



Good Food, Good Life

NESTLÉ FINANCE INTERNATIONAL LTD.

(Société Anonyme)

Half-Yearly Financial Report

Management Report

and

Financial Statements

1 January-30 June 2017

(Unaudited)

**Registered Address: 7, rue Nicolas Bové
L-1253, Luxembourg
Grand Duchy of Luxembourg
R.C.S. No B136737
Subscribed capital: EUR 440 000**

Contents

Management Report	2-3
Unaudited Financial Statements for the six-month period ended 30 June 2017	4-12
Responsibility Statement	13

Nestlé Finance International Ltd.

Nestlé Finance International Ltd. ("NFI") presents its half-yearly financial report for the six-month period ended 30 June 2017. NFI is a public limited company (*société anonyme*) organised under the laws of Luxembourg and is a wholly-owned subsidiary of Nestlé S.A. which is the holding company of the Nestlé group of companies (the "Nestlé Group" or the "Group"). NFI, which was formerly a public limited company (*société anonyme*) organised under the laws of France formed on 18 March 1930, changed its domicile, and moved its registered office from France, to Luxembourg on 29 February 2008. On 1 June 2013, NFI moved its seat from 69, rue de Merl L-2146 Luxembourg to 7, rue Nicolas Bové L-1253 Luxembourg, Grand Duchy of Luxembourg. NFI is established for an unlimited duration. The Nestlé Group manufactures and sells food and beverages, as well as products related to the nutrition, health and wellness industries. Its products, distributed throughout the world, include: soluble coffee, chocolate and malt-based drinks, water, dairy products, infant nutrition, healthcare nutrition, ice cream, frozen and chilled food, culinary aids, chocolate and confectionary, as well as products for pet care and pharmaceutical products.

The principal business activity of NFI is the financing of members of the Nestlé Group including by the sale, exchange, issue, transfer or otherwise, as well as the acquisition by purchase, subscription or in any other manner, of stock, bonds, debentures, notes, debt instruments or other securities or any kind of instrument and contracts thereon or relative thereto. NFI may further assist the members of the Nestlé Group, in particular by granting them loans, facilities or guarantees in any form and for any term whatsoever and provide any of them with advice and assistance in any form whatsoever.

Management Report

(A) Important events that have occurred during the six-month period January–June 2017, and their impact on the financial statements:

At 30 June 2017, a total equivalent of EUR 9 127 million of loans and advances granted to Nestlé Group companies was outstanding compared to EUR 9 342 million as at 31 December 2016 and EUR 10 506 million as at 30 June 2016. These were financed mainly through the issuance of bonds, commercial paper and loans and advances received from Nestlé Group companies during the six-month period January-June 2017. Other assets and liabilities comprise mainly derivatives, cash and cash equivalents (consisting of, for example, cash balances, deposits at banks and other short term investments with original maturities of three months or less), and short term investments. The aforementioned transactions are further detailed in the Notes to the Unaudited Financial Statements of NFI for the six-month period ended 30 June 2017.

Total assets decreased at the end of six-month period January-June 2017 (EUR 9 436 million) as compared to the financial year ended 31 December 2016 (EUR 9 789 million). The decrease in total assets (by EUR 353 million) results mainly from decrease in derivative assets (by EUR 132 million), a decrease in loans and advances granted to Nestlé Group companies (by EUR 214 million) and a decrease in cash and cash equivalents (by EUR 7 million) partially offset by an increase in other assets (by EUR 21 million). Debt securities (bonds and commercial paper) outstanding at the end of the six-month period January-June 2017 (EUR 8 033 million) increased by EUR 769 million as compared to the financial year ended 31 December 2016 (EUR 7 264 million) as a result of an increase in the issuance of commercial paper. Loans and advances received from Nestlé Group companies outstanding at 30 June 2017 (EUR 1 215 million) decreased by EUR 1 232 million as compared to 31 December 2016 (EUR 2 447 million).

Financing operations reported a net profit of EUR 5 241 million for the six-month period January-June 2017, compared to a net profit of EUR 5 631 million for the six-month period January-June 2016.

