Half-Yearly Report

January–June 2014

Good Food, Good Life

Shareholder information

Stock exchange listing
Nestlé S.A. shares are listed on the SIX Swiss Exchange (ISIN code: CH0038863350). American Depositary Receipts (ISIN code: US6410694060) representing Nestlé S.A. shares are offered in the USA by Citibank.

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The *Half-Yearly Report* is available online as a PDF in English, French and German.

Nestlé URL:
www.nestle.com

Important dates
16 October 2014
2014 Nine months sales figures

19 February 2015
2014 Full-Year Results

16 April 2015
148th Annual General Meeting, “Beaulieu Lausanne”, Lausanne (Switzerland)

Letter to shareholders

Dear fellow shareholders,

We delivered solid, broad-based organic growth, driven by real internal growth and pricing in what is still a very volatile trading environment. We continued to drive the growth momentum with innovation, increased support behind our brands, and a focus on efficiencies. The creation of Nestlé Skin Health with the Galderma business expanded our Nutrition, Health and Wellness strategy, reinforcing our long-term strategic ambition to improve people's lives through science-driven innovation. We plan to buy back CHF 8 billion shares in a programme that will start this year and continue into 2015, providing additional competitive returns for our shareholders. The performance in the first half allows us to confirm our outlook for the full year: organic growth around 5% and improvements in margins, underlying earnings per share in constant currencies and capital efficiency.

First-half 2014 Group Results

In the first half the Group delivered organic growth of 4.7%, composed of 2.9% real internal growth and 1.8% pricing. Total sales were CHF 43 billion. The strong Swiss Franc continued to have a substantial negative impact (–8.8%) and after divestitures, net of acquisitions (–0.7%), reported total sales were down by 4.8%.

The Group's trading operating profit was CHF 6.4 billion. The reported trading operating profit margin was 15.0% (–10 basis points), +30 basis points in constant currencies.

The cost of goods sold increased by 20 basis points, reflecting input cost pressures, especially in dairy.

Total marketing and administrative costs decreased by 30 basis points, reflecting efficiencies. At the same time we continued to strengthen the support for our brands, increasing consumer facing marketing spend in constant currencies.

Net profit was down to CHF 4.6 billion, reported earnings per share were CHF 1.45, both impacted by the strong Swiss Franc. Underlying earnings per share in constant currencies were up 3.6%.

Operating cash flow was CHF 4.3 billion. Working capital remains an area of focus and we have continued to lower it as a percentage of sales.

Business review

The organic growth of the Nestlé Group was broad-based; 4.9% in the Americas, 1.4% in Europe, and 7.5% in Asia, Oceania and Africa. Globally, our businesses in developed markets grew 0.6%, whilst emerging markets grew 9.7%.

The real internal growth was 2.4% in the Americas, 2.3% in Europe and 4.2% in Asia, Oceania and Africa.

The newly established Nestlé Skin Health, based on our Galderma business, reinforces our long-term strategic ambition to be the leading Nutrition, Health and Wellness company. This investment complements other value-added growth platforms in our portfolio including Nestlé Health Science, created three years ago to drive innovation in the area of personalised nutrition. Nestlé Skin Health has been further strengthened with the acquisition of the full rights to commercialise several key aesthetic dermatology products in the US and Canada.

Zone Americas

Sales of CHF 12.5 billion, 4.9% organic growth, 1.7% real internal growth; 18.0% trading operating profit margin, +10 basis points.

The Zone delivered real internal growth in North America where the trading environment remained subdued. The double-digit growth in Latin America was helped by pricing, reflecting inflationary pressures.

In North America the frozen and ice cream categories continued to be challenged. *Stouffers Multi-Serve Meals* delivered growth for frozen and we 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 our *California Pizza Kitchen* brand. In ice cream, super-premium had a strong first half, helped by *Gelato*. The liquid segment with new flavours drove *Coffee-mate*'s positive performance. In petcare, line extensions and new product launches, including *Beyond* dog food, and *Lightweight 24/7* and *Glade* cat litters, helped drive growth.

Most markets in Latin America accelerated in the first half. Brazil delivered strong organic growth, double-digit in most categories, helped by pricing. There were good performances from *Ninho* in dairy, *Nescau* in cocoa and malt beverages and from ice cream. *KitKat* was a highlight for confectionery. In Mexico *Nescafé 3-in-1* and *Nescafé Dolce Gusto* led the growth in coffee while in dairy growth was supported by

Carnation which expanded market share. Petcare continued its strong momentum with *Dog Chow*, *Pro Plan* and the launch of *Revena* in the pet specialty segment in Brazil.

In spite of a substantial increase in consumer facing marketing spend the trading operating profit margin rose due to lower restructuring and other expenses.

Zone Europe

Sales of CHF 7.3 billion, 0.6% organic growth, 2.0% real internal growth; 14.8% trading operating profit margin, –10 basis points.

The Zone delivered positive organic growth, driven by strong volume growth in a deflationary environment where consumer confidence remains fragile.

