ 3.0%
Trading operating profit margin	16.9%
Trading operating profit margin	+ 70 basis points

Good real internal growth drove market share gains across the Zone. Pricing had a negative impact of -0.4% due to the deflationary environment in many parts of the Zone.

The strong performance in Western Europe, driven by product innovations, continued despite the difficult low-growth environment. Petcare accelerated, supported by the wet cat single serve segment as well as dry cat and dog snacks. *Nescafé Dolce Gusto* continued to be a growth driver while ambient culinary was impacted by the competitive retail environment and softness in the category. France, Spain, Portugal and Benelux were the highlights.

Solid growth in Central and Eastern Europe was driven by Russia and the Czech/Slovak region. Double-digit growth in petcare resulted from innovation, premiumisation and category expansion. Russia's performance was solid in most categories, particularly in *Nescafé* soluble coffee.

The Middle East and North Africa was resilient in an unstable environment. *Nescafé* and ambient culinary enjoyed good growth while dairy remained challenged. Turkey continued to grow well, driven by *Nescafé* soluble coffee and chocolate.

The Zone's trading operating profit margin improved nicely, whilst we also increased consumer facing marketing investments. This was achieved through portfolio management, better product mix and lower input costs.

Zone AOA

Sales	CHF 7.1 billion
Organic growth	+ 2.3%
Real internal growth	+ 2.4%
Trading operating profit margin	19.6%
Trading operating profit margin	+ 140 basis points

Most of the Zone's businesses saw their growth accelerating, with South East Asia, sub-Saharan Africa and Japan the highlights. India kept gaining momentum one year after the start of the *Maggi* noodle withdrawal.

In China, growth in the food and beverage market slowed down significantly. In this context our core food and beverage business outperformed the market with *Nescafé* and *Shark* wafers, driven by product renovation and improved retail execution. However, Yinlu still weighed on the overall performance while we continued to execute our turnaround plan based on a portfolio upgrade and new product developments.

Growth in India turned positive in June due to good progress with the *Maggi* noodle relaunch and favourable comparables. We regained a leading market share position.

The strong growth momentum in South East Asia continued across all markets, with double-digit growth in Vietnam and Indonesia and high single-digit growth in the Philippines. *Milo* drove growth across the region and the newly launched *Nescafé Blend and Brew* had an encouraging start.

Sub-Saharan Africa continued to grow strongly across all categories, especially in ambient culinary with *Maggi*. Nigeria, Ghana and the Ivory Coast were the highlights.

Japan did well in developed markets, building on product, business model innovation, premiumisation and digital engagement both for *Nescafé* and *KitKat*. We had more challenging results in Oceania where competitive intensity amongst retailers combined with low commodity prices has driven deflation in a number of categories.

The Zone's trading operating profit margin improved alongside a significant step up in consumer marketing spend to support new product launches. The improved profitability was driven by efficiency gains and lower input costs – particularly in dairy commodities. The Zone also incurred fewer one-off expenses as the withdrawal costs related to *Maggi* noodles in India impacted the first half of last year.

Nestlé Waters

Sales	CHF 3.9 billion
Organic growth	+ 4.2%
Real internal growth	+ 4.7%
Trading operating profit margin	12.4%
Trading operating profit margin	+ 90 basis points

Nestlé Waters' performance was driven by double-digit growth in emerging markets and high single-digit growth in our premium sparkling brands *S. Pellegrino* and *Perrier*. Developed markets continued to grow despite the deflationary environment. Growth was solid in the US, driven by our international premium brands and *Poland Spring*. However, the regional brands were negatively impacted by the tornado which severely damaged a plant in Texas at the end of April. The growth momentum in Europe was impacted by poor weather conditions in comparison with a very hot summer last year, particularly in France and Italy. Spain, the UK and Poland performed well. Zone AOA showed a good performance, with double-digit growth in Thailand, Egypt and Vietnam. Competitive intensity in China remained high. Latin America delivered good growth, with Mexico the highlight.

