Good Food, Good Life

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

Half-Yearly Financial Report

June 30, 2014

(Unaudited)

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

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June 30, 2014 and 2013

Management Report

Nestlé Holdings, Inc. ("NHI") (hereinafter, together with its subsidiaries, referred to as the "Company") is a wholly owned subsidiary of NIMCO US, Inc., which is an indirectly 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., and Nestlé Health Science-Pamlab, Inc. The Company manufactures food and beverages, as well as products related to the nutrition, health, and wellness industries. The Company's products are primarily distributed in the United States.

Key Figures

	2014	2013	Change
	(Dollars in millions)		
Sales	$ 9,919.2	10,144.3	(2.2)%
Cost of goods	(5,545.6)	(5,563.2)	(0.3)%
as a percentage of sales	(55.9)%	(54.8)%	
Trading operating profit	1,186.2	1,154.3	2.8%
as a percentage of sales	12.0%	11.4%	
Net financial expenses	(117.8)	(158.5)	(25.7)%
Income tax expense	(421.9)	(426.6)	(1.1)%
Net income	627.4	585.0	7.2%
as a percentage of sales	6.3%	5.8%	
Operating cash flows	496.6	767.7	(35.3)%
as a percentage of sales	5.0%	7.6%	
Capital expenditures	193.3	210.4	(8.1)%
as a percentage of sales	1.9%	2.1%	

Overview

The United States economy in the first six months of 2014 continued to be adversely impacted by concerns over the labor market, where unemployment remained high compared with pre-2009 recession levels. Consumer spending continued to be influenced by low consumer confidence, which remained below historical levels. Despite these economic challenges, the Company has delivered improvements in trading operating profit. This performance is due to the ongoing execution of its proven strategies, combined with the successful implementation of operational efficiencies through the Nestlé Continuous Excellence cost savings program. The Company has increased investment in its brands, people and capabilities and has prepared for further challenges in the future.

Sales

For the first six months ending June 30, 2014 and 2013, consolidated sales totaled $9.9 and $10.1 billion, respectively. The main factors per segment are as follows:

- **Nestlé USA Brands** sales were $4.4 and $4.6 billion for the six months ending June 30, 2014 and 2013, respectively. Sales in this segment decreased from the same period last year with the frozen and ice cream categories continuing to be challenged. *Stouffers Multi-Serve Meals* delivered growth for frozen and the Company continued to innovate with new products such as *Lean Cuisine Stuffed Pretzels*. In pizza, the new *Thin and Crispy* line was a growth driver for the Company's *California Pizza Kitchen* brand. In ice cream, the super-premium products had a strong first six months, helped by *Gelato*. In the liquid segment, the new flavours drove *Coffee-Mate*'s positive performance within the beverage category. Some prominent brands in this segment include *Coffee-Mate*, *Nescafé, Nesquik, Stouffer's, DiGiorno, Lean Cuisine, Hot Pockets, Nestlé Crunch, Butterfinger, Nestlé Toll House,* and *Dreyer's/Edy's*.
- **Nestlé Purina PetCare** sales were $3.5 and $3.4 billion for the six months ending June 30, 2014 and 2013, respectively. Sales in PetCare continued to grow primarily due to growth in sales of dog and cat food and cat litters. Line extensions and new product launches, which include *Beyond* dog food, *Lightweight 24/7* and *Glade* cat litters, helped drive growth. Some notable brands in this segment include *Beneful, Alpo, Purina ONE, Purina Dog Chow, Pro Plan, Fancy Feast, Friskies, Purina Cat Chow,* and *Tidy Cats Litter*.
- **Nutrition** sales were $1.0 and $1.2 billion for the six months ending June 30, 2014 and 2013, respectively. Meals and drinks and the infant formula categories were challenged. Infant cereals gained market share and there was growth in the life insurance business. A notable brand in this segment is *Gerber*.
- **Other** business sales were $1.1 and $1.0 billion for the six months ending June 30, 2014 and 2013, respectively. There was growth in the Nestlé Health Science business and the *Nespresso* brand coffee.

Profitability

Trading operating profit was $1.2 billion for the six months ending June 30, 2014 and 2013. There was an increase as a percentage of sales from 11.4% in 2013 to 12.0% in 2014, primarily due to the decreases in net other trading expenses and marketing and general expenses.