Innovation and premiumisation continued to underpin growth. *Nescafé Dolce Gusto* performed well across the Zone and gained market share. There was good growth from *Wagner* and *Buitoni* in frozen pizza and *Nescafé Gold* in soluble coffee. Confectionery was helped by the late Easter and culinary saw strong performances in sauces, soup, *Maggi Papyrus* cooking papers and in snacking, noodles. Petcare's continued growth was driven by *Felix* single serve, *Purina ONE* and cat snacks.

In Western Europe, the Iberian region showed signs of recovery delivering positive growth. There were good performances in Switzerland, the Netherlands and Austria and improvements in France, Italy and Germany.

Central and Eastern Europe picked up with real internal growth accelerating in Poland and the Czech Republic. Russia continued to deliver good growth, particularly in ice cream and with *Nescafé Dolce Gusto* and *KitKat*. Ukraine proved resilient delivering growth despite the political turmoil after a difficult start to the year.

The trading operating profit margin fell slightly due to impairments which were not completely offset by decreases in restructuring and other costs.

Zone Asia, Oceania and Africa

Sales of CHF 8.9 billion, 4.7% organic growth, 1.9% real internal growth; 18.9% trading operating profit margin, –20 basis points.

The Zone delivered growth in both developed and emerging markets. Good performances in parts of the Zone were counterbalanced by the effects of deflation and of unrest elsewhere. Real internal growth was impacted by increased pricing taken to compensate for the weakness of some currencies.

The premium businesses continued to be a growth driver for the Zone. The continuing rollout of *Nescafé Dolce Gusto* delivered double-digit growth. Innovation also contributed with new launches including *Yinlu Walnut Milk* in China and new portioned packs of *Milo* in Australia. There was solid growth for *Milo* in cocoa and malt beverages, *Maggi* in ambient culinary and for creamers.

In the emerging markets the Philippines, Turkey, Pakistan and many markets in Africa all grew strongly. China was challenged but we see fundamentals improving. South Asia recovered, its growth reinforced with innovations like *Nestlé Masala Buttermilk* and *Nestlé Sweet Lassi* beverages launched in India. *Nesquik Optifast* had a good start in Turkey and the Middle East.

The developed markets in the Zone delivered positive growth with Japan having a strong start to the year. There were successful rollouts of low fat *Carnation Cooking Cream* and *Felix* cat food in Oceania.

The trading operating profit margin was impacted by increasing costs, mainly dairy, which were not fully offset by pricing and efficiencies.

Nestlé Waters

Sales of CHF 3.7 billion, 6.1% organic growth, 7.3% real internal growth; 10.4% trading operating profit margin, +80 basis points.

Nestlé Waters delivered broad-based profitable growth across geographies and brands with acceleration in the emerging markets. The bottled water category continued to show solid growth overall. *Nestlé Pure Life* continued to drive our growth, particularly in emerging markets with China, Egypt, Turkey and Pakistan the highlights. In the developed markets our regional brands delivered steady growth, notably *Levissima* in Italy, *Poland Spring* and *Deer Park* in the United States, *Buxton* in the United Kingdom and *Hépar* in France. The premium brands *Perrier* and *S.Pellegrino* continued their good momentum and grew double-digit in several developed markets.

The trading operating profit margin improvement was driven by solid volume growth and significant cost reductions across the value chain.

Nestlé Nutrition

Sales of CHF 4.7 billion, 7.9% organic growth, 3.8% real internal growth; 21.1% trading operating profit margin, +110 basis points.

Nestlé Nutrition's growth accelerated, driven by double-digit growth in infant formula and infant cereals. The growth in the emerging markets outpaced the market in many cases. *NAN* delivered strong double-digit growth, as did the super premium brands *S26* and *Illuma*. In the United States infant cereals gained market share. Meals and drinks were challenged due to high competitive activity in the US, and softer economic conditions in Mexico and Europe.

The improvement of the trading operating profit margin reflected the effects of divestments and the integration of new businesses.

Other activities

Sales of CHF 5.9 billion, 5.9% organic growth, 4.7% real internal growth; 18.4% trading operating profit margin, –80 basis points.

Nestlé Professional increased its growth momentum during the first half despite challenges in North America and in Western Europe where deflationary conditions and a difficult out-of-home environment persisted. Russia drove growth in Eastern Europe and we achieved double-digit growth in emerging markets. The beverage business growth was driven by beverage solutions and overall good momentum in Latin America and Zone Asia, Oceania and Africa. For the food business, desserts solutions were the key driver and overall growth was particularly strong in Zone Asia, Oceania and Africa.

The extension of the Grand Cru coffee range, innovative services and new machines ensured that demand for Nespresso in established markets remained solid despite significantly increased competition. Geographic expansion was accelerated with 14 new boutiques opened across the world. In North America there has been a good response to the launch of the *VertuoLine* system delivering the long-cup coffees preferred by US consumers.

Nestlé Health Science performed well, driven by innovation and the rollouts into additional markets of *Peptamen*, *Alfamino* and Vitaflo's *Carbzero* and *Betaquik*. *Boost* in the US, *Meritene* in Europe and *Nutren* in Brazil also achieved solid growth. We launched our first production line in Japan, designed to meet the nutritional needs of the ageing population there.

