



Good Food, Good Life

NESTLÉ FINANCE INTERNATIONAL LTD.

(Société Anonyme)

Half-Yearly Financial Report

Management Report

and

Financial Statements

1 January-30 June 2019

(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 2018	4-12
Responsibility Statement	13

Nestlé Finance International Ltd.

Nestlé Finance International Ltd. (“NFI” or the “Company”) presents its half-yearly financial report for the six-month period ended 30 June 2019. 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. The Nestlé Group product portfolio has seven product categories, distributed throughout the world: powdered and liquid beverages, nutrition and health science, milk products and ice cream, prepared dishes and cooking aids, pet care, confectionery and water.

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 2019, and their impact on the financial statements:

At 30 June 2019, a total equivalent of EUR 11 676 million of loans and advances granted to Nestlé Group companies was outstanding compared to EUR 11 162 million as at 31 December 2018 and EUR 10 755 million as at 30 June 2018. These were financed mainly through the issuance of bonds, commercial paper and loans and advances received from Nestlé Group companies. 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 2019.

Total assets increased at the end of six-month period January-June 2019 (EUR 11 858 million) as compared to the financial year ended 31 December 2018 (EUR 11 318 million). The increase in total assets (by EUR 541 million) results mainly from an increase in loans and advances granted to Nestlé Group companies (by EUR 514 million), an increase in derivative assets (by EUR 19 million) and an increase in cash and cash equivalents (by EUR 8 million). Debt securities (bonds and commercial paper) outstanding at the end of the six-month period January-June 2019 (EUR 10 953 million) increased by EUR 1 518 million as compared to the financial year ended 31 December 2018 (EUR 9 435 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 2019 (EUR 636 million) decreased by EUR 1 071 million as compared to 31 December 2018 (EUR 1 707 million).

Financing operations reported a net profit of EUR 5.4 million for the six-month period January-June 2019, compared to a net profit of EUR 5 million for the six-month period January-June 2018.

Net profit before tax for the six-month period January-June 2019 was EUR 10 million compared to EUR 9.6 million for the six-month period January-June 2018. There was a decrease in net fee and

commission income from Nestlé Group companies (of EUR 90 million) arising from fluctuations of foreign exchange rates borne by a related party, an increase in other operating income (of EUR 62.5 million) resulting from foreign exchange gains on non-EUR denominated instruments and an increase in net interest income (of EUR 27.7 million). This has been further disclosed in the Notes to the Unaudited Financial Statements of NFI for the six-month period ended 30 June 2019, in particular, in Note 2.

NFI's net operating cash inflow was EUR 14.8 million for the six-month period January-June 2019 compared to net operating cash outflow of EUR 72.8 million for the six-month period January-June 2018.

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 2019

NFI is exposed to certain risks and uncertainties: banking credit risk, credit risk, market risk (including currency fluctuations and interest rate movements), 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 2018 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 2018, 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 2018.

Nestlé Finance International Ltd. (“NFI”)

(Société Anonyme)

**Financial Statements
(Unaudited)**

1 January–30 June 2019

Balance sheet as at 30 June 2019

In thousands of Euro	Notes	30 June 2019	31 December 2018	30 June 2018
Assets				
Current assets				
Cash and cash equivalents		111 252	103 334	1 570
Derivative assets	(3)	52 037	32 649	58 182
Loans and advances to Nestlé Group companies	(7)	1 680 241	855 253	7 342 748
Current tax assets		2 537	1 691	-
Other assets		427	433	605
Total current assets		1 846 495	993 360	7 403 105
Non-current assets				
Loans and advances to Nestlé Group companies		9 996 242	10 306 847	3 412 239
Deferred tax assets		15 553	17 442	-
Property, plant and equipment		1	1	1
Total non-current assets		10 011 796	10 324 290	3 412 240
Total assets		11 858 290	11 317 650	10 815 345
Liabilities				
Current liabilities				
Bank overdrafts		-	-	2 209
Derivative liabilities	(3)	24 416	14 727	551
Loans and advances from Nestlé Group companies	(7)	636 164	1 706 949	2 745 220
Debt securities issued	(6)	6 152 536	4 149 266	2 127 247
Current tax liabilities		-	-	5 697
Other liabilities		155 993	80 483	61 319
Total current liabilities		6 969 109	5 951 425	4 942 243
Non-current liabilities				
Debt securities issued	(6)	4 800 635	5 285 817	5 788 207
Total non-current liabilities		4 800 635	5 285 817	5 788 207
Total liabilities		11 769 744	11 237 242	10 730 450
Equity				
Share capital	(4)	440	440	440
Share premium and other premiums		102 000	102 000	52 000
Hedging reserve		3 080	317	162
Legal reserve	(4)	44	44	44
Other reserve	(4)	4 955	4 955	3 630
Retained earnings		-21 972	-27 348	28 619
Total equity attributable to shareholders of the company		88 547	80 408	84 895
Total liabilities and equity		11 858 290	11 317 650	10 815 345

