Nestlé

Good Food, Good Life

Half-Yearly Report

January–June 2015

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.

www.nestle.com

Important dates
16 October 2015
2015 Nine months sales figures

18 February 2016
2015 Full-Year Results

7 April 2016
149th Annual General Meeting, Beaulieu Lausanne, Lausanne (Switzerland)

Letter to our shareholders

Dear fellow shareholder,

The first half results were in line with our expectations, broad-based across categories and geographies, solid even in difficult circumstances, and consistent with our strong performance over time. They reflect the relevance and strength of our Nutrition, Health and Wellness strategy and our discipline in execution. Our investments in the new growth platforms Nestlé Health Science and Nestlé Skin Health are delivering and complement the good momentum in our food and beverages businesses. This allows us to confirm the outlook for the full year.

Group results

In the first half of 2015 organic growth was 4.5%, composed of 1.7% real internal growth and 2.8% pricing. Total sales of CHF 42.8 billion were impacted by foreign exchange (–5.8%). Acquisitions, net of divestitures, contributed 1% to sales.

Growth was broad-based across categories and geographies.

Organic growth in the developed markets accelerated to 2.2% while in the emerging markets we achieved strong organic growth of 7.3%.

Organic growth was 6.6% in the Americas (AMS), 3.4% in Europe, Middle East and North Africa (EMENA) and 2.2% in Asia, Oceania and sub-Saharan Africa (AOA). Real internal growth was 1.7% in AMS, 2.4% in EMENA and 0.6% in AOA.

The continuous efforts to drive cost efficiencies, and the consolidation of Nestlé Skin Health, led to a 160 basis points drop in the cost of goods sold. The effect from input costs was neutral.

Cost reductions were partly reinvested in increased consumer facing marketing support. The trading operating profit margin rose by 20 basis points in constant currencies. Trading operating profit was CHF 6.4 billion with a margin of 15.0%.

Net profit was CHF 4.5 billion and reported earnings per share were CHF 1.43. Underlying earnings per share rose 7.3% in constant currencies.

The group's operating cash flow was CHF 3.9 billion reflecting the appreciation of the Swiss Franc, lower dividend income from L'Oréal due to our reduced shareholding and the timing of tax payments.

Zone AMS

Sales of CHF 12.0 billion, 5.2% organic growth, 0.1% real internal growth; 18.0% trading operating profit margin, +10 basis points.

The Zone delivered good organic growth, driven by improvements in our business in North America and positive momentum in Latin America. *Nescafé Dolce Gusto*, creamers and petcare continued to be significant growth drivers.

In North America we relaunched our frozen meals brands with the new *Lean Cuisine Market Place* and *Stouffers Fit Kitchen* ranges. The first signs are promising and indicate that we are meeting the fast-changing expectations of consumers. New additions to the *Snack Bites* range helped deliver solid growth for *Hot Pockets*, and we saw some improvement in frozen pizza. In ice cream, new products delivered solid growth for *Haägen Dazs* in super premium and *Outshine* for snacks. *Coffee-mate* grew well, supported by innovations like *Natural Bliss* and *Coffee-mate 2GO*. Petcare showed good growth, in spite of the negative impact from the *Beneful* case. Among the drivers were *Fancy Feast* cat food, the *Pro Plan* platform for dog food, and cat litter.

We continued to grow our business in Latin America in what is still a volatile environment. Investment behind our growth platforms drove performance in Brazil. *Nescafé Dolce Gusto* and *KitKat* both delivered strong double-digit growth, as did soluble coffee. *Nescau* achieved good growth for cocoa and malt beverages while *Passatempo* and *Nesfit* did well for biscuits. Mexico grew during the first half, led by *Nescafé* and *Coffee-mate*. Petcare continued to be a growth driver for Latin America and will benefit from new production capacity in Argentina and Mexico.

The Zone's trading operating profit margin benefited from operational efficiencies and positive pricing.

Zone EMENA

Sales of CHF 7.9 billion, 3.8% organic growth, 2.0% real internal growth; 16.2% trading operating profit margin, +80 basis points.