The trading operating profit declined due to substantial marketing support, development investments and the impact of currencies.

CHF 8 billion share buy-back programme

We plan to launch a new share buy-back programme of CHF 8 billion that will start this year and continue into 2015. The buy-back is subject to market conditions and strategic opportunities. This is in line with the Group's policy to maintain our current financial rating while at the same time providing a competitive return to shareholders with a sustainable dividend policy in line with underlying earnings growth.

Outlook

Full-year outlook confirmed: organic growth around 5% and improvements in margins, underlying earnings per share in constant currencies and capital efficiency.

Peter Brabeck-Letmathe
Chairman of the Board

Paul Bulcke
Chief Executive Officer

Key figures (consolidated)

Key figures in CHF

In millions (except for per share data)

	January–June 2014	January–June 2013
Results		
Sales	42 981	45 168
Trading operating profit	6 440	6 805
as % of sales	15.0%	15.1%
Profit for the period attributable to shareholders of the parent (Net profit)	4 634	5 120
as % of sales	10.8%	11.3%
Balance sheet and Cash flow statement		
Equity attributable to shareholders of the parent	58 823	61 958
Net financial debt	19 613	22 221
Ratio of net financial debt to equity (gearing)	33.3%	35.9%
Operating cash flow	4 301	4 975
Free cash flow [(a)]	2 676	3 071
Capital expenditure	969	1 329
Data per share		
Weighted average number of shares outstanding (in millions of units)	3 191	3 192
Basic earnings per share	1.45	1.60
Market capitalisation	**219 263**	**197 783**

(a) Operating cash flow less capital expenditure, expenditure on intangible assets, sale of property, plant and equipment, investments (net of divestments) in associates and joint ventures, and other investing cash flows.

Principal key figures in USD and EUR (illustrative)

Income statement and cash flow statement figures translated at weighted average rate; balance sheet figures at ending June exchange rate

In millions (except for per share data)

	January–June 2014	January–June 2013	January–June 2014	January–June 2013
	in USD	in USD	in EUR	in EUR
Sales	48 250	48 198	35 194	36 718
Trading operating profit	7 229	7 261	5 273	5 532
Profit for the period attributable to shareholders of the parent (Net profit)	5 202	5 463	3 794	4 162
Equity attributable to shareholders of the parent	65 997	65 450	48 376	50 147
Basic earnings per share	1.63	1.71	1.19	1.30
Market capitalisation	246 004	208 929	180 321	160 081

Consolidated income statement
for the period ended 30 June 2014

In millions of CHF

	Notes	January–June 2014	January–June 2013
Sales	3	**42 981**	**45 168**
Other revenue		100	120
Cost of goods sold		(22 376)	(23 456)
Distribution expenses		(3 956)	(4 082)
Marketing and administration expenses		(9 419)	(10 020)
Research and development costs		(715)	(691)
Other trading income	5	36	48
Other trading expenses	5	(211)	(282)
Trading operating profit	3	**6 440**	**6 805**
Other operating income		103	60
Other operating expenses	5	(347)	(129)
Operating profit		**6 196**	**6 736**
Financial income		76	81
Financial expense		(404)	(415)
Profit before taxes, associates and joint ventures		**5 868**	**6 402**
Taxes		(1 626)	(1 752)
Share of results of associates and joint ventures	6	611	681
Profit for the period		**4 853**	**5 331**
of which attributable to non-controlling interests		219	211
of which attributable to shareholders of the parent (Net profit)		4 634	5 120
As percentages of sales			
Trading operating profit		15.0%	15.1%
Profit for the period attributable to shareholders of the parent (Net profit)		10.8%	11.3%
Earnings per share (in CHF)			
Basic earnings per share		1.45	1.60
Diluted earnings per share		1.45	1.60

Consolidated statement of comprehensive income for the period ended 30 June 2014

In millions of CHF

	January–June 2014	January–June 2013
Profit for the period recognised in the income statement	**4 853**	**5 331**
Currency retranslations		
– Recognised in translation reserve	(172)	678
Fair value adjustments on available-for-sale financial instruments		
– Recognised in fair value reserve	109	54
– Reclassified from fair value reserve to income statement	5	(1)
Fair value adjustments on cash flow hedges		
– Recognised in hedging reserve	(2)	62
– Reclassified from hedging reserve	(57)	52
Taxes	(34)	70
Share of other comprehensive income of associates and joint ventures	3	282
Items that are or may be reclassified subsequently to the income statement	(148)	1 197
Remeasurement of defined benefit plans	(1 265)	1 362
Taxes	194	(409)
Share of other comprehensive income of associates and joint ventures	(33)	56
Items that will never be reclassified to the income statement	(1 104)	1 009
Other comprehensive income for the period	**(1 252)**	**2 206**
Total comprehensive income for the period	**3 601**	**7 537**
of which attributable to non-controlling interests	202	251
of which attributable to shareholders of the parent	3 399	7 286