Net profit before tax for the six-month period January-June 2017 was EUR 9.4 million compared to EUR 10.31 million for the six-month period January-June 2016. The movement was due to a decrease in net fee and commission income from Nestlé Group companies (of EUR 87 million) arising from fluctuations

of foreign exchange borne by a related party, a decrease in other operating expense (of EUR 92 million) resulting from foreign exchange losses on non-EUR denominated instruments and a decrease in net interest income (of EUR 5.8 million). This has been further disclosed in the Notes to the Unaudited Financial Statements of NFI for the six-month period ended 30 June 2017, in particular, in Note 2.

NFI's net operating cash outflow was EUR 10 770 thousand for the six-month period January-June 2017 compared to net operating cash outflow of EUR 527 thousand for the six-month period January-June 2016.

Future financial performance will depend largely on the net interest margin earned on loans and investments, funded by existing and possible further issues of bonds, commercial paper and loans and advances received from Nestlé Group companies and results from derivative transactions.

(B) Principal Risks and Uncertainties for the remaining six month period July–December 2017

NFI is exposed to certain risks and uncertainties: banking credit risk, credit risk, market risk, currency fluctuations, interest rate risk, value at risk assessment of market risk, liquidity risk, risk of an increase in cost of capital, treasury operations and other risks that could have a material adverse impact on its financial condition and operating results. NFI's principal risks and uncertainties for the remaining six months of the financial year have not changed since the issuance of NFI's 2016 Annual Financial Report. The detailed discussion of these risks and uncertainties and NFI's objectives, policies and processes for managing these risks and uncertainties were disclosed in the Notes to the Audited Financial Statements of NFI for the year ended 31 December 2016, in particular Note 10.

(C) Other items

NFI has no research and development costs nor any treasury shares or branches.

(D) Corporate governance status

The overall control environment, risk assessment, control and monitoring activities have been disclosed in the Audited Financial Statements of NFI for the year ended 31 December 2016.

Nestlé Finance International Ltd. (“NFI”)

(Société Anonyme)

Financial Statements
(Unaudited)

1 January–30 June 2017

Balance sheet as at 30 June 2017

In thousands of Euro	Notes	30 June 2017	31 December 2016	30 June 2016
Assets				
Current assets				
Cash and cash equivalents		171 839	178 648	150 252
Derivative assets	(3)	35 247	167 511	132 176
Loans and advances to Nestlé Group companies	(7)	7 180 232	7 149 165	8 816 296
Loans and advances to third parties	(4)	100 000	100 000	-
Other assets		1 071	1 050	127 577
Total current assets		7 488 389	7 596 374	9 226 301
Non-current assets				
Loans and advances to Nestlé Group companies		1 947 152	2 192 409	1 689 447
Loans and advances to third parties		-	-	100 000
Property, plant and equipment		9	13	18
Total non-current assets		1 947 161	2 192 422	1 789 465
Total assets		9 435 550	9 788 796	11 015 766
Liabilities				
Current liabilities				
Bank overdrafts		-	-	128
Derivative liabilities	(3)	104 767	13 538	21 838
Loans and advances from Nestlé Group companies	(7)	1 215 187	2 446 668	2 595 711
Debt securities issued	(6)	4 216 786	3 427 683	4 338 427
Current tax liabilities		4 113	6 902	6 990
Other liabilities		46 741	31 037	50 273
Total current liabilities		5 587 594	5 925 828	7 013 367
Non-current liabilities				
Debt securities issued	(6)	3 816 512	3 836 228	3 975 220
Total non-current liabilities		3 816 512	3 836 228	3 975 220
Total liabilities		9 404 106	9 762 056	10 988 587
Equity				
Share capital	(4)	440	440	440
Share premium		2 000	2 000	2 000
Hedging reserve		1 068	1 604	423
Available-for-sale reserve		-	1	1
Legal reserve	(4)	44	44	44
Other reserve	(4)	2 962	3 081	3 081
Retained earnings		24 930	19 570	21 190
Total equity attributable to shareholders of the company		31 444	26 740	27 179
Total liabilities and equity		9 435 550	9 788 796	11 015 766