After a strong start to the year the different geographies of the Zone continued to grow in spite of the volatile and challenging environment. The solid growth was broad-based with *Nescafé Dolce Gusto*, soluble coffee, petcare and frozen pizza among the highlights. Organic growth was also driven by price increases for coffee and some inflationary pressures in Russia, Ukraine and Turkey, compensating for the deflationary environment in Western Europe.

Innovation and premiumisation continued to drive the growth in Western Europe. Single-serve cat food, *Nescafé Dolce Gusto* and frozen pizza were the main contributors. France, Benelux and the Nordics did well in the deflationary environment. Consumer confidence in Southern Europe was subdued, with Greece having an impact.

Growth in Eastern Europe was strong, driven by petcare, soluble coffee and systems, and by chocolate with *KitKat*. Careful management of pricing in Russia has protected our competitiveness in an inflationary environment. Our business in Ukraine continued to deliver growth, despite the difficult economic situation. There were also solid performances from the Adriatic region, Bulgaria and Hungary.

The Middle East and North Africa region delivered solid growth with soluble coffee and confectionery the highlights. Turkey had strong growth and there were solid performances across the Middle East, compensating for the challenges in Iraq and Yemen.

The improvement in the Zone's trading operating profit margin was driven by product mix and lower input costs that allowed for increased investment in consumer facing marketing support.

Zone AOA

Sales of CHF 7.1 billion, 0.8% organic growth, –0.8% real internal growth; 18.2% trading operating profit margin, –60 basis points.

There were strong results in the Zone's developed markets and a gradual improvement in emerging markets, however the underlying improvement in the Zone's performance was overshadowed by the issue in India.

In India, our withdrawal of *Maggi* noodles resulted in negative organic growth which will continue into the second half. We are engaging fully with the authorities as we work to relaunch the product.

The efforts in China to adapt our product portfolio to the changing consumer demand and the lower growth environment led to a gradual improvement across the categories, with ambient dairy, confectionery and soluble coffee all contributing. Ready-to-drink beverages, including *Nescafé*, delivered double-digit growth and ambient culinary made a solid contribution.

In the developed markets Japan continued to perform well thanks to innovation in *KitKat* and in *Nescafé* which launched the premium *Nescafé Gold Blend* in the ready-to-drink format. Despite the intensely competitive trading environment in the Oceania region, the business there contributed to the Zone's positive growth, thanks mainly to confectionery with *KitKat*.

Vietnam, Indonesia, South Africa, Pakistan and the Philippines were among the highlights in the other emerging markets, delivering good growth. Sub-Saharan Africa continued to show good growth with Central West Africa Region regaining momentum after a slower start to the year.

The trading operating profit margin of Zone AOA was affected by the withdrawal and destruction costs of the returned products in India which have already had a material impact in the first half of the year.

Nestlé Waters

Sales of CHF 3.8 billion, 5.3% organic growth, 5.6% real internal growth; 11.5% trading operating profit margin, +110 basis points.

Nestlé Waters delivered solid broad-based growth across both emerging and developed markets, reflecting rising demand for healthy beverages. The business has a strong presence across the different channels globally. *Nestlé Pure Life* again delivered double-digit growth, and there was good single-digit growth for our premium international brands, *Perrier* and *S.Pellegrino*. The local brands also performed well with *Poland Spring* in the US, *Levissima* in Italy, *Erikli* in Turkey, *Al Manhal* in Saudi Arabia and *Buxton* in the United Kingdom all making good contributions.

The trading operating profit margin was driven mainly by the solid organic growth, rigorous cost management and lower input costs, allowing for increased investment in consumer facing marketing support.

Nestlé Nutrition

Sales of CHF 5.3 billion, 3.9% organic growth, 1.3% real internal growth; 23.0% trading operating profit margin, +140 basis points.