Consolidated balance sheet as at 30 June 2014

In millions of CHF

	30 June 2014	31 December 2013	30 June 2013 (a)
Assets			
Current assets			
Cash and cash equivalents	3 173	6 415	3 871
Short-term investments	592	638	2 505
Inventories	9 535	8 382	9 580
Trade and other receivables	12 656	12 206	13 575
Prepayments and accrued income	808	762	1 030
Derivative assets	319	230	476
Current income tax assets	940	1 151	1 071
Assets held for sale	2 948	282	177
Total current assets	**30 971**	**30 066**	**32 285**
Non-current assets			
Property, plant and equipment	26 286	26 895	26 595
Goodwill	30 878	31 039	33 708
Intangible assets	12 754	12 673	13 313
Investments in associates and joint ventures	9 922	12 315	12 409
Financial assets	4 813	4 550	5 267
Employee benefits assets	573	537	101
Current income tax assets	123	124	62
Deferred tax assets	2 342	2 243	2 434
Total non-current assets	**87 691**	**90 376**	**93 889**
Total assets	**118 662**	**120 442**	**126 174**

(a) 2013 comparatives have been adjusted following the final valuation of the Wyeth Nutrition acquisition (see Note 2 of the 2013 Consolidated Financial Statements).

Consolidated balance sheet as at 30 June 2014

In millions of CHF

	Notes	30 June 2014	31 December 2013	30 June 2013 [a]
Liabilities and equity				
Current liabilities				
Financial debt		12 445	11 380	18 988
Trade and other payables		15 072	16 072	14 052
Accruals and deferred income		3 116	3 185	3 195
Provisions		508	523	396
Derivative liabilities		375	381	503
Current income tax liabilities		1 198	1 276	1 322
Liabilities directly associated with assets held for sale		64	100	31
Total current liabilities		**32 778**	**32 917**	**38 487**
Non-current liabilities				
Financial debt		10 933	10 363	9 609
Employee benefits liabilities		7 504	6 279	6 828
Provisions		2 764	2 714	2 906
Deferred tax liabilities		2 688	2 643	2 374
Other payables		1 598	1 387	2 360
Total non-current liabilities		**25 487**	**23 386**	**24 077**
Total liabilities		**58 265**	**56 303**	**62 564**
Equity				
Share capital	8	322	322	322
Treasury shares		(2 167)	(2 196)	(1 906)
Translation reserve		(20 966)	(20 811)	(17 285)
Retained earnings and other reserves		81 634	85 260	80 827
Total equity attributable to shareholders of the parent		**58 823**	**62 575**	**61 958**
Non-controlling interests		1 574	1 564	1 652
Total equity		**60 397**	**64 139**	**63 610**
Total liabilities and equity		**118 662**	**120 442**	**126 174**

(a) 2013 comparatives have been adjusted following the final valuation of the Wyeth Nutrition acquisition (see Note 2 of the 2013 Consolidated Financial Statements).

Consolidated cash flow statement for the period ended 30 June 2014

In millions of CHF

	Notes	January–June 2014	January–June 2013
Operating activities			
Operating profit	7	6 196	6 736
Non-cash items of income and expense	7	1 850	1 775
Cash flow before changes in operating assets and liabilities		**8 046**	**8 511**
Decrease/(increase) in working capital		(2 638)	(1 932)
Variation of other operating assets and liabilities		(294)	(299)
Cash generated from operations		**5 114**	**6 280**
Net cash flows from treasury activities (a)		(148)	(13)
Taxes paid		(1 364)	(1 931)
Dividends and interest from associates and joint ventures		699	639
Operating cash flow		**4 301**	**4 975**
Investing activities			
Capital expenditure		(969)	(1 329)
Expenditure on intangible assets		(202)	(150)
Sale of property, plant and equipment		22	24
Acquisition of businesses	2	(45)	(22)
Disposal of businesses	2	10	228
Investments (net of divestments) in associates and joint ventures		(313)	(297)
Outflows from non-current treasury investments		(66)	(139)
Inflows from non-current treasury investments		118	1 597
Inflows/(outflows) from short-term treasury investments		19	(278)
Other investing cash flows		(163)	(152)
Cash flow from investing activities		**(1 589)**	**(518)**
Financing activities			
Dividend paid to shareholders of the parent	8	(6 863)	(6 552)
Dividends paid to non-controlling interests		(187)	(167)
Acquisition (net of disposal) of non-controlling interests		(55)	(155)
Purchase of treasury shares		(123)	(259)
Sale of treasury shares		37	41
Inflows from bonds and other non-current financial debt		948	1 890
Outflows from bonds and other non-current financial debt		(1 184)	(341)
Inflows/(outflows) from current financial debt		1 612	(659)
Cash flow from financing activities		**(5 815)**	**(6 202)**
Currency retranslations		(139)	(97)
Increase/(decrease) in cash and cash equivalents		**(3 242)**	**(1 842)**
Cash and cash equivalents at beginning of year		6 415	5 713
Cash and cash equivalents at end of period		**3 173**	**3 871**

(a) Interest paid amounts to CHF 228 million (2013: CHF 236 million) and interest and dividends received to CHF 37 million (2013: CHF 77 million).