Cost of goods sold was $5.5 and $5.6 billion for the six months ending June 30, 2014 and 2013, respectively. The decrease was primarily due to lower sales.

Distribution expenses were $0.9 billion for each of the six months ending June 30, 2014 and 2013, which equaled approximately 9.3% of sales for both periods.

Marketing, general and administrative expenses were $1.7 and $1.8 billion for the six months ending June 30, 2014 and 2013, respectively. There was a decrease in these expenses as a percentage of sales from 17.5% in 2013 to 17.2% in 2014 primarily due to decreases in other general expenses.

Net other trading expenses were $6.6 and $150.6 million for the six months ending June 30, 2014 and 2013, respectively. The decrease was primarily due to decreases in litigation and onerous contracts as well as restructuring expenses.

Net Income – Other Items of Interest

Net financial expenses decreased by $40.7 million in the first six months of 2014 primarily due to lower borrowings and increased interest income on defined benefit assets.

The Company's income tax expense decreased by $4.7 million in the first six months of 2014 in comparison to the same period last year, primarily as a result of adjustments to prior years' taxes offset by an increase in pre-tax profit.

Cash Flow

Operating cash flow decreased from $0.8 billion in the six months ending June 30, 2013 to $0.5 billion in the six months ending June 30, 2014. The change is primarily due to the increase in cash used for working capital, resulting from lower inflows from trade and other payables and liabilities and higher outflows from inventory balances, partially offset by higher inflows from trade and other receivables balances.

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 since the issuance of the 2013 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 13, included in the 2013 NHI Annual Financial Report.

Outlook

The purchasing power of consumers in the United States continues to be affected by a fear of layoffs, high unemployment, a loss of wealth, and economic uncertainty. Given the current pace of job additions, it will likely take some time to restore the United States labor market to stronger levels.

Although the economic outlook remains challenging, there are opportunities to leverage the Company's competitive advantages, deliver on growth opportunities and benefit from the drive for continuous improvement. The Company is committed to supporting the Nestlé Group in achieving its financial objectives including organic growth around 5% and improvement in margins, underlying earnings per share in constant currencies and capital efficiency.

NESTLÉ HOLDINGS, INC.
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June 30, 2014 and 2013

Responsibility Statement

Steve Presley, 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.

August 21, 2014

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

Consolidated Balance Sheet

As of June 30, 2014 and December 31, 2013

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

(Unaudited)

Assets		**June 30, 2014**	**December 31, 2013**
Current assets:			
Cash and cash equivalents	$	371,000	354,294
Short-term investments		26,017	12,510
Trade and other receivables, net		3,688,300	3,466,465
Inventories, net		2,006,786	1,534,223
Derivative assets		202,802	134,888
Assets held for sale		20,490	34,461
Prepayments		140,658	58,002
Total current assets		6,456,053	5,594,843
Non-current assets:			
Property, plant and equipment, net		4,989,908	5,086,050
Employee benefits assets		588,481	478,455
Investments in joint ventures and associated companies		15,077	11,704
Deferred tax assets		906,795	950,235
Financial assets		3,854,277	3,604,497
Goodwill		18,188,594	18,204,037
Intangible assets, net		962,297	943,335
Total non-current assets		29,505,429	29,278,313
Total assets	$	35,961,482	34,873,156
Liabilities and Equity			
Current liabilities:			
Trade and other payables	$	1,350,649	1,414,883
Financial liabilities		4,813,148	5,310,646
Provisions		101,496	113,160
Derivative liabilities		186,294	211,110
Accruals		1,349,145	1,430,810
Total current liabilities		7,800,732	8,480,609
Non-current liabilities:			
Financial liabilities		9,020,549	7,903,318
Employee benefits liabilities		1,832,061	1,876,119
Deferred tax liabilities		2,197,789	2,167,748
Provisions		63,331	57,837
Other accrued liabilities		1,806,984	1,822,056
Total non-current liabilities		14,920,714	13,827,078
Total liabilities		22,721,446	22,307,687
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		(746,737)	(793,862)
Accumulated earnings		8,362,376	7,734,934
Total equity		13,240,036	12,565,469
Total liabilities and equity	$	35,961,482	34,873,156

NESTLÉ HOLDINGS, INC.
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Consolidated Income Statement