The increase in trading operating profit margin was driven by improved product mix through premiumisation. We achieved cost efficiencies across manufacturing, procurement and distribution, as well as some benefit from lower input costs.

Nestlé Nutrition

Sales	CHF 5.2 billion
Organic growth	+ 1.3%
Real internal growth	+ 1.1%
Trading operating profit margin	23.2%
Trading operating profit margin	+ 20 basis points

Nestlé Nutrition was challenged in both the US and China, offsetting strong momentum in other geographies, particularly Latin America and South East Asia. Pricing remains very limited in the category as a result of low dairy commodity prices and competitive intensity, notably in China. In China, category growth overall slowed, mainly affecting the premium and mainstream brands *NAN* and *S-26 GOLD*. At the same time we continued to outperform in the faster growing super premium segment, primarily through our leading brand *illumina*. The recently launched *S-26 Ultima* also saw positive progress. In the United States, the exit from some regional WIC contracts, the transition to new packaging formats and some temporary supply constraints in pouches impacted growth. Latin America saw very good growth in both Brazil and Mexico, with both cereals and infant formula doing well. Innovations drove strong performances in South East Asia – particularly in the Philippines and Indonesia.

Trading operating profit margin increased whilst we simultaneously stepped-up consumer marketing investments. Both infant formula and infant cereals businesses improved their profitability. Positive mix and lower input costs were the primary drivers of the margin growth.

Other businesses

Sales	CHF 6.8 billion
Organic growth	+ 4.2%
Real internal growth	+ 4.2%
Trading operating profit margin	16.4%
Trading operating profit margin	+ 60 basis points

Nestlé Professional delivered positive growth driven by good performances in emerging markets, particularly Mexico and Russia. There were solid results in the USA, whilst Western Europe continued to be challenged by the difficult trading environment. The strategic platforms of beverage solutions and savoury flavour solutions were key growth drivers.

Nespresso continued its good growth, with a solid performance in Europe and good momentum in AMS and AOA. The success of the *VertuoLine* system and increased marketing investment in North America drove positive results. Global growth was supported by the ongoing geographic expansion, including 16 new boutique openings, and limited edition Grands Crus coffees.

Good results in Nestlé Health Science continued to be driven by strong double-digit growth in Consumer Care, especially in the United States where *Boost* and *Carnation Breakfast Essentials* had strong momentum. Medical Nutrition maintained its good performance, led by the allergy portfolio and its geographic expansion.

Nestlé Skin Health maintained good real internal growth, with solid performances in emerging markets, particularly Latin America, Middle East and North Africa. The prescription business delivered solid growth, driven by *Epiduo Forte* in the US, as well as *Soolantra* in EMENA. The consumer business performed well with *Cetaphil* cleansers and moisturisers and *Daylong* sun protection.

The trading operating profit margin increased whilst there was also higher marketing spend across all businesses. Portfolio management, cost discipline and lower input costs also drove improved profitability in both Nestlé Health Science and Nestlé Professional.

Outlook

We confirm our full-year outlook: organic growth in line with 2015, with improvements in margins and underlying earnings per share in constant currencies, and capital efficiency.

Peter Brabeck-Letmathe
Chairman of the Board

Paul Bulcke
Chief Executive Officer

Key figures (consolidated)

Key figures in CHF

In millions (except for data per share)	January–June 2016	January–June 2015
Results		
Sales	43 155	42 843
Trading operating profit	6 611	6 435
as % of sales	15.3%	15.0%
Profit for the period attributable to shareholders of the parent (Net profit)	4 100	4 517
as % of sales	9.5%	10.5%
Balance sheet and cash flow statement		
Equity attributable to shareholders of the parent ^(a)	56 627	61 233
Net financial debt ^(a)	20 817	18 089
Ratio of net financial debt to equity (gearing) ^(a)	36.8%	29.5%
Operating cash flow	4 862	3 871
Free cash flow ^(b)	3 343	2 373
Capital expenditure	1 044	1 039
Data per share		
Weighted average number of shares outstanding (in millions of units)	3 085	3 154
Basic earnings per share	1.33	1.43
Market capitalisation	232 409	211 317