Consolidated statement of changes in equity for the period ended 30 June 2014

In millions of CHF

	Share capital	Treasury shares	Translation reserve	Retained earnings and other reserves	**Total equity attributable to shareholders of the parent**	Non-controlling interests	**Total equity**
Equity as at 1 January 2013	322	(2 078)	(17 924)	80 687	61 007	1 657	62 664
Profit for the period	—	—	—	5 120	**5 120**	211	**5 331**
Other comprehensive income for the period	—	—	639	1 527	**2 166**	40	**2 206**
Total comprehensive income for the period	—	—	639	6 647	**7 286**	251	**7 537**
Dividend paid to shareholders of the parent	—	—	—	(6 552)	**(6 552)**	—	**(6 552)**
Dividends paid to non-controlling interests	—	—	—	—	**—**	(167)	**(167)**
Movement of treasury shares	—	(316)	—	66	**(250)**	—	**(250)**
Equity compensation plans	—	204	—	(107)	**97**	—	**97**
Other transactions settled with treasury shares	—	284	—	—	**284**	—	**284**
Changes in non-controlling interests	—	—	—	(19)	**(19)**	(89)	**(108)**
Total transactions with owners	—	172	—	(6 612)	**(6 440)**	(256)	**(6 696)**
Other movements	—	—	—	105	**105**	—	**105**
Equity as at 30 June 2013	322	(1 906)	(17 285)	80 827	61 958	1 652	63 610
Equity as at 1 January 2014	322	(2 196)	(20 811)	85 260	62 575	1 564	64 139
Profit for the period	—	—	—	4 634	**4 634**	219	**4 853**
Other comprehensive income for the period	—	—	(155)	(1 080)	**(1 235)**	(17)	**(1 252)**
Total comprehensive income for the period	—	—	(155)	3 554	**3 399**	202	**3 601**
Dividend paid to shareholders of the parent	—	—	—	(6 863)	**(6 863)**	—	**(6 863)**
Dividends paid to non-controlling interests	—	—	—	—	**—**	(187)	**(187)**
Movement of treasury shares	—	(180)	—	90	**(90)**	—	**(90)**
Equity compensation plans	—	209	—	(110)	**99**	—	**99**
Changes in non-controlling interests	—	—	—	(300)	**(300)**	(5)	**(305)**
Total transactions with owners	—	29	—	(7 183)	**(7 154)**	(192)	**(7 346)**
Other movements	—	—	—	3	**3**	—	**3**
Equity as at 30 June 2014	322	(2 167)	(20 966)	81 634	58 823	1 574	60 397

1. Accounting policies

Basis of preparation
These Financial Statements are the unaudited Interim Consolidated Financial Statements (hereafter "the Interim Financial Statements") of Nestlé S.A., a company registered in Switzerland, and its subsidiaries for the six-month period ended 30 June 2014. They have been prepared in accordance with International Accounting Standard IAS 34 – Interim Financial Reporting, and should be read in conjunction with the Consolidated Financial Statements for the year ended 31 December 2013.

The accounting conventions and accounting policies are the same as those applied in the Consolidated Financial Statements for the year ended 31 December 2013, except for those mentioned below, in the section Changes in accounting policies.

The preparation of the 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 Interim Financial Statements remain the same as those applied to the Consolidated Financial Statements for the year ended 31 December 2013.

Changes in accounting policies
A number of standards have been modified on miscellaneous points with effect from 1 January 2014. Such changes include Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36), which the Group 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 the Group's Financial Statements.

Changes in IFRS that may affect the Group after 30 June 2014
The following new standards and amendments to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2015. The Group 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 Group'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 Group'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 Group does not have any such liabilities. The Group is currently assessing the impact of the new hedge accounting and impairment requirements.

This standard is mandatory for the accounting period beginning on 1 January 2018.

IFRS 15 – Revenue from Contract with Customers
This standard combines, enhances and replaces specific guidance on recognising revenue with a single standard. It defines a new five-step model to recognise revenue from customer contracts. The Group is currently assessing the potential impact of this new standard.

This standard is mandatory for the accounting period beginning on 1 January 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 the Group's Financial Statements.

2. Acquisitions and disposals of businesses

2.1 Modification of the scope of consolidation

During the interim period, the scope of consolidation has not been affected by significant acquisitions and disposals. However, the Group acquired significant businesses between 30 June 2014 and the date of issuance of the Interim Financial Statements (see Note 11.2).

2.2 Acquisitions of businesses

Cash outflows in the first six months of 2014 are related to non-significant acquisitions. The Group's sales and profit for the period are not significantly impacted by them. Cash outflows of the comparative period also include several non-significant acquisitions.

Valuation

Since the valuation of the assets and liabilities of recently acquired businesses is still in process, the values are determined provisionally.

Acquisition-related costs

2014 acquisition-related costs, which mostly relate to the acquisition of Galderma (see Note 11.2), have been recognised under other operating expenses in the Income Statement for an amount of CHF 6 million (2013: CHF 12 million – mostly related to the Wyeth acquisition).