Nestlé Nutrition delivered growth across geographies and brands despite difficult comparisons, especially in Asia. The well-supported innovation pipeline continued to deliver new products for the *Nido*, *Nan* and *Cerelac* brands. Wyeth Infant Nutrition delivered good growth, in particular in Asia where the premium brands *S-26* and *Illuma* expanded their e-commerce footprint. The South Asia Region, Mexico and the Philippines performed well for Nestlé Infant Nutrition. In North America innovation in our *Gerber* infant cereals range continued to support growth and there were new product launches in meals and drinks.

The strong improvement in the trading operating profit margin was the result of our portfolio management and underlying margin improvement along with strict control of fixed costs and more favourable input costs. This allowed us to increase investment behind our brands.

Other businesses

Sales of CHF 6.8 billion, 8.1% organic growth, 4.9% real internal growth; 15.8% trading operating profit margin, –250 basis points.

Nestlé Professional is regaining growth momentum, with good acceleration in the strategic growth platforms of culinary flavours and beverage solutions. Emerging markets were the main drivers, particularly Latin America, Eastern Europe, Indonesia, Turkey, and Indochina and there was good growth in our culinary business in North America, compensating for the poor trading environment in Western Europe.

Nespresso continued to grow globally, capitalising on the significant development of the portioned coffee segment. It further expanded its Grands Crus range, opened 20 new boutiques around the world, launched a *Nespresso Café* in Vienna and continued the roll-out of the *Nespresso Cube*, an automated retail outlet. Also the *VertuoLine* system in North America performed well.

Nestlé Health Science delivered good growth across all regions and all three business areas. In Consumer Care, growth was supported by new product launches for *Boost* in the US, the continuation of the *Meritene* roll-out in Europe and continued strong growth of *Nutren* in Brazil. In Medical Nutrition, the allergy portfolio delivered good growth across all geographies, in particular *Alfamino*. Novel Therapeutic Nutrition also did well.

Innovation drove a good performance for Nestlé Skin Health. Prescription products achieved very good growth supported by the success of the rosacea treatments *Soolantra* and *Oracea* and the acne treatment *Epiduo*. Aesthetic & Corrective continued to do well with *Restylane Skinboosters*, and the launch of *Restylane Lyft* in the US. The Consumer business delivered a strong performance with *Cetaphil* cleanser and moisturiser, and in the US, *Benzac* over-the-counter was launched.

The trading operating profit margin was impacted by high coffee prices for Nespresso and Nestlé Professional and there was also a dilutive impact on the trading operating profit from the inclusion of Nestlé Skin Health in the first half.

Outlook

The results of the first half allow us to reconfirm our outlook for the full year: we aim to achieve organic growth of around 5% with improvements in margins and 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 data per share)	January–June 2015	January–June 2014
Results		
Sales	42 843	42 981
Trading operating profit	6 435	6 440
as % of sales	15.0%	15.0%
Profit for the period attributable to shareholders of the parent (Net profit)	4 517	4 634
as % of sales	10.5%	10.8%
Balance sheet and cash flow statement		
Equity attributable to shareholders of the parent [a]	61 233	58 823
Net financial debt [a]	18 089	19 613
Ratio of net financial debt to equity (gearing) [a]	29.5%	33.3%
Operating cash flow	3 871	4 301
Free cash flow [b]	2 373	2 676
Capital expenditure	1 039	969
Data per share		
Weighted average number of shares outstanding (in millions of units)	3 154	3 191
Basic earnings per share	1.43	1.45
Market capitalisation	**211 317**	**219 263**

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 data per share)	January–June 2015	January–June 2014	January–June 2015	January–June 2014
	in USD	in USD	in EUR	in EUR
Sales	45 206	48 250	40 543	35 194
Trading operating profit	6 790	7 229	6 090	5 273
Profit for the period attributable to shareholders of the parent (Net profit)	4 766	5 202	4 274	3 794
Equity attributable to shareholders of the parent [a]	65 690	65 997	58 841	48 376
Basic earnings per share	1.51	1.63	1.35	1.19
Market capitalisation	226 698	246 004	203 063	180 321

(a) Situation as at 30 June.
(b) Operating cash flow less capital expenditure, expenditure on intangible assets, investments (net of divestments) in associates and joint ventures, and other investing cash flows.