Income statement for the six-month period ended 30 June 2017

In thousands of Euro	Notes	January-June 2017	January-June 2016
Interest income		86 748	100 728
Interest expense		-20 696	-28 882
Net interest income	(2)	66 052	71 846
Net fee and commission income from Nestlé Group companies		26 222	113 078
Other operating expense	(2)	-82 160	-173 882
Operating income		10 114	11 042
Administration expense		-714	-732
Profit before tax		9 400	10 310
Taxes	(2)	-4 159	-4 679
Profit for the period attributable to shareholders of the company		5 241	5 631

Other comprehensive income for the six-month period ended 30 June 2017

In thousands of Euro	January-June 2017	January-June 2016
Profit for the period recognised in the Income statement	5 241	5 631
Fair value adjustment on available-for-sale financial instruments: Unrealised results	-	-2
Fair value adjustment on cash flow hedges: Recognised in hedging reserve	-536	-596
Reclassified from hedging reserve to the Income statement	-	-
Items that are or may be reclassified subsequently to the Income statement	-536	-598
Other comprehensive income for the period	-536	-598
Total comprehensive income for the period	4 705	5 033
of which attributable to shareholders of the company	4 705	5 033

Statement of changes in equity for the six-month period ended 30 June 2017

In thousands of Euro	Share Capital	Share Premium	Hedging reserve	Available-for-sale reserve	Legal reserve	Other reserve	Retained earnings	Total equity attributable to shareholders of the company
Equity as at 31 December 2015	440	2 000	1 019	3	44	2 543	16 097	22 146
Gains and losses								
Profit for the period	-	-	-	-	-	-	5 631	5 631
Fair value adjustments on available-for-sale instruments	-	-	-	-2	-	-	-	-2
Fair value adjustments on cash flow hedges	-	-	-596	-	-	-	-	-596
Total comprehensive income for the period	-	-	-596	-2	-	-	5 631	5 033
Transfer to reserves								
Transfer to net worth tax reserves	-	-	-	-	-	538	-538	-
Total transfer to other reserves	-	-	-	-	-	538	-538	-
Equity as at 30 June 2016	440	2 000	423	1	44	3 081	21 190	27 179
Equity as at 31 December 2016	440	2 000	1 604	1	44	3 081	19 570	26 740
Gains and losses								
Profit for the period	-	-	-	-	-	-	5 241	5 241
Fair value adjustments on available-for-sale instruments	-	-	-	-1	-	-	-	-1
Fair value adjustments on cash flow hedges	-	-	-536	-	-	-	-	-536
Total comprehensive income for the period	-	-	-536	-1	-	-	5 241	4 704
Transfer to reserves								
Transfer to net worth tax reserves	-	-	-	-	-	-119	119	-
Total transfer to other reserves	-	-	-	-	-	-119	119	-
Equity as at 30 June 2017	440	2 000	1 068	0	44	2 962	24 930	31 444

Cash flow statement for the six-month period ended 30 June 2017

In thousands of Euro	January-June 2017	January-June 2016
Cash flows from operating activities:		
Profit before taxation for the period	9 400	10 310
Adjustments for:		
Depreciation	4	4
Foreign exchange loss for bank accounts, loans and debt securities	-203 195	228 759
Fair value of debt securities	-10 084	49 283
Interest income	-86 748	-100 728
Interest expense	20 696	28 882
Change in short term investments including those recognised directly in equity	-	-2
Change in derivative assets including those recognised directly in equity	131 728	-87 275
Change in other assets excluding prepaid and accrued income	-22	-126 682
Change in derivative liabilities	91 229	3 399
Change in other liabilities excluding accrual and deferred income	488	-50 342
Net loans and advances to Nestlé Group companies excluding intra group interest receivable	-22 991	-190 867
Net loans and advances from Nestlé Group companies excluding intra group interest payable	-1 203 737	-1 467 940
Debt securities issued	17 345 988	12 460 032
Debt securities repaid	-16 197 680	-10 857 143
Interest received net of withholding tax	103 412	98 415
Interest paid	15 475	2 287
Income taxes paid	-4 733	-919
Net cash outflow from operating activities	-10 770	-527
Cash outflow from investing activities	-	-
Cash flow from financing activities	-	-
Currency translation	3 961	-2 194
Net decrease in cash and cash equivalents	-6 809	-2 721
Cash and cash equivalents at beginning of period	178 648	152 845
Cash and cash equivalents at end of period	<u>171 839</u>	<u>150 124</u>

Notes

1. Accounting policies

Basis of preparation

These financial statements are the Unaudited Financial Statements of NFI for the six-month period ended 30 June 2017. They have been prepared in accordance with IAS 34 - Interim Financial Reporting as adopted by the European Union as well as with the laws and regulations in force in the Grand Duchy of Luxembourg and should be read in conjunction with the Audited Financial Statements of NFI for the year ended 31 December 2016.