2.3 Disposals of businesses

Cash inflows recognised in the first six months of 2014 are related to several non-significant disposals.

Cash inflow on disposals in the previous year's interim period mainly included the disposal of assets held for sale arising from the 2012 Wyeth Nutrition acquisition.

2.4 Assets held for sale

As of 30 June 2014, assets held for sale mainly include the carrying amount of L'Oréal shares that will be disposed of (see Note 11.1) as well as the Performance Nutrition business already classified as held for sale at 31 December 2013 which will be sold during the second half of 2014.

3. Analyses by segment

3.1 Operating segments

In millions of CHF

	Sales (a)	Trading operating profit	Net other trading income/(expenses) *	of which impairment of assets other than goodwill	of which restructuring costs	Impairment of goodwill
						January–June 2014
Zone Europe	7 296	1 083	(36)	(12)	(20)	—
Zone Americas	12 465	2 247	(30)	(3)	(5)	—
Zone Asia, Oceania and Africa	8 880	1 676	(20)	(2)	(3)	(52)
Nestlé Waters	3 669	383	—	(2)	(1)	—
Nestlé Nutrition	4 692	990	(69)	(45)	(8)	(4)
Other (b)	5 979	1 101	(13)	—	(4)	—
Unallocated items (c)	—	(1 040)	(7)	—	—	—
Total	**42 981**	**6 440**	**(175)**	**(64)**	**(41)**	**(56)**

* included in Trading operating profit

In millions of CHF

	Sales (a)	Trading operating profit	Net other trading income/(expenses) *	of which impairment of assets other than goodwill	of which restructuring costs	Impairment of goodwill
						January–June 2013 (d)
Zone Europe	7 504	1 117	(33)	(7)	(23)	—
Zone Americas	13 605	2 436	(120)	(1)	(48)	—
Zone Asia, Oceania and Africa	9 390	1 793	(18)	(1)	(3)	—
Nestlé Waters	3 682	355	3	—	6	(3)
Nestlé Nutrition	5 005	1 000	(27)	(4)	(15)	—
Other (b)	5 982	1 148	(31)	(24)	(7)	(24)
Unallocated items (c)	—	(1 044)	(8)	(1)	(4)	—
Total	**45 168**	**6 805**	**(234)**	**(38)**	**(94)**	**(27)**

* included in Trading operating profit

(a) Inter-segment sales are not significant.
(b) Mainly Nespresso, Nestlé Professional and Nestlé Health Science.
(c) Mainly corporate expenses as well as research and development costs.
(d) 2013 comparatives have been restated following the transfer of responsibility for Nestea RTD businesses in the geographic Zones to Nestlé Waters effective as from 1 January 2014.

Refer to Note 3.3 for the reconciliation from trading operating profit to profit before taxes, associates and joint ventures.

3.2 Products

In millions of CHF

January–June 2014

	Sales	Trading operating profit	Net other trading income/(expenses) *	of which impairment of assets other than goodwill	of which restructuring costs	Impairment of goodwill
Powdered and Liquid Beverages	9 835	2 337	(30)	(12)	(9)	—
Water	3 410	381	1	(2)	—	—
Milk products and Ice cream	8 085	1 297	(26)	(2)	(5)	—
Nutrition and HealthCare	5 659	1 126	(75)	(45)	(9)	(4)
Prepared dishes and cooking aids	6 394	818	(3)	(1)	(4)	—
Confectionery	4 184	443	(17)	(2)	(6)	(52)
PetCare	5 414	1 078	(18)	—	(8)	—
Unallocated items [(a)]	—	(1 040)	(7)	—	—	—
Total	**42 981**	**6 440**	**(175)**	**(64)**	**(41)**	**(56)**

* included in Trading operating profit

In millions of CHF

January–June 2013

	Sales	Trading operating profit	Net other trading income/(expenses) *	of which impairment of assets other than goodwill	of which restructuring costs	Impairment of goodwill
Powdered and Liquid Beverages	10 134	2 430	(20)	—	(12)	—
Water	3 438	367	4	—	6	(3)
Milk products and Ice cream	8 609	1 370	(22)	(1)	(21)	—
Nutrition and HealthCare	5 983	1 114	(56)	(29)	(18)	(24)
Prepared dishes and cooking aids	6 853	927	(21)	(1)	(22)	—
Confectionery	4 611	587	(9)	(6)	(9)	—
PetCare	5 540	1 054	(102)	—	(14)	—
Unallocated items [(a)]	—	(1 044)	(8)	(1)	(4)	—
Total	**45 168**	**6 805**	**(234)**	**(38)**	**(94)**	**(27)**

* included in Trading operating profit

(a) Mainly corporate expenses as well as research and development costs.

Refer to Note 3.3 for the reconciliation from trading operating profit to profit before taxes, associates and joint ventures.