Principal key figures in USD and EUR (illustrative)

Income statement and cash flow statement figures translated at weighted average rate; balance sheet figures at ending June exchange rate

In millions (except for data per share)	January–June 2016	January–June 2015	January–June 2016	January–June 2015
	in USD	in USD	in EUR	in EUR
Sales	43 954	45 206	39 380	40 543
Trading operating profit	6 734	6 790	6 033	6 090
Profit for the period attributable to shareholders of the parent (Net profit)	4 176	4 766	3 742	4 274
Equity attributable to shareholders of the parent ^(a)	57 750	65 690	52 015	58 841
Basic earnings per share	1.35	1.51	1.21	1.35
Market capitalisation	237 019	226 698	213 482	203 063

(a) Situation as at 30 June.

(b) Operating cash flow less capital expenditure, expenditure on intangible assets, investments (net of divestments) in associates and joint ventures, and other investing cash flows.

Consolidated income statement for the period ended 30 June 2016

In millions of CHF		January–June 2016	January–June 2015
	Notes		
Sales	3	43 155	42 843
Other revenue		145	129
Cost of goods sold		(21 230)	(21 644)
Distribution expenses		(3 946)	(3 872)
Marketing and administration expenses		(10 496)	(10 029)
Research and development costs		(820)	(777)
Other trading income	5	50	23
Other trading expenses	5	(247)	(238)
Trading operating profit	3	6 611	6 435
Other operating income		85	62
Other operating expenses	5	(212)	(411)
Operating profit		6 484	6 086
Financial income		56	48
Financial expense		(384)	(381)
Profit before taxes, associates and joint ventures		6 156	5 753
Taxes	6	(2 285)	(1 515)
Income from associates and joint ventures	7	422	506
Profit for the period		4 293	4 744
of which attributable to non-controlling interests		193	227
of which attributable to shareholders of the parent (Net profit)		4 100	4 517
As percentages of sales			
Trading operating profit		15.3%	15.0%
Profit for the period attributable to shareholders of the parent (Net profit)		9.5%	10.5%
Earnings per share (in CHF)			
Basic earnings per share		1.33	1.43
Diluted earnings per share		1.33	1.43

Consolidated statement of comprehensive income for the period ended 30 June 2016

In millions of CHF	January–June 2016	January–June 2015
Profit for the period recognised in the income statement	4 293	4 744
Currency retranslations, net of taxes	(443)	(4 961)
Fair value adjustments on available-for-sale financial instruments, net of taxes	106	(99)
Fair value adjustments on cash flow hedges, net of taxes	(34)	22
Share of other comprehensive income of associates and joint ventures	(168)	450
Items that are or may be reclassified subsequently to the income statement	(539)	(4 588)
Remeasurement of defined benefit plans, net of taxes	(1 694)	732
Share of other comprehensive income of associates and joint ventures	(89)	56
Items that will never be reclassified to the income statement	(1 783)	788
Other comprehensive income for the period	(2 322)	(3 800)
Total comprehensive income for the period	1 971	944
of which attributable to non-controlling interests	123	112
of which attributable to shareholders of the parent	1 848	832

Consolidated balance sheet as at 30 June 2016

In millions of CHF		30 June 2016	31 December 2015
	Notes		
Assets			
Current assets			
Cash and cash equivalents		4 260	4 884
Short-term investments		816	921
Inventories		8 923	8 153
Trade and other receivables		12 355	12 252
Prepayments and accrued income		842	583
Derivative assets		499	337
Current income tax assets		756	874
Assets held for sale	2	1 448	1 430
Total current assets		29 899	29 434
Non-current assets			
Property, plant and equipment		25 967	26 576
Goodwill		32 709	32 772
Intangible assets		19 782	19 236
Investments in associates and joint ventures		8 490	8 675
Financial assets		5 711	5 419
Employee benefits assets		143	109
Current income tax assets		156	128
Deferred tax assets		1 892	1 643
Total non-current assets		94 850	94 558
Total assets		124 749	123 992