For the Six-month Period Ended June 30, 2014 and 2013

(Dollars in thousands)

(Unaudited)

	Note	2014	2013
Sales		$ 9,919,190	10,144,340
Cost of goods sold		(5,545,559)	(5,563,210)
Distribution expenses		(922,343)	(938,239)
Marketing, general and administrative expenses		(1,709,979)	(1,775,136)
Royalties to affiliated company		(548,485)	(562,883)
Net other trading expenses	6	(6,644)	(150,575)
Trading operating profit		1,186,180	1,154,297
Net other operating (expenses) income	6	(23,634)	10,710
Operating profit		1,162,546	1,165,007
Net financial expenses	7	(117,804)	(158,499)
Share of results from associated companies		3,523	4,096
Income from continuing operations before income taxes		1,048,265	1,010,604
Income tax expense	8	(421,852)	(426,567)
Income from continuing operations		626,413	584,037
Income from discontinued operations, net of taxes		1,029	949
Net income		$ 627,442	584,986

See accompanying notes to consolidated interim financial statements.

NESTLÉ HOLDINGS, INC.
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Consolidated Statement of Comprehensive Income

For the Six-month Period Ended June 30, 2014 and 2013

(Dollars in thousands)

(Unaudited)

		2014	2013
Net income	$	627,442	584,986
Other comprehensive income (loss):			
Fair value adjustments on cash flow hedges:			
Recognized in hedging reserve		(20,727)	69,750
Reclassified from hedging reserve		20,607	54,687
Income taxes on fair value adjustments on cash flow hedges		48	(48,529)
		(72)	75,908
Fair value adjustments on available-for-sale financial instruments:			
Recognized in fair value reserve		94,407	(180,572)
Reclassified from fair value reserve to income statement		13,698	17,160
Income taxes on changes in fair value of available-for-sale assets		(37,847)	57,198
		70,258	(106,214)
Foreign currency translation differences for foreign operations		(100)	(1,526)
Total items that are or may be reclassified subsequently to the income statement		70,086	(31,832)
Remeasurement of defined benefit plans		(37,641)	388,796
Income taxes on remeasurement of defined benefit plans		14,680	(151,631)
Total items that will never be reclassified to the income statement		(22,961)	237,165
Other comprehensive income		47,125	205,333
Total comprehensive income	$	674,567	790,319

NESTLÉ HOLDINGS, INC.
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Consolidated Statement of Changes in Equity

For the Six-month Period Ended June 30, 2014 and 2013

(Dollars in thousands)

(Unaudited)

		Capital stock	Additional paid-in capital	Other equity reserves	Accumulated earnings	Total
Balance at January 1, 2013	$	100	5,350,353	(1,197,192)	6,621,057	10,774,318
Net income		—	—	—	584,986	584,986
Other comprehensive income (loss):						
Fair value adjustments on cash flow hedges		—	—	124,437	—	124,437
Net change in fair value of available-for-sale assets		—	—	(163,412)	—	(163,412)
Foreign currency translation differences for foreign operations		—	—	(1,526)	—	(1,526)
Remeasurement of defined benefit plans		—	—	388,796	—	388,796
Taxes on other comprehensive income		—	—	(142,962)	—	(142,962)
Total other comprehensive income		—	—	205,333	—	205,333
Total comprehensive income		—	—	205,333	584,986	790,319
Capital contribution		—	8,944	—	—	8,944
Balance at June 30, 2013		100	5,359,297	(991,859)	7,206,043	11,573,581
Balance at January 1, 2014		100	5,624,297	(793,862)	7,734,934	12,565,469
Net income		—	—	—	627,442	627,442
Other comprehensive income (loss):						
Fair value adjustments on cash flow hedges		—	—	(120)	—	(120)
Net change in fair value of available-for-sale assets		—	—	108,105	—	108,105
Foreign currency translation differences for foreign operations		—	—	(100)	—	(100)
Remeasurement of defined benefit plans		—	—	(37,641)	—	(37,641)
Taxes on other comprehensive income		—	—	(23,119)	—	(23,119)
Total other comprehensive income		—	—	47,125	—	47,125
Total comprehensive income		—	—	47,125	627,442	674,567
Balance at June 30, 2014	$	100	5,624,297	(746,737)	8,362,376	13,240,036