3.3 Reconciliation from trading operating profit to profit before taxes, associates and joint ventures

In millions of CHF

	January–June 2014	January–June 2013
Trading operating profit	**6 440**	**6 805**
Impairment of goodwill	(56)	(27)
Net other operating income/(expenses) excluding impairment of goodwill	(188)	(42)
Operating profit	**6 196**	**6 736**
Net financial income/(expense)	(328)	(334)
Profit before taxes, associates and joint ventures	**5 868**	**6 402**

4. Seasonality

The business of the Group is not highly cyclical. Seasonal evolutions in some countries or product groups are compensated within the Group.

5. Net other trading and operating income/(expenses)

5.1 Net other trading income/(expenses)

In millions of CHF

	January–June 2014	January–June 2013
Profit on disposal of property, plant and equipment	1	9
Miscellaneous trading income	35	39
Other trading income	**36**	**48**
Loss on disposal of property, plant and equipment	(3)	(4)
Restructuring costs	(41)	(94)
Impairment of assets other than goodwill	(64)	(38)
Litigations and onerous contracts [a]	(70)	(112)
Miscellaneous trading expenses	(33)	(34)
Other trading expenses	**(211)**	**(282)**
Total net other trading income/(expenses)	**(175)**	**(234)**

(a) Relates mainly to numerous separate legal cases (for example labour, civil and tax litigations), liabilities linked to product withdrawals as well as several separate onerous contracts.

5.2 Other operating expenses

Other operating expenses mainly include the effect of hyperinflation in Venezuela.

6. Share of results of associates and joint ventures

This item mainly includes our share of the estimated results of L'Oréal as well as the share of results of our joint ventures.

7. Cash flow before changes in operating assets and liabilities

In millions of CHF

	January–June 2014	January–June 2013
Profit for the period	**4 853**	**5 331**
Share of results of associates and joint ventures	(611)	(681)
Taxes	1 626	1 752
Financial income	(76)	(81)
Financial expense	404	415
Operating profit	**6 196**	**6 736**
Depreciation of property, plant and equipment	1 375	1 428
Impairment of property, plant and equipment	63	14
Impairment of goodwill	56	27
Amortisation of intangible assets	117	162
Impairment of intangible assets	1	24
Net result on disposal of businesses	(74)	(11)
Net result on disposal of assets	31	44
Non-cash items in financial assets and liabilities	(24)	(27)
Equity compensation plans	80	77
Other	225	37
Non-cash items of income and expense	**1 850**	**1 775**
Cash flow before changes in operating assets and liabilities	**8 046**	**8 511**

8. Equity

8.1 Share capital

The share capital of Nestlé S.A. is composed of 3 224 800 000 registered shares with a nominal value of CHF 0.10 each, representing a total share capital of CHF 322 million.

8.2 Dividend

The dividend related to 2013 was paid on 17 April 2014 in accordance with the decision taken at the Annual General Meeting on 10 April 2014. Shareholders approved the proposed dividend of CHF 2.15 per share, resulting in a total dividend of CHF 6863 million.

9. Fair value hierarchy of financial instruments

In millions of CHF	30 June 2014	31 December 2013
Derivative assets	72	47
Bonds and debt funds	886	746
Equity and equity funds	255	249
Other financial assets	34	24
Derivative liabilities	(69)	(44)
Prices quoted in active markets (Level 1)	**1 178**	**1 022**
Commercial paper	41	98
Time deposits	1 293	2 009
Derivative assets	247	183
Bonds and debt funds	2 263	2 091
Equity and equity funds	245	245
Other financial assets	736	804
Derivative liabilities	(306)	(337)
Valuation techniques based on observable market data (Level 2)	**4 519**	**5 093**
Valuation techniques based on unobservable input (Level 3)	**178**	**174**
Total financial instruments at fair value	**5 875**	**6 289**

The fair values categorised 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).

As of 30 June 2014, the carrying amount of bonds issued is CHF 11 474 million (31 December 2013: CHF 11 540 million), compared to a fair value of CHF 11 749 million (31 December 2013: CHF 11 566 million) (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.

10. Bonds

The following bonds have been issued or repaid during the period:

In millions of CHF

Issuer		Face value in millions	Coupon	Effective interest rates	Year of issue/ maturity	Comments	January–June 2014 Carrying amount
New issues							
Nestlé Holdings, Inc., USA	USD	650	2.13%	2.27%	2014–2020		574
	AUD	250	4.25%	4.43%	2014–2020	(a)	200
	NOK	1 000	2.75%	2.85%	2014–2020	(a)	149
Total new issues							**923**
Repayments							
Nestlé Holdings, Inc., USA	USD	550	2.13%	2.13%	2010–2014		(490)
Nestlé Finance International Ltd, Luxembourg	CHF	425	2.00%	2.03%	2009–2014		(425)
	NOK	1 250	2.50%	2.73%	2010–2014		(193)
Other						(b)	4
Total repayments							**(1 104)**

(a) Subject to derivatives that create debts in the currency of the issuer.
(b) Includes net cash received by Nestlé Finance International Ltd, Luxembourg, for currency forward contracts hedging existing bonds.