In millions of CHF	Notes	30 June 2016	31 December 2015
Liabilities and equity			
Current liabilities			
Financial debt		14 557	9 629
Trade and other payables		15 981	17 038
Accruals and deferred income		3 483	3 673
Provisions		557	564
Derivative liabilities		1 021	1 021
Current income tax liabilities		1 059	1 124
Liabilities directly associated with assets held for sale	2	297	272
Total current liabilities		36 955	33 321
Non-current liabilities			
Financial debt		11 336	11 601
Employee benefits liabilities		10 019	7 691
Provisions		2 737	2 601
Deferred tax liabilities		3 190	3 063
Other payables		2 458	1 729
Total non-current liabilities		29 740	26 685
Total liabilities		66 695	60 006
Equity			
Share capital	9	311	319
Treasury shares		(1 405)	(7 489)
Translation reserve		(20 233)	(19 851)
Other reserves		1 261	1 345
Retained earnings		76 693	88 014
Total equity attributable to shareholders of the parent		56 627	62 338
Non-controlling interests		1 427	1 648
Total equity		58 054	63 986
Total liabilities and equity		124 749	123 992

Consolidated cash flow statement for the period ended 30 June 2016

In millions of CHF		January–June 2016	January–June 2015
	Notes		
Operating activities			
Operating profit	8	6 484	6 086
Depreciation and amortisation		1 538	1 548
Impairment		109	77
Net result on disposal of businesses		40	41
Other non-cash items of income and expense		49	234
Cash flow before changes in operating assets and liabilities	8	8 220	7 986
Decrease/(increase) in working capital		(2 081)	(2 478)
Variation of other operating assets and liabilities		(44)	(286)
Cash generated from operations		6 095	5 222
Net cash flows from treasury activities ^(a)		(141)	(151)
Taxes paid		(1 579)	(1 638)
Dividends and interest from associates and joint ventures		487	438
Operating cash flow		4 862	3 871
Investing activities			
Capital expenditure		(1 044)	(1 039)
Expenditure on intangible assets		(343)	(198)
Acquisition of businesses	2	(572)	(7)
Disposal of businesses	2	64	122
Investments (net of divestments) in associates and joint ventures		(139)	(111)
Inflows/(outflows) from treasury investments		48	464
Other investing activities		7	(150)
Investing cash flow		(1 979)	(919)
Financing activities			
Dividend paid to shareholders of the parent	9	(6 937)	(6 950)
Dividends paid to non-controlling interests		(177)	(238)
Acquisition (net of disposal) of non-controlling interests		(1 153)	—
Purchase (net of sale) of treasury shares		390	(2 693)
Inflows from bonds and other non-current financial debt		949	79
Outflows from bonds and other non-current financial debt		(552)	(368)
Inflows/(outflows) from current financial debt		4 195	4 014
Financing cash flow		(3 285)	(6 156)
Currency retranslations		(222)	(447)
Increase/(decrease) in cash and cash equivalents		(624)	(3 651)
Cash and cash equivalents at beginning of year		4 884	7 448
Cash and cash equivalents at end of period		4 260	3 797

(a) Interest paid amounts to CHF 266 million (2015: CHF 248 million) and interest received to CHF 42 million (2015: CHF 35 million).

