



Good Food, Good Life

**NESTLÉ FINANCE INTERNATIONAL LTD.**

**(Société Anonyme)**

**Half-Yearly Financial Report**

**Management Report**

**and**

**Financial Statements**

**1 January-30 June 2016**

**(Unaudited)**

**Registered Address: 7, rue Nicolas Bové  
L-1253, Luxembourg  
Grand Duchy of Luxembourg  
R.C. Luxembourg B No136737  
Subscribed capital: EUR 440 000**

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## Nestlé Finance International Ltd.

Nestlé Finance International Ltd. (“NFI”) presents its half-yearly financial report for the six-month period ended 30 June 2016. 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 2016, and their impact on the financial statements:

At 30 June 2016, a total equivalent of EUR 10 506 million of loans and advances granted to Nestlé Group companies was outstanding compared to EUR 10 633 million as at 31 December 2015 and EUR 13 449 million as at 30 June 2015. These were financed mainly through the issuance of commercial paper and loans and advances received from Nestlé Group companies during the six-month period January-June 2016. 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 2016.

Total assets increased at the end of six-month period January-June 2016 (EUR 11 016 million) as compared to the financial year ended 31 December 2015 (EUR 10 939 million). The increase in total assets (by EUR 77 million) results mainly from an increase in other assets (by EUR 127 million) and an increase in derivative assets (by EUR 87 million) partially offset by a decrease in loans and advances granted to Nestlé Group companies (by EUR 127 million) and a decrease in cash and cash equivalents (by EUR 9 million). Debt securities (bonds and commercial paper) outstanding at the end of the six-month period January-June 2016 (EUR 8 314 million) increased by EUR 1 582 million as compared to the financial year ended 31 December 2015 (EUR 6 732 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 2016 (EUR 2 596 million) decreased by EUR 1 478 million as compared to 31 December 2015 (EUR 4 074 million).

Financing operations reported a net profit of EUR 5 631 million for the six-month period January-June 2016, compared to a net profit of EUR 3 184 million for the six-month period January-June 2015.

Net profit before tax for the six-month period January-June 2016 was EUR 10 310 million compared to EUR 6 727 million for the six-month period January-June 2015. This increase (of EUR 3 583 million) was due to the decrease in other operating income (of EUR 233 million), and an increase in net fee and

commission income (of EUR 241 million). This has been further disclosed in the Notes to the Unaudited Financial Statements of NFI for the six-month period ended 30 June 2016, in particular, in Note 2.

NFI's net operating cash outflow was EUR 527 thousand for the six-month period January-June 2016 compared to net operating cash outflow of EUR 175 million for the six-month period January-June 2015.

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 2016**

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 2015 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 2015, 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 2015.

**Nestlé Finance International Ltd. (“NFI”)**

(Société Anonyme)

