Half-Yearly Report
January–June 2017

Nestlé
Good Food, Good Life

Letter to our shareholders

Dear fellow shareholder,

We are pleased with our value creation progress in the first half of 2017. This includes solid operational improvements as well as portfolio management choices and our decision to increase balance sheet efficiency.

Organic growth in the first half did not fully meet our expectations. While volume growth remains at the high end of our industry, pricing continues to be soft. Asia and Africa confirmed their positive growth momentum. Western Europe experienced a volume decline, which we consider largely transitory. North America and Latin America saw a slight improvement in organic growth, mainly driven by volume. Our coffee, water and petcare businesses confirmed their growth potential with solid first-half results.

Profitability is in line with our expectations, as restructuring savings and efficiencies have offset higher commodity costs. We are accelerating our margin improvement initiatives.

We confirm our 2017 guidance with organic growth likely to be in the lower half of the 2–4% range. Our 2020 mid-range expectations for organic growth remain unchanged.

Group results

Sales

Total reported sales were CHF 43.0 billion (–0.3%), reflecting the impact of net divestments (–2.3%, largely related to the creation of the Froneri joint venture) and foreign exchange (–0.3%). Organic growth was below our expectations at 2.3%. Real Internal Growth (RIG) was resilient at 1.4% but pricing remained soft at 0.9%.

Zone AMS was broadly in line with our expectations as petcare in the US recovered after a slow start to the year. Zone EMENA delivered softer growth than anticipated in the second quarter. Selective price increases in Western Europe and unfavourable weather in June resulted in a short-term negative impact on RIG. Zone AOA accelerated for a fifth consecutive quarter, re-establishing its position as a growth engine for the Group. Nestlé Waters demonstrated a consistent level of growth. Nestlé Nutrition saw weak growth as the Chinese market remained difficult and developed markets overall were slightly negative. Nestlé Skin Health diluted Group sales growth due to difficult comparables and pressure from generics in the prescription business. Nespresso continued to be a key growth driver for the Group.

Overall, developed markets delivered soft organic growth of 0.8%, with solid RIG of 1.1% offset by negative pricing of 0.3%. In emerging markets, organic growth decelerated by 100 basis points to 4.4%, with RIG of 1.9% and pricing of 2.5%.

Growth by category was broad-based, led by water, coffee and petcare. Confectionery was the only category with negative growth although it stabilised in the second quarter.

Trading operating profit

Underlying trading operating profit* was flat at CHF 6.8 billion. The margin held stable at 15.8% but increased by 10 basis points in constant currency.

Efficiency projects, pricing and portfolio management generated 100 basis points of additional value. However, these benefits were absorbed by a broadly equal increase in input costs as our basket of commodities saw inflation for the first time in 2 years. Consumer-facing marketing spend decreased only slightly.

As expected, both restructuring expenditure and net other trading items increased overall by 77% to CHF 166 million and CHF 349 million, respectively, as we implemented our structural savings initiatives. As a consequence, trading operating profit (TOP) decreased by 2.5% to CHF 6.4 billion. The TOP margin decreased by 30 basis points on a reported basis (–20 basis points in constant currency) to 15.0%.

Net profit

Net profit increased by 19% to CHF 4.9 billion as the prior year was impacted by a one-off, non-cash adjustment to deferred taxes. Reported earnings per share also increased by 19% to CHF 1.58 for the same reason. Underlying earnings per share increased by 2.1% to CHF 1.68, and by 3.4% in constant currency.

Cash flow

Free cash flow declined by CHF 2.0 billion year-on-year from CHF 3.3 billion to CHF 1.3 billion. The largest contributor to this decrease was working capital with a cash outflow of CHF 1.3 billion. In the first half of 2017 the increase of working capital was higher than in the same period last year due to commodity price inflation and the phasing of payables for marketing and capital expenditure.

On our balance sheet, continued progress was made to structurally reduce net working capital, resulting in a further reduction of CHF 0.5 billion as of June 2017 compared to June 2016.

* Underlying trading operating profit is defined as trading operating profit before net other trading income/(expenses). Net other trading income/(expenses) includes mainly restructuring, impairment and results on disposals of PP&E, litigations and onerous contracts.

Zone Americas (AMS)

Sales	CHF 13.3 billion
Organic growth	+ 1.3%
Real internal growth	– 0.1%
Underlying Trading operating profit margin	18.1%
Underlying Trading operating profit margin	+ 30 basis points
Trading operating profit margin	17.2%
Trading operating profit margin	– 50 basis points

- 1.3% organic growth: – 0.1% RIG; 1.4% pricing.
- Organic growth in North America was flat following an improvement in the second quarter, driven by RIG.
- Latin America had mid single-digit organic growth driven by pricing, RIG turned slightly positive.
- Zone AMS's underlying trading operating profit margin increased by 30 basis points but the trading operating profit margin decreased by 50 basis points to 17.2% as a result of increased restructuring costs.