11. Events after the balance sheet date

11.1 Sale of 48.5 million of L'Oréal shares

On 8 July 2014, the Group sold 48.5 million of its L'Oréal shares to L'Oréal for EUR 6.0 billion in exchange for the remaining 50% stake of L'Oréal in Galderma (a 50/50 joint venture between L'Oréal and Nestlé) for an equity value of EUR 2.6 billion (see Note 11.2) and cash of EUR 3.4 billion.

Following this transaction, the Group holds 129.9 million shares in L'Oréal representing a 23.5% participation in its equity after deduction of L'Oréal's treasury shares and will continue to account for it using the equity method.

The profit on disposal of the L'Oréal shares as well as a revaluation gain on the 50% Galderma stake that the Group already held prior to the transaction amount to CHF 7.4 billion and will be recorded in the second half of 2014.

11.2 Acquisition of businesses

The Group acquired:

– remaining 50% of Galderma, worldwide, dermatology pharmaceuticals products (Nutrition and HealthCare), July;
– aesthetic products business commercialisation rights from Valeant Pharmaceuticals International, USA and Canada, aesthetic dermatology products (Nutrition and HealthCare), 100%, July.

Galderma

On 8 July 2014, the Group brought its ownership in Galderma to 100% by acquiring a 50% stake from L'Oréal (see Note 11.1). Galderma is a Swiss company, specializing in innovative medical solutions in dermatology pharmaceuticals products with an extensive product portfolio available in 70 countries. With this acquisition, the Group will pursue its strategic development in Nutrition, Health and Wellness, by expanding its activities to medical skin treatments. The goodwill arising on this acquisition includes elements such as early stage pioneering research and development projects and strong growth potential. The goodwill arising from this acquisition is not expected to be deductible for tax purposes.

The major classes of assets acquired and liabilities assumed at the acquisition date are:

In millions of CHF

	8 July 2014
Property, plant and equipment	401
Intangible assets [(a)]	5 406
Inventories and other assets [(b)]	1 209
Financial debt	(179)
Employee benefits, deferred taxes and provisions	(1 041)
Other liabilities	(528)
Fair value of identifiable net assets	**5 268**

(a) Mainly trademarks, trade names, patents, technology and research & development intangible assets.
(b) Including the fair value of trade receivables of CHF 434 million with a gross contractual amount of CHF 448 million and estimated cash flows of CHF 14 million not expected to be collected.

Since the valuation of the assets and liabilities is still in process, the values are determined provisionally.

The provisional goodwill arising on the acquisition is as follows:

In millions of CHF

	8 July 2014
Fair value of consideration transferred	**3 901**
Fair value of pre-existing interests	3 918
Subtotal	7 819
Fair value of identifiable net assets	(5 268)
Goodwill	**2 551**

The cash outflow related to the acquisition is:

In millions of CHF

	8 July 2014
Fair value of consideration transferred	**3 901**
Cash and cash equivalents acquired	(83)
Settled in L'Oréal shares (see Note 11.1)	(3 201)
Cash outflow	**617**

The consideration transferred consists of payments made in L'Oréal shares and in cash to repay the loans granted by L'Oréal to Galderma.

Aesthetic dermatology products business commercialisation rights from Valeant Pharmaceuticals International

On 10 July 2014, the Group acquired a business which exploits full rights to commercialise several key aesthetic dermatology products in USA and Canada from Valeant Pharmaceuticals International. The two markets together represent more than half of the fast-growing medical aesthetic market around the world. The acquisition of these key strategic assets will extend and reinforce the Group's presence in the field of specialised medical skin treatments.

This acquisition has been paid in cash for USD 1.4 billion. Since the initial valuation is still incomplete, the major assets and liabilities acquired are not disclosed. However, it is expected that intangible assets and goodwill will represent the major part of the cost of acquisition.

11.3 Share buy-back programme

The Group plans to launch a new share buy-back programme of CHF 8 billion that will start this year and continue into 2015, subject to market conditions and strategic opportunities.

11.4 Other

The Group has no other subsequent events that warrant a modification of the value of the assets and liabilities or an additional disclosure.

Principal exchange rates

CHF per

		June 2014	December 2013	June 2013	January–June 2014	January–June 2013
			Ending rates		Weighted average rates	
1 US Dollar	USD	0.891	0.890	0.947	0.891	0.937
1 Euro	EUR	1.216	1.226	1.236	1.221	1.230
100 Brazilian Reais	BRL	40.565	37.986	43.339	38.794	46.222
100 Chinese Yuan Renminbi	CNY	14.369	14.699	15.410	14.481	15.121
100 Mexican Pesos	MXN	6.869	6.808	7.297	6.794	7.459
1 Pound Sterling	GBP	1.517	1.471	1.443	1.487	1.445
1 Canadian Dollar	CAD	0.834	0.836	0.904	0.813	0.922
1 Australian Dollar	AUD	0.838	0.794	0.877	0.816	0.949
100 Philippine Pesos	PHP	2.041	2.004	2.190	2.003	2.269
100 Japanese Yen	JPY	0.879	0.847	0.957	0.869	0.979

Notes

Notes

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