Consolidated income statement for the period ended 30 June 2015

In millions of CHF	Notes	January–June 2015	January–June 2014
Sales	3	**42 843**	**42 981**
Other revenue		129	100
Cost of goods sold		(21 644)	(22 376)
Distribution expenses		(3 872)	(3 956)
Marketing and administration expenses		(10 029)	(9 419)
Research and development costs		(777)	(715)
Other trading income	5	23	36
Other trading expenses	5	(238)	(211)
Trading operating profit	3	**6 435**	**6 440**
Other operating income		62	103
Other operating expenses	5	(411)	(347)
Operating profit		**6 086**	**6 196**
Financial income		48	76
Financial expense		(381)	(404)
Profit before taxes, associates and joint ventures		**5 753**	**5 868**
Taxes		(1 515)	(1 626)
Income from associates and joint ventures	6	506	611
Profit for the period		**4 744**	**4 853**
of which attributable to non-controlling interests		227	219
of which attributable to shareholders of the parent (Net profit)		4 517	4 634
As percentages of sales			
Trading operating profit		15.0%	15.0%
Profit for the period attributable to shareholders of the parent (Net profit)		10.5%	10.8%
Earnings per share (in CHF)			
Basic earnings per share		1.43	1.45
Diluted earnings per share		1.43	1.45

Consolidated statement of comprehensive income for the period ended 30 June 2015

In millions of CHF	January–June 2015	January–June 2014
Profit for the period recognised in the income statement	**4 744**	**4 853**
Currency retranslations		
– Recognised in translation reserve	(5 119)	(172)
– Reclassified from translation reserve to income statement	75	—
Fair value adjustments on available-for-sale financial instruments		
– Recognised in fair value reserve	(157)	109
– Reclassified from fair value reserve to income statement	14	5
Fair value adjustments on cash flow hedges		
– Recognised in hedging reserve	9	(2)
– Reclassified from hedging reserve	20	(57)
Taxes	120	(34)
Share of other comprehensive income of associates and joint ventures	450	3
Items that are or may be reclassified subsequently to the income statement	(4 588)	(148)
Remeasurement of defined benefit plans	1 034	(1 265)
Taxes	(302)	194
Share of other comprehensive income of associates and joint ventures	56	(33)
Items that will never be reclassified to the income statement	788	(1 104)
Other comprehensive income for the period	**(3 800)**	**(1 252)**
Total comprehensive income for the period	**944**	**3 601**
of which attributable to non-controlling interests	112	202
of which attributable to shareholders of the parent	832	3 399

Consolidated balance sheet as at 30 June 2015

In millions of CHF	30 June 2015	31 December 2014
Assets		
Current assets		
Cash and cash equivalents	3 797	7 448
Short-term investments	934	1 433
Inventories	9 015	9 172
Trade and other receivables	12 421	13 459
Prepayments and accrued income	771	565
Derivative assets	372	400
Current income tax assets	823	908
Assets held for sale	467	576
Total current assets	**28 600**	**33 961**
Non-current assets		
Property, plant and equipment	25 611	28 421
Goodwill	32 037	34 557
Intangible assets	19 197	19 800
Investments in associates and joint ventures	8 205	8 649
Financial assets	5 207	5 493
Employee benefits assets	663	383
Current income tax assets	135	128
Deferred tax assets	1 696	2 058
Total non-current assets	**92 751**	**99 489**
Total assets	**121 351**	**133 450**

