NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

Half-Yearly Financial Report

June 30, 2019

(Unaudited)

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

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June 30, 2019 and 2018

Management Report

Nestlé Holdings, Inc. ("NHI") (hereinafter, together with its subsidiaries, referred to as the "Company") incorporated in the State of Delaware, United States, is a wholly owned subsidiary of NIMCO US, Inc., which is an indirect wholly owned subsidiary of Nestlé S.A., incorporated in Switzerland, which is the holding company of the Nestlé group of companies (hereinafter, referred to as the "Nestlé Group"). NHI is the holding company for Nestlé S.A.'s principal operating subsidiaries in the United States, other than Nestlé Waters North America Inc., Prometheus Laboratories Inc., The Proactiv Company, LLC, and NSH Service, Inc. The Company engages primarily in the manufacture and sale of food products, pet care products, and beverage products. These businesses derive revenue across the United States.

Key Figures

(Dollars in Millions)

		2019	2018 As Published	Change	2018* With VRR	Change* With VRR
Sales	$	11,000.2	10,204.1	7.8%	10,204.1	7.8%
Cost of goods sold		(6,067.0)	(5,678.1)	6.8%	(5,678.1)	6.8%
as a percentage of sales		(55.2)%	(55.6)%		(55.6)%	
Trading operating profit		711.5	1,152.6	(38.3)%	843.6	(15.7)%
as a percentage of sales		6.5%	11.3%		8.3%	
Net financial expenses		(126.7)	(70.4)	80.1%	(70.4)	80.1%
Income tax expense		(233.1)	(513.7)	(54.6)%	(513.7)	(54.6)%
Net income		227.4	(426.8)	(153.3)%	(735.9)	(130.9)%
as a percentage of sales		2.1%	(4.2)%		(7.2)%	
Operating cash flows		(371.2)	704.4	(152.7)%	704.4	(152.7)%
as a percentage of sales		(3.4)%	6.9%		6.9%	
Capital expenditures		272.7	234.4	16.3%	234.4	16.3%
as a percentage of sales		2.5%	2.3%		2.3%	

*2018 restated figures have been included to show the impact of the Variable Royalty Rate (VRR). See Note 9 for further detail.

Overview

The Company has delivered year-over-year improvements in sales. We continue to invest in our core food and beverage brands through increased capital expenditures and investing in high-growth businesses. The Company has also made key initiatives towards portfolio optimization. In the second half of 2018 the Nestlé Group acquired the perpetual rights to market, sell and distribute certain Starbucks' consumer packaged goods and foodservice products in the United States ("Nestlé Coffee Partners"), including roast and ground coffee, whole beans and instant and portioned coffee (Brands segment). In the second quarter of 2019, the Company announced its plans to exit the Direct-Store-Delivery ("DSD") network to enable further growth in Frozen Pizza and Ice Cream by simplifying the route to market.

Sales

For the first six months ending June 30, 2019 and 2018, consolidated sales totaled $11.0 billion and $10.2 billion, respectively. The main factors per segment are as follows:

- **Nestlé USA Brands** sales were $5.1 billion and $4.2 billion for the six months ending June 30, 2019 and 2018, respectively. Sales growth was primarily driven by *Coffee Mate* and the Nestlé Coffee Partners business. *Hot Pockets* and pizza, particularly *DiGiorno*, also made positive contributions. Some prominent brands in this segment include *Nescafé, Nesquik, Stouffer's, Lean Cuisine, Nestlé Toll House, Dreyer's,* and *Edy's*.
- **Nestlé Purina PetCare** sales were $4.0 billion and $3.8 billion for the six months ending June 30, 2019 and 2018, respectively. PetCare reported solid growth driven by *Pro Plan* and *Friskies*. Some other notable brands in this segment include *Beneful, Alpo, Purina ONE, Dog Chow, Beyond, Fancy Feast, Cat Chow,* and *Tidy Cats*.
- **Nutrition** sales were $0.5 billion for each of the six months ending June 30, 2019 and 2018. Infant nutrition sales growth accelerated, helped by recent product launches. A notable brand in this segment is *Gerber*.
- **Other** businesses sales were $1.4 billion and $1.7 billion for the six months ending June 30, 2019 and 2018, respectively. *Nespresso* and *Nestlé Professional* delivered growth offset by the sale of the Gerber Life Insurance business in 2018.