NESTLÉ HOLDINGS, INC.
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Consolidated Statement of Cash Flows

For the Six-month Period Ended June 30, 2014 and 2013

(Dollars in thousands)

(Unaudited)

	Note		2014	2013
Cash flows from operating activities:				
Net income		$	627,442	584,986
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation of property, plant, and equipment			263,539	270,380
Loss on sales of property, plant and equipment			12,375	5,414
Impairment of property, plant and equipment			348	3,624
Amortization of intangible assets			64,964	65,286
Loss (gain) on disposal of assets held for sale and other			3,484	(10,603)
Increase in cash surrender value of Company-owned life insurance policies			(36,868)	(24,515)
Decrease in provisions			(19,616)	(1,649)
Increase in deferred income taxes			68,205	186,371
Change in working capital (excluding effects from acquisitions and divestitures):				
Trade and other receivables, net			178,553	61,693
Inventories, net			(482,609)	(365,495)
Prepayments and other current assets			(54,548)	(18,228)
Trade and other payables and liabilities			86,546	410,350
(Decrease) increase in working capital			(272,058)	88,320
Taxes on other comprehensive loss			(23,120)	(142,962)
Share of results from investments in associated companies			(4,552)	(5,045)
Dividends from associated companies			150	201
Non-monetary movements on financial assets and liabilities			1,649	52,104
Movements of trading derivatives			(2,081)	1,961
Movements of operating derivatives			5,521	(37,739)
Other employee benefits, net			(192,747)	(268,461)
Total adjustments			(130,807)	182,687
Net cash provided by operating activities			496,635	767,673
Cash flows from investing activities:				
Expenditure on property, plant and equipment			(193,317)	(210,377)
Proceeds from sale of property, plant and equipment			1,277	2,992
Proceeds from business divestitures			—	12,258
Expenditure on intangible assets			(82,161)	(86,513)
Investments in non-current financial assets			(146,331)	(125,843)
Other movements			19,854	420
Net cash used in investing activities			(400,678)	(407,063)
Cash flows from financing activities:				
Net borrowings (repayment) of commercial paper			238,882	(620,671)
Net borrowings of line of credit facilities			65,338	28,594
Bonds issued	5		1,036,381	1,280,803
Bonds repaid	5		(550,011)	(275,008)
Loans to affiliates issued, net	10		(602,478)	(1,162,881)
Notes to affiliates repaid	10		(250,000)	—
Cash movement on derivatives hedging bond principal, net			2,075	547
Other changes in financial liabilities			(19,338)	5,201
Net cash used in financing activities			(79,151)	(743,415)
Net increase (decrease) in cash and cash equivalents			16,806	(382,805)
Cash and cash equivalents at beginning of the period			354,294	821,205
Effect of exchange rate changes on opening balances			(100)	(1,526)
Cash and cash equivalents at end of the period		$	371,000	436,874
Supplemental information:				
Cash paid for:				
Interest		$	94,339	101,843
Taxes			93,550	141,593

See accompanying notes to consolidated interim financial statements.

(1) Accounting Policies

Basis of Preparation

These financial statements are the unaudited consolidated 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, 2014. 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, 2013.

The accounting conventions and accounting policies are the same as those applied in NHI's consolidated financial statements for the year ended December 31, 2013, except for those mentioned below, in the section 'Changes in accounting policies'.

The preparation of NHI's consolidated interim financial statements requires management to make estimates, judgments 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 consolidated interim financial statements remain the same as those applied to NHI's consolidated financial statements for the year ended December 31, 2013.

Changes in accounting policies

A number of standards have been modified on miscellaneous points with effect from January 1, 2014. Such changes include Recoverable Amount Disclosures for Non-Financial Assets (Proposed amendments to IAS 36), which the Company early-adopted in 2013, as well as IFRIC 21 Levies, and Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32).

None of these amendments had a material effect on NHI's unaudited consolidated interim financial statements for the six-month period ended June 30, 2014.

Changes in IFRS that may affect the Company after June 30, 2014

The following new standards and amendments to existing standards have been published and are mandatory for accounting periods beginning on or after January 1, 2015. The Company has not early adopted them.