Reported sales in Zone AMS increased by 2.9% to CHF 13.3 billion. Organic growth was modest at 1.3%, but this represented a solid improvement in the second quarter based on stronger RIG. Pricing of 1.4% mainly came from Latin America, with pricing in North America slightly positive. Net divestments reduced reported sales by 0.9% but foreign exchange added 2.5%.

The trading environment was challenging in North America, characterised by weak consumer demand. In this context we had broadly flat growth in the US, driven by sustained positive momentum in coffee creamers and a return to solid growth in petcare. Confectionery remained weak and ice cream declined due to poor weather. Frozen food was slightly negative against difficult comparables. Brazil remained negative but improved markedly compared to the subdued trading in the first quarter as RIG turned positive. Mexico had good growth and petcare maintained its dynamic growth across Latin America.

The Zone's underlying trading operating profit margin improved by 30 basis points, as efficiency savings and the initial benefits from restructuring projects exceeded the inflation in commodity costs. The trading operating profit margin decreased by 50 basis points to 17.2% as restructuring costs increased significantly, largely related to projects in the US, Brazil and Mexico.

Zone Europe, Middle East and North Africa (EMENA)

Sales	CHF 7.8 billion
Organic growth	+ 1.0%
Real internal growth	+ 0.6%
Underlying Trading operating profit margin	18.1%
Underlying Trading operating profit margin	+ 50 basis points
Trading operating profit margin	16.9%
Trading operating profit margin	+ 10 basis points

- 1.0% organic growth: 0.6% RIG; 0.4% pricing.
- Western Europe declined slightly on an organic basis with negative RIG and flat pricing.
- Central and Eastern Europe achieved mid single-digit organic growth, with solid RIG and positive pricing.
- Middle East and North Africa saw low single-digit organic growth, both RIG and pricing were positive.
- Zone EMENA's underlying trading operating profit margin grew by 50 basis points, while the trading operating profit margin also improved by 10 basis points to 16.9% even as restructuring spend increased.

Reported sales in Zone EMENA declined by 10.3% to CHF 7.8 billion. Organic growth of 1.0% was lower than in the first quarter, as higher pricing was offset by lower RIG. Net divestments reduced reported sales by 9.3%, mainly reflecting the transfer of ice cream to the Froneri joint venture. Foreign exchange headwinds reduced reported sales by a further 2.0%.

We applied price increases across the Zone, especially in *Nescafé*. This had a short-term impact on RIG in the second quarter. The hot weather in June was also unfavourable for key categories in Western Europe. Petcare continued to generate strong growth across the Zone, especially in Russia. North Africa performed well, driven by price increases, but the Middle East continued to be affected by political instability and sustained deflation.

Despite higher commodity costs, the Zone's underlying trading operating profit margin increased by 50 basis points, reflecting price increases, portfolio management and cost savings. The trading operating profit margin also increased by 10 basis points to 16.9% as efficiency improvements more than offset restructuring costs.

Zone Asia, Oceania and sub-Saharan Africa (AOA)

Sales	CHF 7.9 billion
Organic growth	+4.8%
Real internal growth	+3.0%
Underlying Trading operating profit margin	20.3%
Underlying Trading operating profit margin	–20 basis points
Trading operating profit margin	19.6%
Trading operating profit margin	–50 basis points

- 4.8% organic growth: 3.0% RIG; 1.8% pricing.
- China's organic growth turned positive in the second quarter.
- South-East Asia maintained good organic growth, driven by mid single-digit RIG.
- Sub-Saharan Africa maintained strong growth with positive RIG and pricing.
- Developed markets were solid, with sustained good RIG partially offset by negative pricing.
- Zone AOA's underlying trading operating profit margin decreased by 20 basis points, while the trading operating profit margin decreased by 50 basis points to 19.6% due to higher restructuring-related costs.

Reported sales in Zone AOA increased by 1.4% to CHF 7.9 billion. Organic growth accelerated for a fifth consecutive quarter to 4.8%. RIG was steady at 3.0% and pricing improved to 1.8%. Net divestments lowered reported sales by 0.5% and foreign exchange also had a negative impact, reducing sales by 2.9%.

Growth in China turned positive in the second quarter as *Yinlu*, confectionery and culinary gained momentum. South-East Asia and sub-Saharan Africa were core drivers of growth for the Zone. India delivered good growth despite some uncertainty around the introduction of a Goods and Services Tax (GST). Japan's good performance was maintained. Oceania was negative due to pricing pressure.

Zone AOA's underlying trading operating profit margin decreased by 20 basis points due to an increase in commodity costs and commercial investments made to stabilise *Yinlu*. The trading operating profit margin decreased by 50 basis points to 19.6% due to higher restructuring-related costs.