Profitability

Trading operating profit was $711.5 million and $1,152.6 million for the six months ending June 30, 2019 and 2018, which equaled approximately 6.5% and 11.3% of sales for each period, respectively. The decrease, as a percentage of sales, was primarily due to increased impairment charges related to property, plant and equipment, restructuring costs and onerous contract associated with the exit from the DSD network and the variable royalty rate.

Cost of goods sold was $6.1 billion and $5.7 billion for the six months ending June 30, 2019 and 2018, which equaled approximately 55.2% and 55.6% of sales for each period, respectively. The decrease, as a percentage of sales, was primarily due to operational efficiency savings.

Distribution expenses were $1.1 billion and $1.0 billion for the six months ending June 30, 2019 and 2018, which equaled approximately 9.6% and 9.7% of sales for each period, respectively.

Marketing, general and administrative expenses were $1.8 billion and $1.7 billion for each of the six months ending June 30, 2019 and 2018, respectively. There was a decrease in these expenses as a percentage of sales from 16.8% in 2018 to 16.4% in 2019, primarily due to operational efficiency savings.

Net other trading expenses were $393.7 million and $124.9 million for each of the six months ending June 30, 2019 and 2018, respectively. The increase in expenses was primarily due to impairment of property, plant, and equipment associated with the exit from the DSD network.

Net Profit Margin – Other Items of Interest

Net financial expenses increased by $56.3 million from the six month period ended June 30, 2018 to the six month period ended June 30, 2019, primarily due to increased outstanding bonds and associated interest expense.

The Company's income tax expense decreased by $280.6 million from the six month period ended June 30, 2018 to the six month period ended June 30, 2019, primarily as a result of the 2018 impairment of non-deductible goodwill and the recognition of previously unrecognized deferred tax liabilities related to investments in subsidiaries as a result of the reclassification of the Gerber Life Insurance business to assets held for sale.

Cash Flow

Operating cash flow was ($371.2) million and $704.4 million for the six months ending June 30, 2019 and June 30, 2018, respectively. The 2019 cash flow decrease is primarily due to the higher royalties to affiliated companies. A significant portion of the 2018 royalties were exceptionally paid in 2019.

Principal Risks and Uncertainties

In the course of its business, the Company is exposed to certain risks and uncertainties: risk of damage to consumer trust, credit risk, liquidity risk, market risk (including foreign currency and interest rate), commodity price risk, risk of disruption of supplies, settlement risk and other risks. The Company believes that its principal risks and uncertainties for the remaining six months of the financial year have not changed in respect of the financial year ended December 31, 2018 ("2018 NHI Annual Financial Report"). The detailed discussion of these risks and uncertainties and the Company's objectives, policies and processes for managing these risks and uncertainties were disclosed in the Management Report section under the heading Principal Risks and Uncertainties and in the Notes to the Consolidated Financial Statements, in particular, Note 12, included in the 2018 NHI Annual Financial Report.

Outlook

As we look towards the second half of 2019, we expect further improvement in sales growth and margin expansion through planned efficiency programs and the Company's planned evolution of the product portfolio towards high growth and high margin categories and brands.

The Company is committed to supporting the Nestlé Group in achieving its full-year 2019 financial objectives including: organic sales growth expected to be around 3.5%, Underlying Trading operating profit margin improvement, an increase in Underlying earnings per share in constant currency, and capital efficiency.

NESTLÉ HOLDINGS, INC.
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June 30, 2019 and 2018

Responsibility Statement

Giulio Gerardo, Chief Financial Officer, confirms that to the best of his knowledge:

(a) the financial statements, which have been prepared in accordance with IAS 34, give a true and fair view of the assets, liabilities, financial position and profit or loss of NHI, or the undertakings included in the consolidation taken as a whole 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.

September 4, 2019

KPMG LLP
Suite 900
8350 Broad Street
McLean, VA 22102

Independent Auditors' Review Report

The Board of Directors
Nestlé Holdings, Inc.:

Report on the Financial Statements

We have reviewed the condensed consolidated financial statements of Nestlé Holdings, Inc. and its subsidiaries (the Company), which comprise the condensed consolidated balance sheet as of June 30, 2019, and the related condensed consolidated income statements, statements of comprehensive income, cash flows and changes in equity for the six-month periods ended June 30, 2019 and 2018.