IFRS 9 – Financial Instruments

The standard addresses the principles for the financial reporting of financial assets and financial liabilities, including classification, measurement, impairment, derecognition and hedge accounting. The standard will affect the Company's accounting for its available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income under some circumstances and gains and losses on certain instruments with specific cash flow characteristics are never reclassified to the income statement at a later date. There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value to income statement, and the Company does not have any such liabilities. The Company is currently assessing the impact of the new hedge accounting and impairment requirements. This standard is mandatory for the accounting period beginning on January 1, 2018.

IFRS 15 – Revenue from Contract with Customers

This standard combines, enhances and replaces specific guidance on recognizing revenue with a single standard. It defines a new five-step model to recognize revenue from customer contracts. The Company is currently assessing the potential impact of this new standard. This standard is mandatory for the accounting period beginning on January 1, 2017.

Improvements and other amendments to IFRS/IAS

A number of standards have been modified on miscellaneous points. None of these amendments are expected to have a material effect on NHI's consolidated financial statements.

(Dollars in thousands)

(2) Segmental Information

Segmental information is as follows:

		Brands [(a)]	PetCare	Nutrition [(a)]	Other [(a)]	Total
2014						
Sales	$	4,393,542	3,473,657	998,365	1,053,626	9,919,190
Trading operating profit [(b)]		355,786	628,151	173,138	32,755	1,189,830
2013						
Sales	$	4,595,099	3,351,540	1,193,515	1,005,815	10,145,969
Trading operating profit [(b)]		418,338	546,095	124,651	66,813	1,155,897

[(a)] Nestlé USA Brands primarily consists of beverage, prepared foods, ice cream, confections and snacks, and other food products. Nutrition primarily consists of baby foods and performance-related food products. Other consists of Nestlé Professional, Nespresso, and Nestlé Health Sciences, which do not meet the criteria for separate disclosure.

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

Reconciliation of total segment trading operating profit to income from continuing operations before income taxes is as follows:

		2014	2013
Total segment trading operating profit	$	1,189,830	1,155,897
Intangibles amortization		(3,524)	(1,596)
Other		(126)	(4)
Trading operating profit		1,186,180	1,154,297
Classify franchising income (expense) as other income		—	(1,629)
Net other operating (expenses) income		(23,634)	12,339
Operating profit		1,162,546	1,165,007
Net financial expenses		(117,804)	(158,499)
Share of results from associated companies		3,523	4,096
Income from continuing operations before income taxes	$	1,048,265	1,010,604

(Dollars in thousands)

(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, 2014 are not necessarily indicative of results to be expected for the full year.

(4) Fair Value Hierarchy of Financial Instruments

		June 30, 2014	December 31, 2013
Derivative assets	$	14,332	9,373
Bonds and debt funds		95,834	45,107
Equity and equity funds		76,201	60,874
Other financial assets		4,355	4,607
Derivative liabilities		(11,943)	(3,951)
Prices quoted in active markets (Level 1)		178,779	116,010
Derivative assets		188,470	125,515
Bonds and debt funds		2,476,553	2,291,029
Equity and equity funds		272,744	273,481
Investments in life insurance company general accounts		517,939	514,044
Other financial assets		19,837	17,882
Derivative liabilities		(174,351)	(207,159)
Valuation techniques based on observable market data (Level 2)		3,301,192	3,014,792
Valuation techniques based on unobservable input (Level 3)		142,742	141,935
Total financial instruments at fair value	$	3,622,713	3,272,737

The fair values categorized 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).

Derivative assets and derivative liabilities are included within the same respective lines of the Consolidated Balance Sheet. All other classes of financial assets disclosed in the table above are included within short-term investments and financial assets of the Consolidated Balance Sheet.

As of June 30, 2014, the carrying amount of bonds issued is $7,086,305 (December 31, 2013: $6,513,529), compared to a fair value of $7,237,698 (December 31, 2013: $6,573,413) (measured on the basis of quoted prices in an active market). For all other financial assets and liabilities, the carrying amount is a reasonable approximation of the fair value.