**Financial Statements  
(Unaudited)**

**1 January–30 June 2016**

**Balance sheet as at 30 June 2016**

In thousands of Euro	Notes	30 June 2016	31 December 2015	30 June 2015
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents		150 252	159 710	241 255
Derivative assets	(3)	132 176	45 497	29 086
Loans and advances to Nestlé Group companies	(7)	8 816 296	8 420 086	11 759 708
Other assets		127 577	898	756
<b>Total current assets</b>		<b>9 226 301</b>	<b>8 626 191</b>	<b>12 030 805</b>
<b>Non-current assets</b>				
Loans and advances to Nestlé Group companies		1 689 447	2 212 900	1 689 447
Loans and advances to third parties		100 000	100 000	100 000
Property, plant and equipment		18	22	24
<b>Total non-current assets</b>		<b>1 789 465</b>	<b>2 312 922</b>	<b>1 789 471</b>
<b>Total assets</b>		<b>11 015 766</b>	<b>10 939 113</b>	<b>13 820 276</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Bank overdrafts		128	6 865	-
Derivative liabilities	(3)	21 838	18 439	39 625
Loans and advances from Nestlé Group companies	(7)	2 595 711	4 073 646	5 431 274
Debt securities issued	(6)	4 338 427	2 774 346	4 183 675
Current tax liabilities		6 990	5 583	4 358
Other liabilities		50 273	80 254	165 771
<b>Total current liabilities</b>		<b>7 013 367</b>	<b>6 959 133</b>	<b>9 824 703</b>
<b>Non-current liabilities</b>				
Debt securities issued	(6)	3 975 220	3 957 834	3 975 220
<b>Total non-current liabilities</b>		<b>3 975 220</b>	<b>3 957 834</b>	<b>3 975 220</b>
<b>Total liabilities</b>		<b>10 988 587</b>	<b>10 916 967</b>	<b>13 799 923</b>
<b>Equity</b>				
Share capital	(4)	440	440	440
Share premium		2 000	2 000	2 000
Hedging reserve		423	1 019	2 234
Available-for-sale reserve		1	3	-
Legal reserve	(4)	44	44	44
Other reserve	(4)	3 081	2 543	2 543
Retained earnings		21 190	16 097	13 092
<b>Total equity attributable to shareholders of the company</b>		<b>27 179</b>	<b>22 146</b>	<b>20 353</b>
<b>Total liabilities and equity</b>		<b>11 015 766</b>	<b>10 939 113</b>	<b>13 820 276</b>

**Income statement for the six-month period ended 30 June 2016**

In thousands of Euro	Notes	January-June 2016	January-June 2015
Interest income		100 728	144 596
Interest expense		-28 882	-68 127
Net interest income	(2)	71 846	76 469
Net fee and commission income /(expense) to Nestlé Group companies		113 078	-128 331
Other operating (expense) / income	(2)	-173 882	59 274
<b>Operating income</b>		<b>11 042</b>	<b>7 412</b>
Administration expense		-732	-685
<b>Profit before tax</b>		<b>10 310</b>	<b>6 727</b>
Taxes	(2)	-4 679	-3 543
<b>Profit for the period attributable to shareholders of the company</b>		<b>5 631</b>	<b>3 184</b>

### Other comprehensive income for the six-month period ended 30 June 2016

In thousands of Euro	January-June 2016	January-June 2015
<b>Profit for the period recognised in the Income statement</b>	<b>5 631</b>	<b>3 184</b>
Fair value adjustment on available-for-sale financial instruments: Unrealised results	-2	2
Fair value adjustment on cash flow hedges: Recognised in hedging reserve	-596	544
Reclassified from hedging reserve to the Income statement	-	-1 494
<b>Other comprehensive income for the period</b>	<b>-598</b>	<b>-948</b>
<b>Total comprehensive income for the period</b>	<b>5 033</b>	<b>2 236</b>
of which attributable to shareholders of the company	5 033	2 236

### Statement of changes in equity for the six-month period ended 30 June 2016

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
<b>Equity as at 31 December 2014</b>	<b>440</b>	<b>2 000</b>	<b>3 184</b>	<b>-2</b>	<b>44</b>	<b>1 662</b>	<b>10 789</b>	<b>18 117</b>
<b>Gains and losses</b>								
Profit for the period	-	-	-	-	-	-	3 184	3 184
Fair value adjustments on available-for-sale instruments	-	-	-	2	-	-	-	2
Fair value adjustments on cash flow hedges	-	-	-950	-	-	-	-	-950
<b>Total comprehensive income for the period</b>	-	-	<b>-950</b>	<b>2</b>	-	-	<b>3 184</b>	<b>2 236</b>
<b>Transfer to reserves</b>								
Transfer to net worth tax reserves	-	-	-	-	-	881	-881	-
<b>Total transfer to other reserves</b>	-	-	-	-	-	<b>881</b>	<b>-881</b>	-
<b>Equity as at 30 June 2015</b>	<b>440</b>	<b>2 000</b>	<b>2 234</b>	<b>0</b>	<b>44</b>	<b>2 543</b>	<b>13 092</b>	<b>20 353</b>
<b>Equity as at 31 December 2015</b>	<b>440</b>	<b>2 000</b>	<b>1 019</b>	<b>3</b>	<b>44</b>	<b>2 543</b>	<b>16 097</b>	<b>22 146</b>
<b>Gains and losses</b>								
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
<b>Total comprehensive income for the period</b>	-	-	<b>-596</b>	<b>-2</b>	-	-	<b>5 631</b>	<b>5 033</b>
<b>Transfer to reserves</b>								
Transfer to net worth tax reserves	-	-	-	-	-	538	-538	-
<b>Total transfer to other reserves</b>	-	-	-	-	-	<b>538</b>	<b>-538</b>	-
<b>Equity as at 30 June 2016</b>	<b>440</b>	<b>2 000</b>	<b>423</b>	<b>1</b>	<b>44</b>	<b>3 081</b>	<b>21 190</b>	<b>27 179</b>