Management's Responsibility

The Company's management is responsible for the preparation and fair presentation of the condensed financial information in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditors' Responsibility

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information and International Standard on Review Engagements (ISRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial information referred to above for it to be in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG LLP

McLean, Virginia
September 4, 2019

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NESTLÉ HOLDINGS, INC.
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Consolidated Balance Sheet

As at June 30, 2019 and December 31, 2018

(Dollars in thousands, except capital stock par value and shares)

(Unaudited)

Assets		**June 30, 2019**	**December 31, 2018**
Current assets:			
Cash and cash equivalents	$	279,712	368,045
Short-term investments		13,563	1,256,010
Trade and other receivables, net		17,979,268	16,606,655
Inventories, net		2,172,032	1,685,947
Derivative assets		17,353	26,464
Assets held for sale		29,720	—
Prepayments		103,657	41,131
Total current assets		**20,595,305**	**19,984,252**
Non-current assets:			
Property, plant and equipment, net		5,935,878	6,200,920
Employee benefits assets		365,121	340,631
Investments in associates and joint ventures		34,063	38,824
Deferred tax assets		660,938	580,866
Financial assets		1,539,254	1,266,893
Goodwill		15,652,386	15,652,386
Intangible assets, net		4,578,390	4,598,515
Total non-current assets		**28,766,030**	**28,679,035**
Total assets	**$**	**49,361,335**	**48,663,287**
Liabilities and Equity			
Current liabilities:			
Trade and other payables	$	2,286,789	3,101,547
Financial liabilities		8,159,996	6,064,089
Provisions		323,103	191,980
Derivative liabilities		309,791	292,990
Current income tax liabilities		544,121	475,423
Liabilities directly associated with assets held for sale		23,027	—
Accruals		1,547,301	1,608,194
Total current liabilities		**13,194,128**	**11,734,223**
Non-current liabilities:			
Financial liabilities		15,308,049	16,389,379
Employee benefits liabilities		1,734,262	1,675,234
Deferred tax liabilities		1,273,141	1,223,889
Provisions		62,356	79,245
Other accrued liabilities		16,000	6,398
Total non-current liabilities		**18,393,808**	**19,374,145**
Total liabilities		**31,587,936**	**31,108,368**
Equity:			
Capital stock, $100 par value. Authorized, issued, and outstanding, 1,000 shares		100	100
Additional paid-in capital		5,624,297	5,624,297
Other equity reserves		(1,019,811)	(1,002,750)
Accumulated earnings		13,168,813	12,933,272
Total equity		**17,773,399**	**17,554,919**
Total liabilities and equity	**$**	**49,361,335**	**48,663,287**

See accompanying notes to consolidated financial statements.

NESTLÉ HOLDINGS, INC.
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Consolidated Income Statement
For the Six-month Period Ended June 30, 2019 and 2018
(Dollars in thousands)
(Unaudited)

	Note		2019	2018
Sales	2	$	11,000,154	10,204,139
Cost of goods sold			(6,066,569)	(5,678,100)
Distribution expenses			(1,052,136)	(985,910)
Marketing, general and administrative expenses			(1,803,430)	(1,713,231)
Royalties to affiliated company			(972,788)	(549,426)
Net other trading expenses	6		(393,713)	(124,887)
Trading operating profit			**711,518**	**1,152,585**
Net other operating expenses	6		(119,541)	(993,504)
Operating profit			**591,977**	**159,081**
Net financial expenses	7		(126,738)	(70,389)
Profit before taxes, associates, and joint ventures			**465,239**	**88,692**
Income tax expense	8		(233,104)	(513,736)
(Loss) from associates and joint ventures			(4,761)	(1,796)
Profit (loss) for the period		**$**	**227,374**	**(426,840)**

See accompanying notes to consolidated financial statements.