Nestlé Waters

Sales	CHF 4.0 billion
Organic growth	+4.0%
Real internal growth	+3.5%
Underlying Trading operating profit margin	12.4%
Underlying Trading operating profit margin	0 basis point
Trading operating profit margin	12.0%
Trading operating profit margin	–40 basis points

- 4.0% organic growth: 3.5% RIG; 0.5% pricing.
- The US reported low to mid single-digit organic growth despite slightly negative pricing.
- Europe accelerated to mid single-digit organic growth with negative pricing.
- Emerging markets overall delivered mid single-digit growth.
- The underlying trading operating profit margin held stable but the trading operating profit margin declined by 40 basis points to 12.0% as restructuring costs increased.

Sales in Nestlé Waters increased on a reported basis by 2.0% to CHF 4.0 billion. Organic growth of 4.0% reflects an acceleration in the second quarter. RIG improved to 3.5% and pricing remained limited at 0.5%. Net divestments and foreign exchange reduced reported sales by 0.3% and 1.7%, respectively.

Nestlé Waters continued to grow in all regions with some acceleration in Europe, helped by favourable weather conditions. The US also had solid organic growth with a modest improvement in the second quarter. In emerging markets South-East Asia saw solid growth, China performed well after a slow start to the year, and Latin America saw double-digit growth. In the Middle East and Turkey, growth was soft.

Nestlé Waters underlying trading operating profit margin held stable as efficiencies and increased structural savings compensated for commodity headwinds, particularly PET. However, the trading operating profit margin decreased by 40 basis points to 12.0% as restructuring spend increased.

Nestlé Nutrition

Sales	CHF 5.2 billion
Organic growth	+0.9%
Real internal growth	–0.2%
Underlying Trading operating profit margin	24.8%
Underlying Trading operating profit margin	+130 basis points
Trading operating profit margin	24.3%
Trading operating profit margin	+110 basis points

- 0.9% organic growth: –0.2% RIG; 1.1% pricing.
- In China, organic growth was slightly positive.
- Growth was slightly positive in the US as the *Gerber* brand stabilised in the second quarter.
- Price increases in Brazil and Mexico weighed on RIG, but the Philippines and India were strong.
- The underlying trading operating profit margin increased significantly by 130 basis points and the trading operating profit margin also increased by 110 basis points to 24.3%.

Reported sales in Nestlé Nutrition increased by 0.4% to CHF 5.2 billion. Organic growth was subdued at 0.9%, with –0.2% RIG and 1.1% pricing. Net divestments and foreign exchange reduced reported sales by 0.3% and 0.2%, respectively.

Growth in China was mixed. *illuma* and *NAN* showed positive results, while *S-26 Gold* declined as competition from parallel imports intensified. In developed markets growth was slightly negative with weak category dynamics. Although the nutrition business in the US remained soft, it was helped by the stabilisation of *Gerber* in the second quarter. Price increases weighed on RIG in Brazil and Mexico, but growth was strong in the Philippines and India.

Nestlé Nutrition's underlying trading operating profit margin increased by 130 basis points. The trading operating profit margin also increased by 110 basis points to 24.3%, despite commodity headwinds. This was achieved through price increases, premiumisation and significant structural savings in non-consumer-facing activities, mostly in the US and China.

Other businesses

Sales	CHF 4.8 billion
Organic growth	+3.7%
Real internal growth	+4.5%
Underlying Trading operating profit margin	13.6%
Underlying Trading operating profit margin	–270 basis points
Trading operating profit margin	13.1%
Trading operating profit margin	–250 basis points

- 3.7% organic growth: 4.5% RIG; –0.8% pricing.
- Nespresso delivered good organic growth, with double-digit growth in North America.
- Nestlé Health Science maintained mid single-digit organic growth.
- Nestlé Skin Health saw lower RIG and pricing in the second quarter.
- Overall the underlying trading operating profit margin fell by 270 basis points. The trading operating profit margin also fell by 250 basis points to 13.1% as we are investing for growth.

Reported sales in Other businesses increased by 3.9% to CHF 4.8 billion. Organic growth of 3.7% was comprised of 4.5% RIG, partially offset by 0.8% of deflationary pricing. Net acquisitions increased reported sales by 0.2% and foreign exchange had no impact.

Nespresso delivered mid single-digit growth, accelerating in the second quarter, as all geographies gained momentum. Growth in North America continued at a double-digit pace. Nestlé Health Science maintained mid single-digit growth, with good growth in Medical Nutrition but a subdued performance in Consumer Care in the US. Nestlé Skin Health remained positive but saw a significant deceleration in the second quarter as difficult comparables and pressure from generics in the prescription business weighed on growth.

Overall the underlying trading operating profit margin fell by 270 basis points as we are investing in marketing and distribution for these three businesses. Consequently, the trading operating profit margin fell by 250 basis points to 13.1%.

2017 outlook

Full-year guidance confirmed with organic growth likely to be in the lower half of the 2–4% range. In order to drive future profitability, we are increasing restructuring costs considerably. As a result, the trading operating profit margin in constant currency is expected to be stable. Underlying earnings per share in constant currency and capital efficiency are expected to increase.