In millions of CHF	Notes	30 June 2015	31 December 2014
Liabilities and equity			
Current liabilities			
Financial debt		11 954	8 810
Trade and other payables		15 508	17 437
Accruals and deferred income		3 267	3 759
Provisions		610	695
Derivative liabilities		910	757
Current income tax liabilities		1 213	1 264
Liabilities directly associated with assets held for sale		170	173
Total current liabilities		**33 632**	**32 895**
Non-current liabilities			
Financial debt		10 866	12 396
Employee benefits liabilities		6 749	8 081
Provisions		2 565	3 161
Deferred tax liabilities		3 140	3 191
Other payables		1 538	1 842
Total non-current liabilities		**24 858**	**28 671**
Total liabilities		**58 490**	**61 566**
Equity			
Share capital	8	319	322
Treasury shares		(3 964)	(3 918)
Translation reserve		(22 185)	(17 255)
Retained earnings and other reserves		87 063	90 981
Total equity attributable to shareholders of the parent		61 233	70 130
Non-controlling interests		1 628	1 754
Total equity		**62 861**	**71 884**
Total liabilities and equity		**121 351**	**133 450**

Consolidated cash flow statement for the period ended 30 June 2015

In millions of CHF	Notes	January–June 2015	January–June 2014
Operating activities			
Operating profit	7	6 086	6 196
Depreciation and amortisation		1 548	1 492
Impairment		77	120
Net result on disposal of businesses		41	(74)
Other non-cash items of income and expense		234	312
Cash flow before changes in operating assets and liabilities	7	**7 986**	**8 046**
Decrease/(increase) in working capital		(2 478)	(2 638)
Variation of other operating assets and liabilities		(286)	(294)
Cash generated from operations		**5 222**	**5 114**
Net cash flows from treasury activities [(a)]		(151)	(148)
Taxes paid		(1 638)	(1 364)
Dividends and interest from associates and joint ventures		438	699
Operating cash flow		**3 871**	**4 301**
Investing activities			
Capital expenditure		(1 039)	(969)
Expenditure on intangible assets		(198)	(202)
Acquisition of businesses	2	(7)	(45)
Disposal of businesses	2	122	10
Investments (net of divestments) in associates and joint ventures		(111)	(313)
Inflows/(outflows) from treasury investments		464	71
Other investing activities		(150)	(141)
Cash flow from investing activities		**(919)**	**(1 589)**
Financing activities			
Dividend paid to shareholders of the parent	8	(6 950)	(6 863)
Dividends paid to non-controlling interests		(238)	(187)
Acquisition (net of disposal) of non-controlling interests		—	(55)
Purchase (net of sale) of treasury shares		(2 693)	(86)
Inflows from bonds and other non-current financial debt		79	948
Outflows from bonds and other non-current financial debt		(368)	(1 184)
Inflows/(outflows) from current financial debt		4 014	1 612
Cash flow from financing activities		**(6 156)**	**(5 815)**
Currency retranslations		(447)	(139)
Increase/(decrease) in cash and cash equivalents		**(3 651)**	**(3 242)**
Cash and cash equivalents at beginning of year		7 448	6 415
Cash and cash equivalents at end of period		**3 797**	**3 173**

(a) Interest paid amounts to CHF 248 million (2014: CHF 228 million) and interest received to CHF 35 million (2014: CHF 37 million).

Consolidated statement of changes in equity for the period ended 30 June 2015

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 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**
Equity as at 1 January 2015	**322**	**(3 918)**	**(17 255)**	**90 981**	**70 130**	**1 754**	**71 884**
Profit for the period	—	—	—	4 517	**4 517**	227	**4 744**
Other comprehensive income for the period	—	—	(4 930)	1 245	**(3 685)**	(115)	**(3 800)**
Total comprehensive income for the period	—	—	(4 930)	5 762	**832**	112	**944**
Dividend paid to shareholders of the parent	—	—	—	(6 950)	**(6 950)**	—	**(6 950)**
Dividends paid to non-controlling interests	—	—	—	—	**—**	(238)	**(238)**
Movement of treasury shares	—	(2 776)	—	(129)	**(2 905)**	—	**(2 905)**
Equity compensation plans	—	218	—	(120)	**98**	—	**98**
Changes in non-controlling interests	—	—	—	—	**—**	—	**—**
Reduction in share capital	(3)	2 512	—	(2 509)	**—**	—	**—**
Total transactions with owners	(3)	(46)	—	(9 708)	**(9 757)**	(238)	**(9 995)**
Other movements	—	—	—	28	**28**	—	**28**
Equity as at 30 June 2015	**319**	**(3 964)**	**(22 185)**	**87 063**	**61 233**	**1 628**	**62 861**

Notes

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 2015. 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 2014.