Consolidated statement of changes in equity for the period ended 30 June 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 1 January 2015								
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 1 January 2015	322	(3 918)	(16 302)	1 418	88 610	70 130	1 754	71 884
Profit for the period	–	–	–	–	4 517	4 517	227	4 744
Other comprehensive income for the period	–	–	(4 659)	186	788	(3 685)	(115)	(3 800)
Total comprehensive income for the period	–	–	(4 659)	186	5 305	832	112	944
Dividends	–	–	–	–	(6 950)	(6 950)	(238)	(7 188)
Movement of treasury shares	–	(2 776)	–	–	(129)	(2 905)	–	(2 905)
Equity compensation plans	–	218	–	–	(120)	98	–	98
Changes in non-controlling interests	–	–	–	–	–	–	–	–
Reduction in share capital	(3)	2 512	–	–	(2 509)	–	–	–
Total transactions with owners	(3)	(46)	–	–	(9 708)	(9 757)	(238)	(9 995)
Other movements	–	–	–	(10)	38	28	–	28
Equity restated as at 30 June 2015	319	(3 964)	(20 961)	1 594	84 245	61 233	1 628	62 861
Equity as at 1 January 2016								
as originally published	319	(7 489)	(21 129)	–	90 637	62 338	1 648	63 986
Reclassification following the changes in presentation	–	–	1 278	1 345	(2 623)	–	–	–
Equity restated as at 1 January 2016	319	(7 489)	(19 851)	1 345	88 014	62 338	1 648	63 986
Profit for the period	–	–	–	–	4 100	4 100	193	4 293
Other comprehensive income for the period	–	–	(382)	(87)	(1 783)	(2 252)	(70)	(2 322)
Total comprehensive income for the period	–	–	(382)	(87)	2 317	1 848	123	1 971
Dividends	–	–	–	–	(6 937)	(6 937)	(177)	(7 114)
Movement of treasury shares	–	407	–	–	(4)	403	–	403
Equity compensation plans	–	188	–	–	(94)	94	–	94
Changes in non-controlling interests ^(a)	–	–	–	–	(1 037)	(1 037)	(167)	(1 204)
Reduction in share capital	(8)	5 489	–	–	(5 481)	–	–	–
Total transactions with owners	(8)	6 084	–	–	(13 553)	(7 477)	(344)	(7 821)
Other movements	–	–	–	3	(85)	(82)	–	(82)
Equity as at 30 June 2016	311	(1 405)	(20 233)	1 261	76 693	56 627	1 427	58 054

(a) Movements reported under retained earnings include the impact of the acquisitions during the period (see Note 2.3) as well as a put option for the acquisition of non-controlling interests.

1. Accounting policies

Basis of preparation

These Financial Statements are the unaudited Interim Consolidated Financial Statements (hereafter “the Interim Financial Statements”) of Nestlé S.A., a company registered in Switzerland, and its subsidiaries for the six-month period ended 30 June 2016. They have been prepared in accordance with International Accounting Standard IAS 34 – Interim Financial Reporting, and should be read in conjunction with the Consolidated Financial Statements for the year ended 31 December 2015.

The accounting conventions and accounting policies are the same as those applied in the Consolidated Financial Statements for the year ended 31 December 2015 (as described in Note 1 and highlighted with a grey background in the relevant notes), except for the changes in presentation and accounting policies mentioned below.

The preparation of the Interim Financial Statements requires Group Management to exercise judgment and to make estimates and assumptions that affect the application of policies, reported amounts of revenues, expenses, assets and liabilities and disclosures. The key sources of estimation uncertainty within these Interim Financial Statements remain the same as those applied to the Consolidated Financial Statements for the year ended 31 December 2015.

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.

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 policies

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 IFRS that may affect the Group after 30 June 2016

The following new standards and amendments to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2017. 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. The standard will affect the Group's accounting for its available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income under some circumstances and gains and losses on certain instruments with specific cash flow characteristics are never reclassified to the income statement at a later date.

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 such liabilities.

The Group is currently assessing the impact of the new impairment and hedge accounting requirements. In particular it is expected that the new component hedge model may bring improved alignment between the risk management strategies and their accounting treatment.

This standard is mandatory for the accounting period beginning on 1 January 2018.

IFRS 15 – Revenue from Contracts 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 is currently assessing the potential impact of this new standard.

This standard is mandatory for the accounting period beginning on 1 January 2018.

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 assets and total liabilities. All things being equal, under the new standard higher trading operating profit would be partially or entirely offset by higher interest expense. 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.

Improvements and other amendments to IFRS/IAS

A number of standards have been modified on miscellaneous points. 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

2.1 Modification of the scope of consolidation

During the interim period, the scope of consolidation has not been affected by significant acquisitions and disposals.