(Dollars in thousands)

(5) Bonds

The following bonds were issued or repaid by NHI under the Debt Issuance Programme (DIP). The DIP was established by NHI and Nestlé Finance International Ltd., both of which are issuers under the DIP:

		Interest Rate		Year of Issue/		
Face Value	**Comments**	**Nominal**	**Effective**	**Maturity**		**Issued (Repaid)**
New issues:						
USD 650,000	(a)	2.13%	2.27%	2014 - 2020	$	644,839
AUD 250,000	(b)	4.25%	4.43%	2014 - 2020		224,799
NOK 1,000,000	(b)	2.75%	2.85%	2014 - 2020		166,743
Total new issues					$	1,036,381
Repayments:						
USD 550,000	(a)	2.13%	2.13%	2010 - 2014	$	(550,000)
Other						(11)
Total repayments					$	(550,011)

[a] Not subject to an interest rate or currency swap.
[b] Subject to an interest rate and currency swap that creates a U.S. dollar asset or liability at floating rates.

(Dollars in thousands)

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

Net other trading expenses is as follows:

		2014	2013
Return on company-owned life insurance	$	36,440	25,410
Franchise and royalty income		372	2,749
Product recall recovery		—	5,400
Miscellaneous trading income		327	445
Other trading income		37,139	34,004
Losses (or cost) on deferred compensation		(23,045)	(24,590)
Litigation and onerous contracts [a]		(17,998)	(106,280)
Restructuring expense		(2,361)	(48,411)
Impairment of assets other than goodwill		(348)	(3,624)
Miscellaneous trading expenses		(31)	(1,674)
Other trading expenses		(43,783)	(184,579)
Net other trading expenses	$	(6,644)	(150,575)

Net other operating (expenses)/income is as follows:

		2014	2013
Gain on business divestitures	$	10,030	10,603
Miscellaneous operating income		1,402	1,731
Other operating income		11,432	12,334
Loss on business divestitures		(15,093)	—
Natural disaster		(14,035)	(197)
Other operating litigation		(889)	(920)
Acquisition related costs		(101)	(246)
Miscellaneous operating expenses		(4,948)	(261)
Other operating expenses		(35,066)	(1,624)
Net other operating (expenses)/income	$	(23,634)	10,710

[a] Relating principally to a number of separate legal cases, liabilities linked to voluntary product withdrawals and various separate onerous contracts.

(Dollars in thousands)

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

(7) Net Financial Expenses

		2014	2013
Interest income	$	10,966	5,828
Interest expense		(122,114)	(139,363)
Net financing cost		(111,148)	(133,535)
Interest income on defined benefit plans		17,525	1,844
Interest expense on defined benefit plans		(23,737)	(25,693)
Net interest expense on defined benefit plans		(6,212)	(23,849)
Other		(444)	(1,115)
Net financial expenses	$	(117,804)	(158,499)

Interest expense on amounts due to affiliated and associated companies and bond and commercial paper guarantee fees to Nestlé S.A. amounted to $(38,167) and $(41,323) in 2014 and 2013, respectively. Interest income on amounts due from affiliated and associated companies amounted to $10,067 and $5,719 in 2014 and 2013, 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:

		2014	2013
Tax at theoretical rate	$	(405,075)	(390,380)
Permanent differences on company-owned life insurance policies		15,451	12,057
Tax effect on non-allowable items		19,911	17,812
Prior years' tax		(49,973)	(65,000)
Other taxes		(2,166)	(1,056)
Income tax expense	$	(421,852)	(426,567)
Effective tax rate		40%	42%

(Dollars in thousands)

(9) Events after the Balance Sheet Date

The Company was not aware of specific events or transactions occurring after June 30, 2014, and up to August 21, 2014 that would have a material impact on the presentation of the accompanying consolidated interim financial statements.

(10) Transactions with Related Parties

		2014	2013
Loans from Nestlé S.A.:			
At January 1	$	1,850,098	1,850,384
Accrued interest		(336)	98
Loan repayments		(250,000)	(384)
At June 30	$	1,599,762	1,850,098
Loans from affiliates:			
At January 1	$	346,673	326,283
Loans received during the period		1,245	12,589
Accrued interest		322	—
Loan repayments		(9,892)	(448)
At June 30	$	338,348	338,424
Loans to affiliates:			
At January 1	$	1,474,382	744,548
Loans granted during the period		626,779	1,162,881
Loan repayments		(32,948)	—
At June 30	$	2,068,213	1,907,429

The above loans with related parties are in the trade and other receivables and non-current financial liabilities balances of the consolidated balance sheet.

On March 31, 2013, NHI's parent, NIMCO US, Inc., contributed the equity of Vitaflo USA, LLC to the Company in the amount of $8,944.