Paul Bulcke
Chairman of the Board

Ulf Mark Schneider
Chief Executive Officer

Key figures (consolidated)

Key figures in CHF

In millions (except for data per share)	January–June 2017	January–June 2016
Results		
Sales	43 023	43 155
Underlying Trading operating profit	6 798	6 808
as % of sales	15.8%	15.8%
Trading operating profit	6 449	6 611
as % of sales	15.0%	15.3%
Profit for the period attributable to shareholders of the parent (Net profit)	4 889	4 100
as % of sales	11.4%	9.5%
Balance sheet and cash flow statement		
Equity attributable to shareholders of the parent [(a)]	60 662	56 627
Net financial debt [(a)]	19 994	20 817
Ratio of net financial debt to equity (gearing) [(a)]	33.0%	36.8%
Operating cash flow	2 990	4 862
Free cash flow [(b)]	1 331	3 343
Capital expenditure	1 021	1 044
Data per share		
Weighted average number of shares outstanding (in millions of units)	3 098	3 085
Basic earnings per share	1.58	1.33
Market capitalisation	**258 574**	**232 409**

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 2017	January–June 2016	January–June 2017	January–June 2016
	in USD	in USD	in EUR	in EUR
Sales	43 278	43 954	39 959	39 380
Underlying Trading operating profit	6 838	6 934	6 314	6 212
Trading operating profit	6 487	6 734	5 989	6 033
Profit for the period attributable to shareholders of the parent (Net profit)	4 918	4 176	4 541	3 742
Equity attributable to shareholders of the parent [(a)]	63 355	57 750	55 455	52 015
Basic earnings per share	1.59	1.35	1.47	1.21
Market capitalisation	270 051	237 019	236 378	213 482

(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 2017

In millions of CHF	Notes	January–June 2017	January–June 2016
Sales	3	**43 023**	**43 155**
Other revenue		164	145
Cost of goods sold		(21 408)	(21 230)
Distribution expenses		(4 014)	(3 946)
Marketing and administration expenses		(10 149)	(10 496)
Research and development costs		(818)	(820)
Other trading income	5	59	50
Other trading expenses	5	(408)	(247)
Trading operating profit	3	**6 449**	**6 611**
Other operating income	5	180	85
Other operating expenses	5	(158)	(212)
Operating profit		**6 471**	**6 484**
Financial income		73	56
Financial expense		(374)	(384)
Profit before taxes, associates and joint ventures		**6 170**	**6 156**
Taxes	6	(1 678)	(2 285)
Income from associates and joint ventures	7	563	422
Profit for the period		**5 055**	**4 293**
of which attributable to non-controlling interests		166	193
of which attributable to shareholders of the parent (Net profit)		4 889	4 100
As percentages of sales			
Trading operating profit		15.0%	15.3%
Profit for the period attributable to shareholders of the parent (Net profit)		11.4%	9.5%
Earnings per share (in CHF)			
Basic earnings per share		1.58	1.33
Diluted earnings per share		1.57	1.33

Consolidated statement of comprehensive income for the period ended 30 June 2017

In millions of CHF	January–June 2017	January–June 2016
Profit for the period recognised in the income statement	**5 055**	**4 293**
Currency retranslations, net of taxes	(2 623)	(443)
Fair value adjustments on available-for-sale financial instruments, net of taxes	16	106
Fair value adjustments on cash flow hedges, net of taxes	(93)	(34)
Share of other comprehensive income of associates and joint ventures	127	(168)
Items that are or may be reclassified subsequently to the income statement	(2 573)	(539)
Remeasurement of defined benefit plans, net of taxes	619	(1 694)
Share of other comprehensive income of associates and joint ventures	32	(89)
Items that will never be reclassified to the income statement	651	(1 783)
Other comprehensive income for the period	**(1 922)**	**(2 322)**
Total comprehensive income for the period	**3 133**	**1 971**
of which attributable to non-controlling interests	101	123
of which attributable to shareholders of the parent	3 032	1 848

Consolidated balance sheet as at 30 June 2017

In millions of CHF	Notes	30 June 2017	31 December 2016
Assets			
Current assets			
Cash and cash equivalents		3 954	7 990
Short-term investments		1 039	1 306
Inventories		9 474	8 401
Trade and other receivables		11 779	12 411
Prepayments and accrued income		872	573
Derivative assets		277	550
Current income tax assets		905	786
Assets held for sale	2	338	25
Total current assets		**28 638**	**32 042**
Non-current assets			
Property, plant and equipment		25 954	27 554
Goodwill		31 410	33 007
Intangible assets		19 685	20 397
Investments in associates and joint ventures		11 104	10 709
Financial assets		5 696	5 719
Employee benefits assets		308	310
Current income tax assets		115	114
Deferred tax assets		1 920	2 049
Total non-current assets		**96 192**	**99 859**
Total assets		**124 830**	**131 901**