Among others, the acquisitions include:

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

Cash outflows and inflows in the first six months of 2016 as well as for the previous year's interim period are related to non-significant acquisitions and disposals.

2.2 Assets held for sale

As at 31 December 2015 and as at 30 June 2016, assets held for sale are mainly composed of a disposal group related to the creation of a joint venture with R&R Ice Cream called Froneri, a leading European ice cream company, as announced on 27 April 2016. Nestlé will contribute to the joint venture its ice cream business in Europe, Egypt, the Philippines, Brazil and Argentina, its European frozen food businesses (excluding pizza and retail frozen food in Italy) as well as the chilled dairy business in the Philippines. As of 30 June 2016, the related cumulative translation losses in other comprehensive income has been estimated at about CHF 400 million (31 December 2015: about CHF 400 million) and will be recognised in the income statement at the date of the completion of the transaction, expected during the third quarter of 2016.

As at 31 December 2015 and as at 30 June 2016, none of the other businesses classified as held for sale are individually significant.

2.3 Acquisitions of non-controlling interests

During the interim period, 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 1153 million and the decrease of non-controlling interests amounted to CHF 265 million. Part of the consideration was recorded as a liability in previous years. During the period, the equity was negatively impacted by CHF 579 million.

3. Analyses by segment

3.1 Operating segments Revenue and results

In millions of CHF

January–June
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	8 091	1 369	(65)	(23)	(50)	(228)
Zone AMS	12 106	2 154	(7)	(2)	(7)	(350)
Zone AOA	7 099	1 389	(25)	(10)	(6)	(238)
Nestlé Waters	3 937	487	—	—	—	(163)
Nestlé Nutrition	5 171	1 199	(18)	(7)	(3)	(176)
Other businesses ^(c)	6 751	1 109	(41)	(3)	(28)	(305)
Unallocated items ^(d)	—	(1 096)	(41)	—	—	(78)
Total	43 155	6 611	(197)	(45)	(94)	(1 538)

In millions of CHF

January–June
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	7 922	1 282	(24)	(12)	(5)	(251)
Zone AMS	11 993	2 153	(42)	(1)	(15)	(334)
Zone AOA	7 069	1 287	(99)	(5)	(23)	(228)
Nestlé Waters	3 767	435	(18)	(7)	(3)	(200)
Nestlé Nutrition	5 282	1 213	(12)	(2)	(4)	(171)
Other businesses ^(c)	6 810	1 077	(15)	—	(7)	(294)
Unallocated items ^(d)	—	(1 012)	(5)	—	—	(70)
Total	42 843	6 435	(215)	(27)	(57)	(1 548)

(a) Inter-segment sales are not significant.

(b) Included in Trading operating profit.

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

(d) Mainly corporate expenses as well as research and development costs.

3. Analyses by segment

Other information

In millions of CHF	January–June 2016		January–June 2015	
	Impairment of goodwill	Impairment of intangible assets	Impairment of goodwill	Impairment of intangible assets
Zone EMENA	(1)	–	(29)	–
Zone AMS	(36)	–	–	(6)
Zone AOA	–	–	–	–
Nestlé Waters	–	–	–	–
Nestlé Nutrition	–	–	–	–
Other businesses ^(a)	–	–	(15)	–
Unallocated items ^(b)	–	(27)	–	–
Total	(37)	(27)	(44)	(6)

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

(b) Mainly corporate expenses as well as research and development costs.