Income statement for the six-month period ended 30 June 2019

In thousands of Euro	Notes	January-June 2019	January-June 2018
Interest income		91 469	67 857
Interest expense		-39 224	-43 307
Net interest income	(2)	52 245	24 550
Fee and commission income		20 021	21 485
Fee and commission expense		-101 472	-13 122
Net fee and commission (expense) / income from Nestlé Group companies	(2)	-81 451	8 363
Other operating income/expense	(2)	39 917	-22 606
Operating profit		10 711	10 307
Administration expense		-713	-722
Profit before tax		9 998	9 585
Taxes	(2)	-4 622	-4 546
Profit for the year attributable to shareholders of the company		5 376	5 039

Other comprehensive income for the six-month period ended 30 June 2019

In thousands of Euro	January-June 2019	January-June 2018
Profit for the period recognised in the income statement	5 376	5 039
Adjustments on cost of hedge reserve		
Recognised in hedging reserve	2 763	150
Items that are or may be reclassified subsequently to the income statement	2 763	150
Other comprehensive income for the period	2 763	150
Total comprehensive income for the period	8 139	5 189
attributable to shareholders of the company	8 139	5 189

Statement of changes in equity for the six-month period ended 30 June 2019

In thousands of Euro	Share capital	Share premium and other premiums	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 2017	440	52 000	12	-	44	2 962	24 248	79 706
Gains and losses								
Gain for the period	-	-	-	-	-	-	5 039	5 039
Adjustments on cost of hedge reserve	-	-	150	-	-	-	-	150
Total comprehensive income for the period	-	-	150	-	-	-	5 039	5 189
Transfer to reserves								
Net transfers to net wealth tax reserves	-	-	-	-	-	668	-668	-
Total transfer to other reserve	-	-	-	-	-	668	-668	-
Equity as at 30 June 2018	440	52 000	162	-	44	3 630	28 619	84 895
Equity as at 31 December 2018	440	102 000	317	-	44	4 955	-27 348	80 408
Gains and losses								
Gain for the period	-	-	-	-	-	-	5 376	5 376
Adjustments on cost of hedge reserve	-	-	2 763	-	-	-	-	2 763
Total comprehensive income for the period	-	-	2 763	-	-	-	5 376	8 139
Equity as at 30 June 2019	440	102 000	3 080	-	44	4 955	-21 972	88 547

Cash flow statement for the six-month period ended 30 June 2019

In thousands of Euro	January-June 2019	January-June 2018
Cash flows from operating activities:		
Profit before taxation for the period	9 998	9 585
Adjustments for:		
Depreciation	-	3
Foreign exchange loss for bank accounts, loans and debt securities	-24 443	122 653
Expected credit loss		
Fair value of debt securities	11 543	-6 312
Interest income	-91 469	-67 857
Interest expense	79 994	43 307
Change in derivative assets including those recognised directly in equity	-16 625	-28 876
Change in other assets excluding prepaid and accrued income	3	-67
Change in derivative liabilities	9 689	-5 008
Change in other liabilities excluding accrual and deferred income	47 145	432
Net loans and advances to Nestlé Group companies excluding intra group interest receivable	-492 715	-3 263 091
Net loans and advances from Nestlé Group companies excluding intra group interest payable	-1 072 031	1 980 096
Commercial paper issued	27 430 483	17 507 462
Commercial paper repaid	-25 930 078	-16 446 363
Interest received net of withholding tax	89 850	75 086
Interest paid	-35 662	6 116
Income taxes paid	-846	-18
Net cash inflow / (outflow) from operating activities	14 836	-72 852
Effects of the exchange rate changes on cash	-6 918	-223
Net increase / (decrease) in cash and cash equivalents	7 918	-73 075
Net cash and cash equivalents at beginning of the period	103 334	72 436
Net cash and cash equivalents at end of the period *	<u>111 252</u>	<u>-639</u>

*Net cash and cash equivalents include bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

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 2019. 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 2018.

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 2018, except for those mentioned below, in the sections 'Changes in accounting standards' and 'Changes in accounting standards that may affect NFI after 30 June 2019'. The preparation of the Unaudited Financial Statements of NFI for the six-month period ended 30 June 2019 requires NFI's 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 of uncertainty within the Unaudited Financial Statements of NFI for the six-month period 30 June 2019 remain the same as those that applied to the Audited Financial Statements of NFI for the year ended 31 December 2018.