NESTLÉ HOLDINGS, INC.
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Consolidated Statement of Comprehensive Income

For the Six-month Period Ended June 30, 2019 and 2018
(Dollars in thousands)
(Unaudited)

		2019	2018
Profit (loss) for the period recognized in the income statement	**$**	**227,374**	**(426,840)**
Fair value adjustments on debt instruments, net of taxes		(31,096)	—
Fair value adjustments on cash flow hedges, net of taxes		7,852	(23,087)
Items that are or may be reclassified subsequently to the income statement		**(23,244)**	**(23,087)**
Remeasurement of defined benefit plans, net of taxes		13,382	53,566
Fair value changes on equity instruments, net of taxes		968	(92,115)
Items that will never be reclassified to the income statement		**14,350**	**(38,549)**
Other comprehensive (loss) for the period		**(8,894)**	**(61,636)**
Total comprehensive income (loss) for the period	**$**	**218,480**	**(488,476)**

See accompanying notes to consolidated financial statements.

NESTLÉ HOLDINGS, INC.
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Consolidated Statement of Changes in Equity
For the Six-month Period Ended June 30, 2019 and 2018
(Dollars in thousands)
(Unaudited)

		Capital stock	Additional paid-in capital	Other equity reserves	Accumulated earnings	Total
Equity as at January 1, 2018	**$**	**100**	**5,624,297**	**(1,074,887)**	**13,343,804**	**17,893,314**
Loss for the period		—	—	—	(426,840)	(426,840)
Other comprehensive (loss) for the period		—	—	(41,315)	(20,321)	(61,636)
Total comprehensive (loss) income for the period		—	—	(41,315)	(447,161)	(488,476)
Equity as at June 30, 2018	**$**	**100**	**5,624,297**	**(1,116,202)**	**12,896,643**	**17,404,838**
Equity as at January 1, 2019		**100**	**5,624,297**	**(1,002,750)**	**12,933,272**	**17,554,919**
Profit for the period		—	—	—	227,374	227,374
Other reclassifications		—	—	(8,167)	8,167	—
Other comprehensive (loss) for the period		—	—	(8,894)	—	(8,894)
Total comprehensive income for the period		—	—	(17,061)	235,541	218,480
Equity as at June 30, 2019	**$**	**100**	**5,624,297**	**(1,019,811)**	**13,168,813**	**17,773,399**

See accompanying notes to consolidated financial statements.

NESTLÉ HOLDINGS, INC.
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Consolidated Statement of Cash Flows
For the Six-month Period Ended June 30, 2019 and 2018
(Dollars in thousands)
(Unaudited)

		2019	2018
Cash flows from operating activities:			
Net profit (loss)	$	**227,374**	**(426,840)**
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation of property, plant, and equipment		344,215	305,038
Loss on sales of property, plant and equipment		11,658	46,402
Impairment of property, plant and equipment		188,615	25,623
Amortization of intangible assets		28,353	40,937
Write-down of assets		—	1,839,063
Impairment of intangibles		17,536	4,493
Net result on disposal of businesses		8,295	(847,703)
Decrease in cash surrender value of Company-owned life insurance policies		—	2,887
Increase in provisions		114,290	9,186
Deferred tax benefit		(30,820)	(55,873)
Taxes on other comprehensive losses		3,004	6,420
Change in working capital (excluding effects from acquisitions and divestitures):			
Trade and other receivables, net		(299,186)	139,337
Inventories, net		(486,085)	(397,175)
Prepayments and other current assets		(61,206)	(78,336)
Trade and other payables and liabilities		(422,162)	377,034
(Increase) decrease in working capital		(1,268,639)	40,860
Share from investments in associates and joint ventures		4,761	1,796
Dividends from associates and joint ventures		—	39
Non-monetary movements on financial assets and liabilities		(25,264)	(116,704)
Movements of trading derivatives		(8,137)	(6,191)
Movements of operating derivatives		(43,302)	(26,326)
Other employee benefits, net		56,865	(138,665)
Total adjustments		**(598,570)**	**1,131,282**
Net cash (used in) provided by operating activities		**(371,196)**	**704,442**
Cash flows from investing activities:			
Capital expenditures		(272,702)	(234,389)
Proceeds from sale of property, plant and equipment		2,564	15,601
Acquisition of businesses		—	1,381
(Expenditures)/Proceeds from business divestitures		(22,202)	1,323,801
Expenditure on intangible assets		(25,764)	(90,305)
Inflows/(Outflows) from treasury investments		1,276,658	(112,222)
Other investing activities		659	(181,534)
Net cash provided by investing activities		**959,213**	**722,333**
Cash flows from financing activities:			
Net borrowings of commercial paper		1,567,474	3,118,072
Net repayment of line of credit facilities		(21,352)	(11,110)
Bonds issued		—	595,798
Bonds repaid		(500,000)	(907,553)
Loans to/(from) affiliates issued, net		47,404	(1,394,834)
Loans to parent issued, net		(1,705,698)	(2,392,394)
Cash movement on derivatives hedging bond principal, net		—	20,498
Net other financial debt		(64,178)	(119,378)
Net cash used in financing activities		**(676,350)**	**(1,090,901)**
Net (decrease) increase in cash and cash equivalents		(88,333)	335,874
Cash and cash equivalents at beginning of the year		368,045	185,719
Effect of exchange rate on opening balances		—	(358)
Cash and cash equivalents at end of the period	$	279,712	521,235
Supplemental information:			
Cash paid for:			
Interest	$	67,058	70,088
Taxes		193,263	157,274