In millions of CHF	Notes	30 June 2017	31 December 2016
Liabilities and equity			
Current liabilities			
Financial debt		14 108	12 118
Trade and other payables		15 719	18 629
Accruals and deferred income		3 678	3 855
Provisions		611	620
Derivative liabilities		1 165	1 068
Current income tax liabilities		1 074	1 221
Liabilities directly associated with assets held for sale		7	6
Total current liabilities		**36 362**	**37 517**
Non-current liabilities			
Financial debt		10 879	11 091
Employee benefits liabilities		7 405	8 420
Provisions		2 519	2 640
Deferred tax liabilities		3 771	3 865
Other payables		2 084	2 387
Total non-current liabilities		**26 658**	**28 403**
Total liabilities		**63 020**	**65 920**
Equity			
Share capital	9	311	311
Treasury shares		(1 084)	(990)
Translation reserve		(21 386)	(18 799)
Other reserves		1 278	1 198
Retained earnings		81 543	82 870
Total equity attributable to shareholders of the parent		60 662	64 590
Non-controlling interests		1 148	1 391
Total equity		**61 810**	**65 981**
Total liabilities and equity		**124 830**	**131 901**

Consolidated cash flow statement for the period ended 30 June 2017

In millions of CHF	Notes	January–June 2017	January–June 2016
Operating activities			
Operating profit	8	6 471	6 484
Depreciation and amortisation		1 590	1 538
Impairment		95	109
Net result on disposal of businesses		(25)	40
Other non-cash items of income and expense		(50)	49
Cash flow before changes in operating assets and liabilities	8	**8 081**	**8 220**
Decrease/(increase) in working capital		(3 384)	(2 081)
Variation of other operating assets and liabilities		(83)	(44)
Cash generated from operations		**4 614**	**6 095**
Net cash flows from treasury activities [(a)]		(255)	(141)
Taxes paid		(1 902)	(1 579)
Dividends and interest from associates and joint ventures		533	487
Operating cash flow		**2 990**	**4 862**
Investing activities			
Capital expenditure		(1 021)	(1 044)
Expenditure on intangible assets		(354)	(343)
Acquisition of businesses	2	(140)	(572)
Disposal of businesses	2	19	64
Investments (net of divestments) in associates and joint ventures		(172)	(139)
Inflows/(outflows) from treasury investments		200	48
Other investing activities		(112)	7
Investing cash flow		**(1 580)**	**(1 979)**
Financing activities			
Dividend paid to shareholders of the parent	9	(7 126)	(6 937)
Dividends paid to non-controlling interests		(187)	(177)
Acquisition (net of disposal) of non-controlling interests	2	(527)	(1 153)
Purchase (net of sale) of treasury shares		(123)	390
Inflows from bonds and other non-current financial debt		1 021	949
Outflows from bonds and other non-current financial debt		(1 173)	(552)
Inflows/(outflows) from current financial debt		2 921	4 195
Financing cash flow		**(5 194)**	**(3 285)**
Currency retranslations		(252)	(222)
Increase/(decrease) in cash and cash equivalents		**(4 036)**	**(624)**
Cash and cash equivalents at beginning of year		7 990	4 884
Cash and cash equivalents at end of period		**3 954**	**4 260**

(a) Interest paid amounts to CHF 270 million (2016: CHF 266 million) and interest received to CHF 61 million (2016: CHF 42 million).

Consolidated statement of changes in equity for the period ended 30 June 2017

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 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**
Equity as at 1 January 2017	**311**	**(990)**	**(18 799)**	**1 198**	**82 870**	**64 590**	**1 391**	**65 981**
Profit for the period	—	—	—	—	4 889	**4 889**	166	**5 055**
Other comprehensive income for the period	—	—	(2 587)	78	652	**(1 857)**	(65)	**(1 922)**
Total comprehensive income for the period	—	—	(2 587)	78	5 541	**3 032**	101	**3 133**
Dividends	—	—	—	—	(7 126)	**(7 126)**	(187)	**(7 313)**
Movement of treasury shares	—	(248)	—	—	109	**(139)**	—	**(139)**
Equity compensation plans	—	154	—	—	(60)	**94**	—	**94**
Changes in non-controlling interests [(a)]	—	—	—	—	296	**296**	(157)	**139**
Total transactions with owners	—	(94)	—	—	(6 781)	**(6 875)**	(344)	**(7 219)**
Other movements	—	—	—	2	(87)	**(85)**	—	**(85)**
Equity as at 30 June 2017	**311**	**(1 084)**	**(21 386)**	**1 278**	**81 543**	**60 662**	**1 148**	**61 810**

(a) Movements reported under retained earnings include the impact of the acquisitions (see Note 2.2) as well as put options for the acquisition of non-controlling interests.

Notes

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 2017. 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 2016.

The accounting conventions and accounting policies are the same as those applied in the Consolidated Financial Statements for the year ended 31 December 2016 (as described in Note 1 and highlighted with a grey background in the relevant notes), except for the changes in presentation and accounting standards 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 2016.

Changes in presentation – analyses by segment
Starting in 2017, Underlying Trading operating profit is shown on the analyses by segment on a voluntary basis because it is one of the key metrics used by Group Management to monitor the Group and segment performance.