The accounting conventions and accounting policies are the same as those applied in the Consolidated Financial Statements for the year ended 31 December 2014, except for those mentioned below, in the section Changes in accounting policies.

The preparation of the Interim Financial Statements requires Group 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 uncertainty within these Interim Financial Statements remain the same as those applied to the Consolidated Financial Statements for the year ended 31 December 2014.

Changes in presentation – analyses by segment
The scope of the operating segments has been modified following the changes in management responsibilities as from 1 January 2015. Zone Europe has been renamed Zone Europe, Middle East and North Africa (EMENA) and now includes the Maghreb, the Middle East, the North East Africa region, Turkey and Israel, which were formerly included in Zone Asia, Oceania and Africa. Zone Asia, Oceania and Africa has been renamed Zone Asia, Oceania and sub-Saharan Africa (AOA). Nestlé Nutrition now includes Growing-Up Milks business formerly included in the geographic Zones. Finally, Other businesses now include the Bübchen business, formerly included in Nestlé Nutrition.

Information by product has been modified following the main transfer of Growing-Up Milks business in Milk products and Ice cream to Nutrition and Health Science.

2014 comparatives have been restated.

Changes in accounting policies
A number of standards have been modified on miscellaneous points with effect from 1 January 2015. Such changes include Defined Benefit Plans (Employee Contributions, Amendments to IAS 19) and Annual Improvements 2010–2012 (which made amendments to IFRS 2 Share-based Payment, IFRS 3 Business Combinations and IFRS 8 Operating Segments among others).

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 2015
The following new standards and amendments to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2016. The Group has not early adopted them.

IFRS 9 – Financial Instruments
The standard addresses the accounting 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 is no expected 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 through profit or loss, and the Group does not have such liabilities.

The Group 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.

IFRS 15 – Revenue from Contracts 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.

The International Accounting Standards Board decided at its July 2015 meeting to set 1 January 2018 as the mandatory effective date of this standard.

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.

Cash outflows and inflows in the first six months of 2015 as well as for the previous year's interim period are related to non-significant acquisitions and disposals.

2.2 Assets held for sale

As at 30 June 2015, assets held for sale are mainly composed of a disposal group related to frozen food in Europe, already classified as held for sale at 31 December 2014. This disposal Group is expected to be sold during the third quarter of 2015.

3. Analyses by segment

3.1 Operating segments

In millions of CHF						January–June 2015
	Sales [a]	Trading operating profit	Net other trading income/(expenses) [b]	of which impairment [c]	of which restructuring costs	Impairment of goodwill
Zone EMENA [d]	7 922	1 282	(24)	(12)	(5)	(29)
Zone AMS	11 993	2 153	(42)	(7)	(15)	—
Zone AOA [d]	7 069	1 287	(99)	(5)	(23)	—
Nestlé Waters	3 767	435	(18)	(7)	(3)	—
Nestlé Nutrition	5 282	1 213	(12)	(2)	(4)	—
Other businesses [e]	6 810	1 077	(15)	—	(7)	(15)
Unallocated items [f]	—	(1 012)	(5)	—	—	—
Total	**42 843**	**6 435**	**(215)**	**(33)**	**(57)**	**(44)**

In millions of CHF						January–June 2014 *
	Sales [a]	Trading operating profit	Net other trading income/(expenses) [b]	of which impairment [c]	of which restructuring costs	Impairment of goodwill
Zone EMENA [d]	8 744	1 344	(41)	(12)	(21)	—
Zone AMS	12 148	2 169	(30)	(3)	(5)	—
Zone AOA [d]	7 087	1 331	(14)	(2)	(2)	(52)
Nestlé Waters	3 669	383	—	(2)	(1)	—
Nestlé Nutrition	5 334	1 153	(70)	(45)	(8)	(4)
Other businesses [e]	5 999	1 100	(13)	—	(4)	—
Unallocated items [f]	—	(1 040)	(7)	—	—	—
Total	**42 981**	**6 440**	**(175)**	**(64)**	**(41)**	**(56)**