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 other accounting standards have been modified on miscellaneous points with effect from 1 January 2019. None of these amendments had a material effect on the Unaudited Financial Statements of NFI for the six-month period ended 30 June 2019.

2. Operating income/(expense) and taxes

Net interest income:

In thousands of Euro	January-June 2019	January-June 2018
Interest income from:		
Short term investments	628	245
Loans and advances to Nestlé Group companies	90 841	67 612
Interest income	91 469	67 857
Interest expense from:		
Loans and advances from Nestlé Group companies	-3 575	-1 618
Debt securities issued	-35 649	-41 689
Interest expense	-39 224	-43 307
Net interest income	52 245	24 550

Net fees and commission income

In thousands of Euro	January-June 2019	January-June 2018
Fee and commission income from Nestlé Group companies	20 021	21 485
Fee and commission expense to Nestlé Group companies	-101 472	-13 122
Net fee and commission (expense) / income	-81 451	8 363

Other operating expense:

In thousands of Euro	January-June 2019	January-June 2018
Net foreign exchange income / (expense)	40 773	-22 491
Net loss in fair value through income statement	-855	-115
Other operating income / (expense)	39 917	-22 606

Taxes:

In thousands of Euro	January-June 2019	January-June 2018
Corporate income tax	-	-1 870
Withholding tax on interest received	-2 733	-2 676
Deferred tax	-1 889	-
Total tax expense	-4 622	-4 546

3. Fair value hierarchy

Financial assets and liabilities

Fair value hierarchy of financial instruments

In thousands of Euro	30 June 2019	30 June 2018
Derivative assets	52 037	58 182
Derivative liabilities	-24 416	-551
Valuation techniques based on observable market data (Level 2)	27 622	57 631
Total financial instruments at fair value	27 622	57 631

* Short term deposits are included in the balance sheet in cash and cash equivalents and in short term investments

As of 30 June 2019 the carrying amount of bonds issued is EUR 5 800 million (31 December 2018: EUR 5 786 million), compared to a fair value of EUR 6 146 million (31 December 2018: EUR 5 989 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 2019. 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 thousand represented by 220 thousand shares with a nominal value of EUR 2 each and is authorised, issued and fully paid.

On 19 December 2017, by a written resolution of the shareholder, EUR 50 million was paid in cash to the Company and was contributed to the capital reserves without the issue of shares. The contribution was allocated to share premium. As at 30 June 2018 and 31 December 2017 the share premium is EUR 52 million.

On 20 December 2018, by a written resolution of the shareholder, EUR 50 million was paid in cash to the Company and was contributed to the capital reserves without the issue of shares. The contribution was allocated to share premium. As at 30 June 2019 and 31 December 2018 the share premium is EUR 102 million.

Under Luxembourg law, NFI is allowed to deduct part of the net wealth tax from the corporate income tax of the same year, provided that a reserve is created corresponding to five times the net wealth 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 25 April 2018, NFI decided to deduct from retained earnings EUR 133.7 thousand (related to 2018 net wealth tax) from the corporate income tax, resulting in an allocation to a net wealth tax reserve 2018 of EUR 668 thousand.

At the Annual General meeting of NFI held on 24 April 2019, NFI decided to carry forward the result to the following year.

As at 30 June 2019 the net wealth tax reserve is EUR 3 630 thousand (2018: EUR 3 630 thousand) of which EUR 455 thousand (2018: EUR 455 thousand) is distributable to the shareholder.

The movements in other reserve for the six-month period January-June 2019 were as follows:

In thousands of Euro	30 June 2019	31 December 2018
Opening Balance	4 955	2 962
Substraction / Addition	-	1 993
Closing Balance	4 955	4 955

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 24 April 2019, the Board decided not to propose any dividend payment to the shareholder.

6. Debt securities

Bonds

During the six-month period January-June 2019, no bonds were issued or repaid.

Commercial Paper

The outstanding amounts of commercial paper are EUR 5 153 million as at 30 June 2019 compared to EUR 3 650 million as at 31 December 2018.

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 2019 were as follows:

In thousands of Euro	January-June 2019	January-June 2018
Loans granted to Nestlé Group companies excluding accrued interest	11 132 258	16 022 513
Repayment of loans by Nestlé Group companies excluding accrued interest	-10 639 544	-12 759 422
Net loans and advances repaid by Nestlé Group companies	492 715	3 263 091
Loans received from Nestlé Group companies excluding accrued interest	-	2 374 385
Repayment of loans to Nestlé Group companies excluding accrued interest	-1 072 031	-394 289
Net loans and advances repaid to Nestlé Group companies	-1 072 031	1 980 096

8. Events after the balance sheet date

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

Responsibility Statement

Marina Vanderveken-Verhulst, Director, Patrick Yot, Director, Robert Calmes, 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 2019, 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.

20 August 2019