Changes in accounting standards
A number of standards have been modified on miscellaneous points with effect from 1 January 2017. Such changes include Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12), Disclosure Initiative (Amendments to IAS 7), and Annual Improvements 2014–2016 (specifically the amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of the Standard).

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 2017
The following new standards and amendments to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2018. 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 result in a portion of the instruments currently classified as available-for-sale under IAS 39 being reclassified to either 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 any financial assets that 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 the 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 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 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 IAS 28 Investments in Associates and Joint Ventures: Measuring an associate or joint venture at fair value, Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2), Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4), and Foreign Currency Transactions and Advance Consideration (IFRIC Interpretation 22). None of these amendments are expected to have a material effect on the Group's Financial Statements.

In June 2017, the IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. The Group is currently assessing the impact of this new interpretation.

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

2.1 Modification of the scope of consolidation

During both interim periods the scope of consolidation has not been affected by significant acquisitions and disposals. In 2016, among others, the acquisitions included:

– Proactiv business from Guthy-Renker, worldwide, acne treatment, Nutrition and Health Science, 75%, May 2016.

Cash outflows of the 2017 interim period are mainly due to a payment for an acquisition from prior years. Cash outflows of the comparative interim period are related to non-significant acquisitions. Inflows of both interim periods are related to non-significant disposals.

2.2 Acquisitions of non-controlling interests

During both interim periods the Group increased its ownership interests in certain subsidiaries, the most significant one being in China in 2017 (2016: in Israel and China). The consideration paid to non-controlling interests in cash amounted to CHF 527 million (2016: CHF 1153 million) and the decrease of non-controlling interests amounted to CHF 152 million (2016: CHF 265 million). Part of the consideration was recorded as a liability in previous years for CHF 518 million (2016: CHF 309 million). During the interim period, the equity attributable to shareholders of the parent was positively impacted by CHF 143 million (2016: negatively by CHF 579 million).

2.3 Assets held for sale

As of 30 June 2017, assets held for sale are mainly composed of the US confectionery business, which has a high probability of being disposed of within the next twelve months. The assets reclassified (primarily fixed assets) are part of the Zone AMS operating segment. The related cumulative translation loss in other comprehensive income has been estimated at CHF 30 million and will be recognised at the date the control is lost.

3. Analyses by segment

3.1 Operating segments

Revenue and results

In millions of CHF							January–June 2017
	Sales (a)	Underlying Trading operating profit (b)	Trading operating profit	Net other trading income/(expenses) (c)	of which impairment of property, plant and equipment	of which restructuring costs	Depreciation and amortisation
Zone EMENA	7 800	1 412	1 315	(97)	(8)	(51)	(255)
Zone AMS	13 314	2 405	2 284	(121)	(10)	(76)	(391)
Zone AOA	7 902	1 605	1 550	(55)	(46)	(5)	(258)
Nestlé Waters	4 025	500	481	(19)	(6)	(8)	(167)
Nestlé Nutrition	5 184	1 287	1 260	(27)	(2)	(15)	(185)
Other businesses (d)	4 798	653	628	(25)	(1)	(9)	(245)
Unallocated items (e)	—	(1 064)	(1 069)	(5)	(1)	(2)	(89)
Total	**43 023**	**6 798**	**6 449**	**(349)**	**(74)**	**(166)**	**(1 590)**

In millions of CHF							January–June 2016 *
	Sales (a)	Underlying Trading operating profit (b)	Trading operating profit	Net other trading income/(expenses) (c)	of which impairment of property, plant and equipment	of which restructuring costs	Depreciation and amortisation
Zone EMENA	8 694	1 527	1 461	(66)	(24)	(50)	(250)
Zone AMS	12 938	2 300	2 290	(10)	(3)	(9)	(382)
Zone AOA	7 799	1 596	1 570	(26)	(11)	(6)	(261)
Nestlé Waters	3 937	487	487	—	—	—	(163)
Nestlé Nutrition	5 171	1 217	1 199	(18)	(7)	(3)	(176)
Other businesses (d)	4 616	754	718	(36)	—	(26)	(228)
Unallocated items (e)	—	(1 073)	(1 114)	(41)	—	—	(78)
Total	**43 155**	**6 808**	**6 611**	**(197)**	**(45)**	**(94)**	**(1 538)**

* 2016 comparatives have been restated following the change of business structure, effective as from 1 January 2017, for Nestlé Professional (NP) from a Globally Managed to a Regionally Managed Business.

(a) Inter-segment sales are not significant.
(b) Trading operating profit before Net other trading income/(expenses).
(c) Included in Trading operating profit.
(d) Mainly Nespresso, Nestlé Health Science and Nestlé Skin Health.
(e) Mainly corporate expenses as well as research and development costs.