* 2014 figures have been restated based on the following main transfers, effective as from 1 January 2015:
– the Maghreb, the Middle East, the North East Africa region, Turkey and Israel in Zone Asia, Oceania and Africa (AOA) to Zone Europe;
– Growing-Up Milks business in the geographic Zones to Nestlé Nutrition;
– Bübchen business in Nestlé Nutrition to Other businesses.

(a) Inter-segment sales are not significant.
(b) Included in Trading operating profit.
(c) Impairment of property, plant and equipment and intangible assets.
(d) Renamed following the above mentioned reorganisation, see Note 1 – Accounting policies.
(e) Mainly Nespresso, Nestlé Professional, Nestlé Health Science and Nestlé Skin Health (renamed following the integration of Galderma as from July 2014).
(f) Mainly corporate expenses as well as research and development costs.

3.2 Products

In millions of CHF — January–June 2015

	Sales	Trading operating profit	Net other trading income/(expenses) [a]	of which impairment [b]	of which restructuring costs	Impairment of goodwill
Powdered and Liquid Beverages	9 371	2 113	(19)	(1)	(12)	(15)
Water	3 510	419	(17)	(7)	(2)	—
Milk products and Ice cream	7 191	1 202	(33)	(2)	(17)	—
Nutrition and Health Science [c]	7 346	1 398	(21)	(2)	(7)	—
Prepared dishes and cooking aids	6 062	736	(84)	(8)	(7)	—
Confectionery	3 898	432	(24)	(7)	(9)	—
PetCare	5 465	1 147	(12)	(6)	(3)	—
Unallocated items [d]	—	(1 012)	(5)	—	—	(29)
Total	**42 843**	**6 435**	**(215)**	**(33)**	**(57)**	**(44)**

In millions of CHF — January–June 2014 *

	Sales	Trading operating profit	Net other trading income/(expenses) [a]	of which impairment [b]	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	7 319	1 102	(25)	(2)	(5)	—
Nutrition and Health Science [c]	6 429	1 325	(76)	(45)	(9)	(4)
Prepared dishes and cooking aids	6 390	814	(3)	(1)	(4)	—
Confectionery	4 184	443	(17)	(2)	(6)	(52)
PetCare	5 414	1 078	(18)	—	(8)	—
Unallocated items [d]	—	(1 040)	(7)	—	—	—
Total	**42 981**	**6 440**	**(175)**	**(64)**	**(41)**	**(56)**

* 2014 figures have been restated based on the following main transfer, effective as from 1 January 2015: Growing-Up Milks business in Milk products and Ice cream to Nutrition and Health Science.

(a) Included in Trading operating profit.
(b) Impairment of property, plant and equipment and intangible assets.
(c) Renamed following the integration of Galderma as from July 2014.
(d) Mainly corporate expenses as well as research and development costs.

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

In millions of CHF	January–June 2015	January–June 2014
Trading operating profit	**6 435**	**6 440**
Impairment of goodwill	(44)	(56)
Net other operating income/(expenses) excluding impairment of goodwill	(305)	(188)
Operating profit	**6 086**	**6 196**
Net financial income/(expense)	(333)	(328)
Profit before taxes, associates and joint ventures	**5 753**	**5 868**

4. Seasonality

The business of the Group is not highly cyclical. Seasonal evolutions in some countries or product groups are generally 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 2015	January–June 2014
Other trading income	**23**	**36**
Restructuring costs	(57)	(41)
Impairment of property, plant and equipment and intangible assets	(33)	(64)
Litigations and onerous contracts [(a)]	(117)	(70)
Miscellaneous trading expenses	(31)	(36)
Other trading expenses	**(238)**	**(211)**
Total net other trading income/(expenses)	**(215)**	**(175)**

(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, losses on disposals of businesses and impairment of non-significant goodwill.