The accounting conventions and accounting standards are the same as those applied in the Audited Financial Statements of NFI for the year ended 31 December 2016, except for those mentioned below, in the sections 'Changes in accounting standards' and 'Changes in accounting standards that may affect NFI after 30 June 2017'. The preparation of the Unaudited Financial Statements of NFI for the six-month period ended 30 June 2017 requires NFI's management to exercise judgment and to make estimates and assumptions that affect the application of standards, reported amounts of revenues, expenses, assets and liabilities and disclosures. The key sources of estimation of uncertainty within the Unaudited Financial Statements of NFI for the six-month period 30 June 2017 remain the same as those that applied to the Audited Financial Statements of NFI for the year ended 31 December 2016.

NFI is included in the consolidated financial statements of Nestlé S.A., Avenue Nestlé 55, 1800 Vevey, Switzerland.

Changes in accounting standards

A number of accounting standards have been modified on miscellaneous points with effect from 1 January 2017. None of these amendments had a material effect on the Unaudited Financial Statements of NFI for the six-month period ended 30 June 2017.

Changes in IFRS that may affect NFI after 30 June 2017

The following new standards and amendments to existing standards have been published and are mandatory for NFI's accounting period beginning on 1 January 2018 (subject to being adopted within the European Union). NFI 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 (EU effective date). In order to measure the consequences of this new accounting standard, NFI 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 instruments whose cash flows are solely payments of principal and interest ("SPPI"). There is no expected impact on NFI'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 NFI does not have any such liabilities. Furthermore, NFI is reviewing the definition of the hedging relationship in line with the risk management activities and policies. 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 amortised cost (for qualified SPPI when the business model is to collect contractual cash flows only), 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. NFI is assessing whether the new standard will be implemented with a restatement of the previous period. In the absence of such restatement, NFI 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.

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 the 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 NFI'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. NFI is currently assessing the impact of this new interpretation.

2. Operating income/(expense) and taxes

Net interest income:

In thousands of Euro	January-June 2017	January-June 2016
Interest income from:		
Short term investments	128	165
Loans and advances to Nestlé Group companies	86 074	100 013
Loans and advances to third parties	546	550
Interest income	86 748	100 728
Interest expense from:		
Loans and advances from Nestlé Group companies	-3 670	-2 196
Debt securities issued	-17 026	-26 686
Interest expense	-20 696	-28 882
Net interest income	66 052	71 846

Net fees and commission income

In thousands of Euro	January-June 2017	January-June 2016
Fee and commission income from Nestlé Group companies	40 848	126 573
Fee and commission expense to Nestlé Group companies	-14 626	-13 495
Net fee and commission income	26 222	113 078

Other operating expense:

In thousands of Euro	January-June 2017	January-June 2016
Net foreign exchange expense	-82 372	-174 426
Net income in fair value through income statement	213	544
Other operating expense	-82 160	-173 882

Taxes:

In thousands of Euro	January-June 2017	January-June 2016
Withholding tax expenses	-2 214	-2 353
Income tax expenses	-1 945	-2 326
Taxes	-4 159	-4 679

3. Fair value hierarchy

Financial assets and liabilities

Fair value hierarchy of financial instruments

In thousands of Euro	30 June 2017	30 June 2016
Short term deposits (a)	117 639	149 227
Derivative assets	35 247	132 176
Derivative liabilities	-104 767	-21 838
Valuation techniques based on observable market data (Level 2)	48 119	259 565
Total financial instruments at fair value	48 119	259 565

(a) Short term deposits are included in the balance sheet in cash and cash equivalents and in short term investments

As of 30 June 2017 the carrying amount of bonds issued is EUR 3 817 million (31 December 2016: EUR 3 922 million), compared to a fair value of EUR 4 008 million (31 December 2016: EUR 4 143 million). 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.