See accompanying notes to consolidated financial statements.

(1) Accounting Policies

Basis of Preparation

These Condensed Interim Financial Statements are the unaudited Condensed Interim Consolidated Financial Statements (hereafter "the Condensed Interim Financial Statements") of Nestlé Holdings Inc. ("NHI") (hereinafter, together with its subsidiaries, referred to as the "Company") for the six month period ended June 30, 2019. They have been prepared in accordance with International Accounting Standard (IAS) 34 – Interim Financial Reporting, and should be read in conjunction with NHI's Consolidated Financial Statements for the year ended December 31, 2018.

The accounting conventions and accounting policies are the same as those applied in NHI's Consolidated Financial Statements for the year ended December 31, 2018 (as described in Note 1 and within the relevant notes).

The preparation of NHI's Condensed Interim Financial Statements requires management to exercise judgment and to make estimates and assumptions that affect the application of policies, reported amounts of revenues, expenses, assets, liabilities, and disclosures. The key sources of estimation uncertainty within these Condensed Interim Financial Statements remain the same as those applied to NHI's Consolidated Financial Statements for the year ended December 31, 2018.

(Dollars in thousands)

(2) Analyses by Segment

Revenue and Results

	Brands [a]	PetCare	Nutrition [a]	Other [a]	Total
2019					
Sales	$ 5,134,118	4,000,902	492,812	1,372,322	11,000,154
Underlying Trading operating profit [b]	488,794	460,674	17,761	138,002	1,105,231
Trading operating profit (loss) [c]	114,632	467,719	9,166	120,001	711,518
Net other trading (expenses) income [d]	(374,162)	7,045	(8,595)	(18,001)	(393,713)
Of which impairment of property, plant and equipment	*(186,219)*	*(2,171)*	-	*(17,761)*	(206,151)
Of which restructuring costs	*(119,687)*	*(13)*	*(1,822)*	*(102)*	(121,624)
Depreciation and amortization	(151,534)	(116,402)	(31,629)	(73,003)	(372,568)
2018					
Sales	$ 4,184,298	3,799,778	522,878	1,697,185	10,204,139
Underlying Trading operating profit [b]	371,332	676,029	10,190	219,921	1,277,472
Trading operating profit [c]	327,741	647,778	(28,099)	205,165	1,152,585
Net other trading (expenses) income [d]	(43,591)	(28,251)	(38,289)	(14,756)	(124,887)
Of which impairment of property, plant and equipment	*(30,116)*	-	-	-	(30,116)
Of which restructuring costs	*(33,699)*	*(6,354)*	*(19,363)*	*(9,258)*	(68,674)
Depreciation and amortization	(130,214)	(117,069)	(26,916)	(71,776)	(345,975)

[a] Nestlé USA Brands primarily consists of Nestlé Coffee Partners, beverage, prepared foods, ice cream, snacks, and other food products. Nutrition primarily consists of infant and baby food products. Other primarily consists of Nestlé Professional, Nespresso, Nestlé Health Science, and in 2018 Gerber Life Insurance, which do not meet the criteria for separate disclosure.

[b] Trading operating profit before Net other trading income (expenses).

[c] The Company determines trading operating profit by allocating corporate expenses to its operating segments based on activity-based cost drivers.

[d] Included in Trading operating profit.