**Cash flow statement for the six-month period ended 30 June 2016**

In thousands of Euro	January-June 2016	January-June 2015
<b>Cash flows from operating activities:</b>		
Profit before taxation for the period	10.310	6.727
Adjustments for:		
Depreciation	4	4
Foreign exchange loss for bank accounts, loans and debt securities	228.759	-3.984
Fair value of debt securities	49.283	-9.491
Interest income	-100.728	-144.596
Interest expense	28.882	68.127
Change in short term investments including those recognised directly in equity	-2	72.997
Change in derivative assets including those recognised directly in equity	-87.275	81.938
Change in other assets excluding prepaid and accrued income	-126.682	-35
Change in derivative liabilities	3.399	22.009
Change in other liabilities excluding accrual and deferred income	-50.342	-1.684
Net loans and advances to Nestlé Group companies excluding intra group interest receivable	-190.867	-2.623.455
Net loans and advances from Nestlé Group companies excluding intra group interest payable	-1.467.940	375.507
Debt securities issued	12.460.032	9.880.487
Debt securities repaid	-10.857.143	-7.975.071
Interest received net of withholding tax	98.415	123.639
Interest paid	2.287	-47.853
Income taxes paid	-919	-16
<b>Net cash outflow from operating activities</b>	<b>-527</b>	<b>-174.750</b>
<b>Cash outflow from investing activities</b>	<b>-</b>	<b>-</b>
<b>Cash flow from financing activities</b>	<b>-</b>	<b>-</b>
<b>Currency translation</b>	<b>-2.194</b>	<b>44.358</b>
<b>Net decrease in cash and cash equivalents</b>	<b>-2.721</b>	<b>-130.392</b>
Cash and cash equivalents at beginning of period	152.845	371.647
<b>Cash and cash equivalents at end of period</b>	<b><u>150.124</u></b>	<b><u>241.255</u></b>

## 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 2016. 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 2015.

The accounting conventions and accounting policies are the same as those applied in the Audited Financial Statements of NFI for the year ended 31 December 2015, except for those mentioned below, in the sections 'Changes in accounting policies' and 'Changes in accounting policies that may affect NFI after 30 June 2016'. The preparation of the Unaudited Financial Statements of NFI for the six-month period ended 30 June 2016 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 2016 remain the same as those that applied to the Audited Financial Statements of NFI for the year ended 31 December 2015.

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

#### Changes in accounting policies

A number of standards have been modified on miscellaneous points with effect from 1 January 2016. None of these amendments had a material effect on the Unaudited Financial Statements of NFI for the six-month period ended 30 June 2016.

#### Changes in accounting policies that may affect NFI after 30 June 2016

The following new standards and amendments to existing standards have been published and are mandatory for NFI's accounting period beginning on 1 January 2017 (subject to being adopted within the European Union), unless otherwise stated. NFI has not early adopted them.

##### IFRS 9 – Financial Instruments

The standard addresses the accounting principles for the financial reporting of the financial assets and the financial liabilities, including classification, measurement, impairment, derecognition and hedge accounting. The standard will affect NFI'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 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 income statement, and NFI does not have any such liabilities. NFI is currently assessing the impact of the new impairment and hedge accounting requirements. In particular, it is expected that the new component hedge model may bring improved alignment between the risk management strategies and their accounting treatment. This standard is mandatory for the accounting period beginning on 1 January 2018.