There have been no significant transfers between the different hierarchy levels during the six-month period ended 30 June 2017. There were no financial instruments within the category Level 1 – prices quoted in the active markets and Level 3 – valuation techniques based on unobservable input.

4. Share capital, other reserves and legal reserves

Share capital is set at EUR 440 000 represented by 220 000 shares with a nominal value of EUR 2 each and is authorised, issued and fully paid.

Under Luxembourg law, NFI is allowed to deduct part of the net worth tax from the corporate income tax of the same year, provided that a reserve is created corresponding to five times the net worth tax deducted and that this reserve is maintained for a period of five tax years following the year of deduction.

At the Annual General meeting of NFI held on 28 April 2016, NFI decided to deduct from retained earnings EUR 107.6 thousand (related to 2016 net worth tax) from the corporate income tax, resulting in an allocation to a net assets tax reserve 2016 of EUR 538 thousand.

At the Annual General meeting of NFI held on 18 April 2017, NFI decided to deduct from retained earnings EUR 108.6 thousand (related to 2017 net worth tax) from the corporate income tax, resulting in an allocation to a net assets tax reserve 2017 of EUR 543 thousand, to re-allocate the net assets tax reserves 2008-2011 of EUR 668 thousand from other reserve to retained earnings and to allocate EUR 6 thousand as net assets tax reserve 2016 (and added to the EUR 538 thousand net assets tax reserve 2016, to total EUR 544 thousand net assets tax reserve 2016) from retained earnings to other reserve.

As at 30 June 2017 the net worth tax reserve is EUR 2 962 thousand (2016: EUR 3 081 thousand) of which EUR 0 thousand (2016: EUR 584 thousand) is distributable to the sole shareholder.

The movements in other reserves for the six-month period January-June 2017 were as follows:

In thousands of Euro	30 June 2017	31 December 2016
Opening Balance	3 081	2 543
Addition	-119	538
Closing Balance	2 962	3 081

Under Luxembourg law, NFI is required to appropriate annually at least 5% of its statutory net profit to a non-distributable legal reserve until the aggregate reserve reaches 10% of the subscribed capital. The reserve is fully constituted for EUR 44 thousand.

5. Dividends

Dividends payable are not accounted for until they have been ratified at the Annual General Meeting of NFI. At the Board of Directors Meeting of NFI held on 18 April 2017, the Board decided not to propose any dividend payment to the shareholder.

6. Debt securities

Bonds

During the six-month period January-June 2017, no bonds were issued, and one series of bonds, the AUD 125 000 thousand 4,63 percent bonds, were repaid at maturity.

Commercial Paper

The outstanding amounts of commercial paper are EUR 4 217 million as at 30 June 2017 compared to EUR 3 342 million as at 31 December 2016.

The carrying amount of these instruments is a reasonable approximation of their fair value based on observable market data.

7. Transactions with related parties

Grant, receipt and repayments of loans with Nestlé Group companies for the six-month period January-June 2017 were as follows:

In thousands of Euro	January-June 2017	January-June 2016
Loans granted to Nestlé Group companies excluding accrued interest	12 972 302	13 835 017
Repayment of Loans by Nestlé Group companies excluding accrued interest	-12 949 311	-13 644 150
Net Loans and advances granted to Nestlé Group companies	22 991	190 867
Loans received from Nestlé Group companies excluding accrued interest	635 448	865 903
Repayment of Loans to Nestlé Group companies excluding accrued interest	-1 839 185	-2 333 843
Net Loans and advances received from Nestlé Group companies	-1 203 737	-1 467 940

8. Events after the balance sheet date

There have been no significant events after the balance sheet date.

Responsibility Statement

Marina Vanderveken-Verhulst, Director, Saskia Deknock, Director, Jean-Marc Ueberecken, Director, Laurent Schummer, Director, Bruno Chazard, Director and Steve Flammang, Chief Accountant confirm that to the best of their knowledge:

- (a) the Unaudited Financial Statements of NFI for the six-month period ended 30 June 2017, which have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union as well as with the laws and regulations in force in the Grand Duchy of Luxembourg, give a true and fair view of the assets, liabilities, financial position and profit or loss of NFI as required by DTR 4.2.4; and
- (b) the interim management report includes a fair review of the information required by DTR 4.2.7.

03 August 2017