3.2 Products

Revenue and results

In millions of CHF

			January–June 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	9 653	2 196	(66)	(26)	(39)
Water	3 680	461	(1)	–	(1)
Milk products and Ice cream	6 991	1 216	(18)	(6)	(7)
Nutrition and Health Science	7 364	1 359	(41)	(7)	(15)
Prepared dishes and cooking aids	5 903	892	(6)	(1)	(14)
Confectionery	3 735	383	(10)	(2)	(7)
PetCare	5 829	1 200	(14)	(3)	(11)
Unallocated items ^(b)	–	(1 096)	(41)	–	–
Total	43 155	6 611	(197)	(45)	(94)

In millions of CHF

			January–June 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	9 371	2 113	(19)	(1)	(12)
Water	3 510	419	(17)	(7)	(2)
Milk products and Ice cream	7 191	1 202	(33)	(2)	(17)
Nutrition and Health Science	7 346	1 398	(21)	(2)	(7)
Prepared dishes and cooking aids	6 062	736	(84)	(2)	(7)
Confectionery	3 898	432	(24)	(7)	(9)
PetCare	5 465	1 147	(12)	(6)	(3)
Unallocated items ^(b)	–	(1 012)	(5)	–	–
Total	42 843	6 435	(215)	(27)	(57)

(a) Included in Trading operating profit.

(b) Mainly corporate expenses as well as research and development costs.

3. Analyses by segment

Other information

In millions of CHF	January–June 2016		January–June 2015	
	Impairment of goodwill	Impairment of intangible assets	Impairment of goodwill	Impairment of intangible assets
Powdered and Liquid Beverages	–	–	(15)	–
Water	–	–	–	–
Milk products and Ice cream	(37)	–	–	–
Nutrition and Health Science	–	–	–	–
Prepared dishes and cooking aids	–	–	–	(6)
Confectionery	–	–	–	–
PetCare	–	–	–	–
Unallocated items ^(a)	–	(27)	(29)	–
Total	(37)	(27)	(44)	(6)

(a) Mainly corporate expenses as well as research and development costs.

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

In millions of CHF	January–June 2016	January–June 2015
Trading operating profit	6 611	6 435
Impairment of goodwill	(37)	(44)
Net other operating income/(expenses) excluding impairment of goodwill	(90)	(305)
Operating profit	6 484	6 086
Net financial income/(expense)	(328)	(333)
Profit before taxes, associates and joint ventures	6 156	5 753

4. Seasonality

The business of the Group is not highly cyclical. Seasonal evolutions in some countries or product groups are generally compensated within the Group.

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

5.1 Net other trading income/(expenses)

In millions of CHF	January–June 2016	January–June 2015
Other trading income	50	23
Restructuring costs	(94)	(57)
Impairment of property, plant and equipment and intangible assets	(72)	(33)
Litigations and onerous contracts ^(a)	(57)	(117)
Miscellaneous trading expenses	(24)	(31)
Other trading expenses	(247)	(238)
Total net other trading income/(expenses)	(197)	(215)

(a) 2015: mainly included liabilities linked to product withdrawals.

5.2 Other operating expenses

Other operating expenses mainly include losses on disposals of businesses, impairment of non-significant goodwill and the effect of hyperinflation in Venezuela.

6. Taxes

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.

7. Share of results of associates and joint ventures

This item mainly includes our share of the estimated results of L'Oréal as well as the share of results of our joint ventures.

8. Cash flow before changes in operating assets and liabilities

In millions of CHF	January–June 2016	January–June 2015
Profit for the period	4 293	4 744
Income from associates and joint ventures	(422)	(506)
Taxes	2 285	1 515
Financial income	(56)	(48)
Financial expense	384	381
Operating profit	6 484	6 086
Depreciation of property, plant and equipment	1 380	1 398
Impairment of property, plant and equipment	45	27
Impairment of goodwill	37	44
Amortisation of intangible assets	158	150
Impairment of intangible assets	27	6
Net result on disposal of businesses	40	41
Net result on disposal of assets	5	27
Non-cash items in financial assets and liabilities	(65)	37
Equity compensation plans	79	82
Other	30	88
Non-cash items of income and expense	1 736	1 900
Cash flow before changes in operating assets and liabilities	8 220	7 986

9. Equity

9.1 Share capital

The share capital changed in 2016 as a consequence of the Share Buy-Back programme launched in 2014. The cancellation of shares was approved at the Annual General Meeting on 7 April 2016. The share capital was reduced by 76 240 000 shares from CHF 319 million to CHF 311 million.