Other information

In millions of CHF	January–June 2017		January–June 2016 *	
	Impairment of goodwill	Impairment of intangible assets	Impairment of goodwill	Impairment of intangible assets
Zone EMENA	—	(18)	(1)	—
Zone AMS	—	—	(36)	—
Zone AOA	—	—	—	—
Nestlé Waters	(3)	—	—	—
Nestlé Nutrition	—	—	—	—
Other businesses (a)	—	—	—	—
Unallocated items (b)	—	—	—	(27)
Total	**(3)**	**(18)**	**(37)**	**(27)**

* 2016 comparatives have been restated following the change of business structure, effective as from 1 January 2017, for Nestlé Professional (NP) from a Globally Managed to a Regionally Managed Business.

(a) Mainly Nespresso, Nestlé Health Science and Nestlé Skin Health.
(b) Mainly corporate and research and development assets.

3.2 Products
Revenue and results

In millions of CHF — January–June 2017

	Sales	Underlying Trading operating profit (a)	Trading operating profit	Net other trading income/(expenses) (b)	of which impairment of property, plant and equipment	of which restructuring costs
Powdered and Liquid Beverages	9 814	2 244	2 192	(52)	(14)	(16)
Water	3 772	479	460	(19)	(6)	(8)
Milk products and Ice cream	6 499	1 165	1 065	(100)	(38)	(38)
Nutrition and Health Science	7 476	1 423	1 376	(47)	(2)	(25)
Prepared dishes and cooking aids	5 732	931	857	(74)	(7)	(38)
Confectionery	3 703	379	322	(57)	(6)	(37)
PetCare	6 027	1 241	1 246	5	—	(2)
Unallocated items (c)	—	(1 064)	(1 069)	(5)	(1)	(2)
Total	**43 023**	**6 798**	**6 449**	**(349)**	**(74)**	**(166)**

In millions of CHF — January–June 2016 *

	Sales	Underlying Trading operating profit (a)	Trading operating profit	Net other trading income/(expenses) (b)	of which impairment of property, plant and equipment	of which restructuring costs
Powdered and Liquid Beverages	9 653	2 270	2 204	(66)	(26)	(39)
Water	3 680	462	461	(1)	—	(1)
Milk products and Ice cream	6 991	1 238	1 220	(18)	(6)	(7)
Nutrition and Health Science	7 364	1 400	1 359	(41)	(7)	(15)
Prepared dishes and cooking aids	5 903	903	897	(6)	(1)	(14)
Confectionery	3 735	394	384	(10)	(2)	(7)
PetCare	5 829	1 214	1 200	(14)	(3)	(11)
Unallocated items (c)	—	(1 073)	(1 114)	(41)	—	—
Total	**43 155**	**6 808**	**6 611**	**(197)**	**(45)**	**(94)**

* 2016 comparatives have been restated following the change of business structure, effective as from 1 January 2017, for Nestlé Professional (NP) from a Globally Managed to a Regionally Managed Business.

(a) Trading operating profit before Net other trading income/(expenses).
(b) Included in Trading operating profit.
(c) Mainly corporate expenses as well as research and development costs.

Other information

In millions of CHF	January–June 2017		January–June 2016 *	
	Impairment of goodwill	Impairment of intangible assets	Impairment of goodwill	Impairment of intangible assets
Powdered and Liquid Beverages	—	—	—	—
Water	(3)	—	—	—
Milk products and Ice cream	—	(1)	(37)	—
Nutrition and Health Science	—	—	—	—
Prepared dishes and cooking aids	—	(14)	—	—
Confectionery	—	(3)	—	—
PetCare	—	—	—	—
Unallocated items [(a)]	—	—	—	(27)
Total	**(3)**	**(18)**	**(37)**	**(27)**

* 2016 comparatives have been restated following the change of business structure, effective as from 1 January 2017, for Nestlé Professional (NP) from a Globally Managed to a Regionally Managed Business.

(a) Mainly corporate and research and development assets.

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

In millions of CHF	January–June 2017	January–June 2016
Underlying Trading operating profit [(a)]	**6 798**	**6 808**
Net other trading income/(expenses)	(349)	(197)
Trading operating profit	**6 449**	**6 611**
Impairment of goodwill	(3)	(37)
Net other operating income/(expenses) excluding impairment of goodwill	25	(90)
Operating profit	**6 471**	**6 484**
Net financial income/(expense)	(301)	(328)
Profit before taxes, associates and joint ventures	**6 170**	**6 156**

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

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 2017	January–June 2016
Other trading income	**59**	**50**
Restructuring costs	(166)	(94)
Impairment of property, plant and equipment and intangible assets	(92)	(72)
Litigations and onerous contracts	(110)	(57)
Miscellaneous trading expenses	(40)	(24)
Other trading expenses	**(408)**	**(247)**
Total net other trading income/(expenses)	**(349)**	**(197)**

5.2 Net other operating income/(expenses)

In millions of CHF	Notes	January–June 2017	January–June 2016
Profit on disposal of businesses	2	55	22
Miscellaneous operating income		125	63
Other operating income		**180**	**85**
Loss on disposal of businesses	2	(30)	(62)
Impairment of goodwill		(3)	(37)
Miscellaneous operating expenses		(125)	(113)
Other operating expenses		**(158)**	**(212)**
Total net other operating income/(expenses)		**22**	**(127)**