##### 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 NFI's financial statements.

## 2. Operating income/(expense) and taxes

Net interest income:

In thousands of Euro	January-June 2016	January-June 2015
<b>Interest income from:</b>		
Short term investments	165	182
Loans and advances to Nestlé Group companies	100.013	143.867
Loans and advances to third parties	550	547
<b>Interest income</b>	<b>100.728</b>	<b>144.596</b>
<b>Interest expense from:</b>		
Loans and advances from Nestlé Group companies	-2.196	-37.048
Debt securities issued	-26.686	-31.079
<b>Interest expense</b>	<b>-28.882</b>	<b>-68.127</b>
<b>Net interest income</b>	<b>71.846</b>	<b>76.469</b>

Other operating (expense)/income:

In thousands of Euro	January-June 2016	January-June 2015
Net foreign exchange (expense)/income	-174 426	59 011
Net income in fair value through income statement	544	263
<b>Other operating (expense)/income</b>	<b>-173 882</b>	<b>59 274</b>

Taxes:

In thousands of Euro	January-June 2016	January-June 2015
Withholding tax expenses	-2.353	-2.226
Income tax expenses	-2.326	-1.317
<b>Taxes</b>	<b>-4.679</b>	<b>-3.543</b>

## 3. Fair value hierarchy

### Financial assets and liabilities

#### Fair value hierarchy of financial instruments

In thousands of Euro	30 June 2016	30 June 2015
Short term deposits (a)	149 227	236 225
Derivative assets	132 176	29 086
Derivative liabilities	-21 838	-39 625
<b>Valuation techniques based on observable market data (Level 2)</b>	<b>259 565</b>	<b>225 686</b>
<b>Total financial instruments at fair value</b>	<b>259 565</b>	<b>225 686</b>

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

As of 30 June 2016 the carrying amount of bonds issued is EUR 4 450 million (31 December 2015: EUR 4 458 million), compared to a fair value of EUR 4 698 million (31 December 2015: EUR 4 631 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 for the six-month period ended 30 June 2016. 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 par value of EUR 2 each authorised, issued and fully paid.

Under Luxembourg law, NFI is allowed to deduct 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. For the financial year ended 31 December 2015, NFI decided to deduct from retained earnings EUR 87 thousand (related to 2015 net worth tax) and EUR 89 thousand (related to 2014 net worth tax), from the corporate income tax, resulting in an addition to the tax reserve of EUR 444 thousand and EUR 437 thousand, respectively. For the financial year ended 31 December 2016, NFI has decided to deduct the whole of the net worth tax 2016 in the amount of EUR 108 thousand from the corporate income tax, resulting in an addition to the tax reserve of EUR 538 thousand.

The movements in other reserves for the six-month period January-June 2016 were as follows:

In thousands of Euro	30 June 2016	31 December 2015
Opening Balance	2.543	1.662
Addition	538	881
<b>Closing Balance</b>	<b>3.081</b>	<b>2.543</b>

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 28 April 2016, the Board decided not to propose any dividend payment to the shareholder.

## 6. Debt securities

### Bonds

During the period no bonds were issued or reimbursed.

### Commercial Paper

The outstanding amounts of commercial paper are EUR 3 863 million as at 30 June 2016 compared to EUR 2 275 million as at 31 December 2015.

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 2016 were as follows:

In thousands of Euro	January-June 2016	January-June 2015
Loans granted to Nestlé Group companies excluding accrued interest	13.835.017	15.191.282
Repayment of Loans by Nestlé Group companies excluding accrued interest	-13.644.150	-12.567.827
<b>Net Loans and advances granted to Nestlé Group companies</b>	<b>190.867</b>	<b>2.623.455</b>
Loans received from Nestlé Group companies excluding accrued interest	865.903	5.937.791
Repayment of Loans to Nestlé Group companies excluding accrued interest	-2.333.843	-5.562.284
<b>Net Loans and advances received from Nestlé Group companies</b>	<b>-1.467.940</b>	<b>375.507</b>

## 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 2016, 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.

23 August 2016