At 30 June 2016, the share capital of Nestlé S.A. is composed of 3 112 160 000 registered shares with a nominal value of CHF 0.10 each.

9.2 Dividend

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.

10. Fair value of financial instruments

10.1 Fair value hierarchy

In millions of CHF	30 June 2016	31 December 2015
Derivative assets	122	43
Bonds and debt funds	710	706
Equity and equity funds	249	254
Other financial assets	16	30
Derivative liabilities	(24)	(96)
Prices quoted in active markets (Level 1)	1 073	937
Commercial paper	1 155	1 788
Time deposits	919	1 242
Derivative assets	377	294
Bonds and debt funds	3 023	2 739
Equity and equity funds	243	272
Other financial assets	824	800
Derivative liabilities	(997)	(925)
Valuation techniques based on observable market data (Level 2)	5 544	6 210
Valuation techniques based on unobservable input (Level 3)	212	206
Total financial instruments at fair value	6 829	7 353

The fair values categorised in level 2 above were determined from discounted cash flows and market-based valuation parameters (primarily interest rates, foreign exchange rates and underlying asset prices).

10.2 Carrying amount and fair value

As at 30 June 2016, the carrying amount of bonds issued is CHF 12.5 billion (31 December 2015: CHF 12.2 billion), compared to a fair value of CHF 13.0 billion (31 December 2015: CHF 12.5 billion). This fair value is categorised as level 2, measured on the basis of quoted prices.

For all other financial assets and liabilities, the carrying amount is a reasonable approximation of the fair value.

11. Bonds

In millions of CHF

January–June
2016

Issuer		Face value in millions	Coupon	Effective interest rates	Year of issue/ maturity	Comments	Carrying amount
New issues							
Nestlé Holdings, Inc., USA	GBP	100	1.75%	1.68%	2016–2020	(a)	142
	USD	550	1.88%	2.03%	2016–2021		536
Total new issues							678
Repayments							
Nestlé Holdings, Inc., USA	AUD	275	5.50%	5.69%	2011–2016	(a)	(269)
	NOK	1 000	3.38%	3.59%	2011–2016	(a)	(170)
Other							(3)
Total repayments							(442)

(a) Subject to derivatives that create debts in the currency of the issuer.

12. Events after the balance sheet date

As at 17 August 2016, the Group has no subsequent events which either warrant a modification of the value of its assets and liabilities or any additional disclosure.

Principal exchange rates

CHF per		June 2016	December 2015	June 2015	January–June 2016	January–June 2015
			Ending rates		Weighted average rates	
1 US Dollar	USD	0.981	0.989	0.932	0.982	0.948
1 Euro	EUR	1.089	1.081	1.041	1.096	1.057
100 Chinese Yuan Renminbi	CNY	14.758	15.239	15.024	15.042	15.241
100 Brazilian Reais	BRL	30.234	25.337	29.699	26.682	31.816
1 Pound Sterling	GBP	1.317	1.467	1.464	1.407	1.444
100 Mexican Pesos	MXN	5.280	5.690	5.941	5.438	6.262
100 Philippine Pesos	PHP	2.086	2.109	2.065	2.095	2.127
1 Canadian Dollar	CAD	0.756	0.713	0.751	0.741	0.767
100 Russian Ruble	RUB	1.530	1.347	1.672	1.407	1.663
1 Australian Dollar	AUD	0.729	0.723	0.715	0.721	0.741
100 Japanese Yen	JPY	0.955	0.822	0.761	0.882	0.790

Notes

Notes

Shareholder information

Stock exchange listing

Nestlé S.A. shares are listed on the SIX Swiss Exchange (ISIN code: CH0038863350). American Depositary Receipts (ISIN code: US6410694060) representing Nestlé S.A. shares are offered in the USA by Citibank.

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The *Half-Yearly Report* is available online as a PDF in English, French and German.

www.nestle.com

20 October 2016

2016 Nine months sales figures

16 February 2017

2016 Full-Year Results

6 April 2017

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