6. Taxes

In 2016, this item included 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 2017	January–June 2016
Profit for the period	**5 055**	4 293
Income from associates and joint ventures	(563)	(422)
Taxes	1 678	2 285
Financial income	(73)	(56)
Financial expense	374	384
Operating profit	**6 471**	**6 484**
Depreciation of property, plant and equipment	1 407	1 380
Impairment of property, plant and equipment	74	45
Impairment of goodwill	3	37
Amortisation of intangible assets	183	158
Impairment of intangible assets	18	27
Net result on disposal of businesses	(25)	40
Net result on disposal of assets	13	5
Non-cash items in financial assets and liabilities	(168)	(65)
Equity compensation plans	78	79
Other	27	30
Non-cash items of income and expense	**1 610**	**1 736**
Cash flow before changes in operating assets and liabilities	**8 081**	**8 220**

9. Equity

9.1 Share capital

At 30 June 2017, 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.

In 2016, the share capital changed 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.

On 27 June 2017, the Group announced that the Board of Directors approved a share buy-back programme of up to CHF 20 billion to be completed by the end of June 2020. It started early July 2017 and is subject to market conditions and strategic opportunities.

9.2 Dividend
The dividend related to 2016 was paid on 12 April 2017 in accordance with the decision taken at the Annual General Meeting on 6 April 2017. Shareholders approved the proposed dividend of CHF 2.30 per share, resulting in a total dividend of CHF 7126 million.

10. Fair value of financial instruments

10.1 Fair value hierarchy

In millions of CHF	30 June 2017	31 December 2016
Derivative assets	33	63
Bonds and debt funds	808	649
Equity and equity funds	217	297
Other financial assets	51	21
Derivative liabilities	(109)	(100)
Prices quoted in active markets (Level 1)	**1 000**	**930**
Commercial paper	1 145	3 677
Time deposits	844	1 318
Derivative assets	244	487
Bonds and debt funds	3 107	3 142
Equity and equity funds	255	265
Other financial assets	784	829
Derivative liabilities	(1 056)	(968)
Valuation techniques based on observable market data (Level 2)	**5 323**	**8 750**
Valuation techniques based on unobservable input (Level 3)	**220**	**241**
Total financial instruments at fair value	**6 543**	**9 921**

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).

There have been no significant transfers between the different hierarchy levels in 2017.

10.2 Carrying amount and fair value
As at 30 June 2017, the carrying amount of bonds issued is CHF 12.1 billion (31 December 2016: CHF 12.4 billion), compared to a fair value of CHF 12.4 billion (31 December 2016: CHF 12.8 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 2017
Issuer		Face value in millions	Coupon	Effective interest rates	Year of issue/ maturity	Comments	Carrying amount
New issues							
Nestlé Holdings, Inc., USA	USD	650	2.38%	2.50%	2017–2022		642
	USD	300	2.35%	2.35%	2017–2022		297
Total new issues							**939**
Repayments							
Nestlé Holdings, Inc., USA	USD	900	1.38%	1.46%	2012–2017		(895)
Nestlé Finance International Ltd., Luxembourg	AUD	125	4.63%	4.86%	2012–2017	(a)	(108)
Other							(3)
Total repayments							**(1 006)**

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

12. Events after the balance sheet date

As at 26 July 2017, 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 2017	December 2016	June 2016	January–June 2017	January–June 2016
			Ending rates		Weighted average rates	
1 US Dollar	USD	0.958	1.023	0.981	0.994	0.982
1 Euro	EUR	1.094	1.075	1.089	1.077	1.096
100 Chinese Yuan Renminbi	CNY	14.138	14.715	14.758	14.470	15.042
100 Brazilian Reais	BRL	29.060	31.383	30.234	31.247	26.682
100 Philippine Pesos	PHP	1.895	2.064	2.086	1.991	2.095
1 Pound Sterling	GBP	1.245	1.255	1.317	1.251	1.407
100 Mexican Pesos	MXN	5.296	4.938	5.280	5.124	5.438
1 Canadian Dollar	CAD	0.737	0.758	0.756	0.743	0.741
100 Japanese Yen	JPY	0.856	0.874	0.955	0.886	0.882
1 Australian Dollar	AUD	0.735	0.738	0.729	0.750	0.721
100 Russian Rubles	RUB	1.609	1.685	1.530	1.718	1.407

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.

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2017 Full-Year Results

12 April 2018
151st Annual General Meeting, Beaulieu Lausanne, Lausanne (Switzerland)

The *Half-Yearly Report* contains forward looking statements which reflect Management's current views and estimates. The forward looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those contained in the forward looking statements. Potential risks and uncertainties include such factors as general economic conditions, foreign exchange fluctuations, competitive product and pricing pressures, and regulatory developments.

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