(Dollars in thousands)

Reconciliation of total segment underlying trading operating profit to profit before taxes, associates and joint ventures is as follows:

		2019	2018
Total segment Underlying trading operating profit	$	1,105,231	1,277,472
Net other trading expenses		(393,713)	(124,887)
Trading operating profit		**711,518**	**1,152,585**
Net other operating expenses		(119,541)	(993,504)
Operating profit		**591,977**	**159,081**
Net financial expenses		(126,738)	(70,389)
Profit before taxes, associates, and joint ventures	**$**	**465,239**	**88,692**

(3) Seasonality

The Company's businesses are subject to the effects of slight seasonality. This is primarily concentrated in the Nestlé USA Brands segment, with more demand in the second half of the year during the holiday season. Trading operating profit margins have historically improved in the second half of the year due to increased absorption of fixed costs directly related to the increase in second half sales. Consequently, the operating results for the six months ended June 30, 2019 are not necessarily indicative of results to be expected for the full year.

(Dollars in thousands)

(4) Fair Value Hierarchy of Financial Instruments

		June 30, 2019	December 31, 2018
Derivative assets	$	2,074	8,064
Bonds and debt funds [a]		—	1,184,092
Equity and equity funds		—	10,036
Other financial assets		2,693	20,433
Derivative liabilities		(5,071)	(20,308)
Prices quoted in active markets (Level 1)		**(304)**	**1,202,317**
Derivative assets		15,279	18,400
Bonds and debt funds		281,982	244,461
Equity and equity funds		235,271	224,188
Investments in life insurance company general accounts		586,299	576,854
Other financial assets		8,214	12,500
Derivative liabilities		(304,720)	(272,682)
Valuation techniques based on observable market data (Level 2)		**822,325**	**803,721**
Valuation techniques based on unobservable input (Level 3)		**106,058**	**101,758**
Total financial instruments at fair value	**$**	**928,079**	**2,107,796**

[a] The 2018 balance was related to proceeds from the disposal of the Gerber Life Insurance business.

The fair values categorized in Level 2 above were determined as follows:

- Derivatives are valued based on discounted contractual cash flows using risk adjusted discount rates and relying on observable market data for interest rates and foreign exchange rates; and

- The other level 2 investments are based on a valuation model derived from the most recently published observable financial prices for similar assets in active markets.

There have been no significant transfers between the different hierarchy levels in the 2019 and the 2018 interim periods.

Carrying amount and fair value
As of June 30, 2019, the carrying amount of bonds issued is $ 16,580,854 (December 31, 2018: $17,079,559), compared to a fair value of $17,426,400 (December 31, 2018: $ 17,115,420). This fair value is categorized 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.

(5) Bonds

During the period The Company reimbursed a $500 million bond with coupon of 2.25%. No bonds were issued.

(Dollars in thousands)

(6) Net Other Trading and Operating Income (Expenses)

Net other trading income (expenses) are as follows:

		2019	2018
Other trading income [a]	**$**	**84,022**	**9,338**
Restructuring costs		(138,839)	(68,674)
Impairment of property, plant and equipment and intangible assets		(206,151)	(30,116)
Litigation and onerous contracts		(73,951)	(24,915)
Result on deferred compensation		(44,586)	(9,251)
Miscellaneous trading expenses		(14,208)	(1,269)
Other trading expenses [b]		**(477,735)**	**(134,225)**
Net other trading expenses	**$**	**(393,713)**	**(124,887)**

Net other operating expenses are as follows:

		2019	2018
Profit on disposal of businesses [c]	$	—	818,764
Miscellaneous operating income		12,418	29,272
Other operating income		**12,418**	**848,036**
Loss on disposal of businesses		(8,295)	—
Write-down of assets [d]		—	(1,839,063)
Miscellaneous operating expenses		(123,664)	(2,477)
Other operating expenses		**(131,959)**	**(1,841,540)**
Net other operating expenses	**$**	**(119,541)**	**(993,504)**

(a) Relates mainly to returns on company-owned life insurance.

(b) January-June 2019 includes one-off costs of $395 million related to the exit of the DSD network for Frozen Pizza and Ice Cream (see Note 10).

(c) Relates mainly to the Confectionary business which was sold in 2018.

(d) Relates mainly to the Gerber Life Insurance business which was sold in 2018.

(Dollars in thousands)

(7) Net Financial Expenses

		2019	2018
Interest income	$	261,901	158,192
Interest expense		(375,025)	(216,961)
Net financing cost		**(113,124)**	**(58,769)**
Interest income on defined benefit plans		7,484	6,688
Interest expense on defined benefit plans		(21,068)	(19,072)
Net interest expense on defined benefit plans		**(13,584)**	**(12,384)**
Other		(30)	764
Net financial expenses	**$**	**(126,738)**	**(70,389)**

Interest expenses on amounts due to affiliated and associated companies and bonds and commercial paper guarantee fees to Nestlé S.A. amounted to $(39,380) and $(29,099) in 2019 and 2018, respectively. Interest income on amounts due from affiliated and associated companies amounted to $252,689 and $155,308 in 2019 and 2018, respectively.

(8) Income Taxes

Reconciliation of income from continuing operations before income taxes multiplied by the applicable tax rate to income tax expense is as follows:

		2019	2018
Tax at US Corporate Tax Rate	$	(116,271)	(96,915)
Tax effect of permanent, non-deductible or non-taxable items		8,069	(277,616)
Prior years' taxes		(117,186)	23,432
Previously unrecognized deferred tax liability related to investment in subsidiaries		—	(154,923)
Other taxes		(7,716)	(7,714)
Income tax expense	**$**	**(233,104)**	**(513,736)**

(Dollars in thousands)

(9) Transactions with Related Parties

		2019	2018
Loans to Nestlé S.A.:			
At January 1	$	—	198,790
Loans granted during the period		1,500,000	1,726,267
Accrued interest		6,313	10,791
Loan repayments		—	(198,790)
At June 30	**$**	**1,506,313**	**1,737,058**
Loans to NIMCO US, Inc. (Parent):			
At January 1	$	12,097,030	8,432,307
Loans granted during the period		205,698	854,126
At June 30	**$**	**12,302,728**	**9,286,433**
Loans from affiliates:			
At January 1	$	—	25,945
Loans received during the period		35,087	5,295
Loan repayments		—	(5,259)
At June 30	**$**	**35,087**	**25,981**
Loans to affiliates:			
At January 1	$	2,571,427	1,469,215
Loans granted during the period		337,946	1,413,540
Accrued interest		66	—
Loan repayments		(350,263)	(18,670)
At June 30	**$**	**2,559,176**	**2,864,085**

The above loans with related parties are presented within trade and other receivables, trade and other payables, and current and non-current financial liabilities balances of the condensed consolidated balance sheet.

Royalties to affiliated company

As noted in the December 31, 2018 consolidated financial statements, the license agreements under which the Company and its subsidiaries are granted use of licensed brands and obtain technical assistance from the affiliated company were modified when reviewed and/or amended with effect from 2018. The main effect of the modification is that the former fixed royalty was replaced with a variable rate royalty which could be lower or higher than the former rate depending on the profitability of the Company. The impact on the June 30, 2018 consolidated income statement would have been an increase of $309 million of royalties to the affiliated company, if the modified agreement had existed in the comparative period for the six months ended June 30, 2018. Management evaluated the modification and determined it does not constitute a change in accounting policy nor a correction of an error.

(10) Exit from the DSD Business

In the second quarter of 2019, the Company decided to exit the Direct-Store-Delivery ("DSD") network for Frozen Pizza and Ice Cream. As a consequence, the assets formerly allocated to the cash generating unit (CGU) of DSD for Frozen Pizza and Ice Cream, including $2,694 million of goodwill, have been allocated between the Frozen Pizza business and the Ice Cream business, which have been tested as separate CGUs with no impairment identified. However, one-off costs of $395 million (see Note 6) have been recognized in the first half of 2019, and include impairment charges related to property, plant and equipment which will no longer be used as a result of the exit of the DSD network; restructuring costs; and onerous contracts and other expenses.

(11) Assets Held for Sale

As of June 30, 2019, assets held for sale and liabilities directly associated with assets held for sale include the DSD network assets for Frozen Pizza and Ice Cream (see Note 10).

(12) Events after the Balance Sheet Date

The Company was not aware of specific events or transactions occurring after June 30, 2019, and up to September 4, 2019 that would have a material impact on the presentation of the accompanying condensed interim financial statements.