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 2015	January–June 2014
Profit for the period	**4 744**	4 853
Income from associates and joint ventures	(506)	(611)
Taxes	1 515	1 626
Financial income	(48)	(76)
Financial expense	381	404
Operating profit	**6 086**	**6 196**
Depreciation of property, plant and equipment	1 398	1 375
Amortisation of intangible assets	150	117
Impairment of property, plant and equipment	27	63
Impairment of intangible assets	6	1
Impairment of goodwill	44	56
Net result on disposal of businesses	41	(74)
Net result on disposal of assets	27	31
Non-cash items in financial assets and liabilities	37	(24)
Equity compensation plans	82	80
Other	88	225
Non-cash items of income and expense	**1 900**	**1 850**
Cash flow before changes in operating assets and liabilities	**7 986**	**8 046**

8. Equity

8.1 Share capital

The share capital changed in 2015 as a consequence of the Share Buy-Back programme launched in 2014. The cancellation of shares was approved at the Annual General Meeting on 16 April 2015. The share capital was reduced by 36 400 000 shares from CHF 322 million to CHF 319 million.

At 30 June 2015, the share capital of Nestlé S.A. is composed of 3 188 400 000 registered shares with a nominal value of CHF 0.10 each.

8.2 Dividend

The dividend related to 2014 was paid on 22 April 2015 in accordance with the decision taken at the Annual General Meeting on 16 April 2015. Shareholders approved the proposed dividend of CHF 2.20 per share, resulting in a total dividend of CHF 6950 million.

9. Fair value of financial instruments

9.1 Fair value hierarchy

In millions of CHF	30 June 2015	31 December 2014
Derivative assets	50	29
Bonds and debt funds	704	824
Equity and equity funds	254	280
Other financial assets	46	25
Derivative liabilities	(136)	(116)
Prices quoted in active markets (Level 1)	**918**	**1 042**
Commercial paper	193	2 000
Time deposits	1 250	2 678
Derivative assets	322	371
Bonds and debt funds	2 663	2 671
Equity and equity funds	270	279
Other financial assets	772	852
Derivative liabilities	(774)	(641)
Valuation techniques based on observable market data (Level 2)	**4 696**	**8 210**
Valuation techniques based on unobservable input (Level 3)	**183**	**209**
Total financial instruments at fair value	**5 797**	**9 461**

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).

9.2 Carrying amount and fair value

As at 30 June 2015, the carrying amount of bonds issued is CHF 10.8 billion (31 December 2014: CHF 12.3 billion), compared to a fair value of CHF 11.0 billion (31 December 2014: CHF 12.7 billion). This fair value is categorized as level 2, measured on the basis of quoted prices.

For all other financial assets and liabilities, the carrying amount is a reasonable approximation of the fair value.

10. Bonds

During the period Nestlé Finance International Ltd, Luxembourg, reimbursed a CHF 350 million bond with coupon of 2.125%. No bonds were issued.

11. Events after the balance sheet date

As at 12 August 2015, the Group has no subsequent events that warrant a modification of the value of the assets and liabilities or an additional disclosure.

Principal exchange rates

CHF per		June 2015	December 2014	June 2014	January–June 2015	January–June 2014
			Ending rates		Weighted average rates	
1 US Dollar	USD	0.932	0.990	0.891	0.948	0.891
1 Euro	EUR	1.041	1.203	1.216	1.057	1.221
100 Chinese Yuan Renminbi	CNY	15.024	15.957	14.369	15.241	14.481
100 Brazilian Reais	BRL	29.699	37.262	40.565	31.816	38.794
1 Pound Sterling	GBP	1.464	1.540	1.517	1.444	1.487
100 Mexican Pesos	MXN	5.941	6.716	6.869	6.262	6.794
100 Philippine Pesos	PHP	2.065	2.208	2.041	2.127	2.003
1 Canadian Dollar	CAD	0.751	0.852	0.834	0.767	0.813
1 Russian Ruble	RUB	0.017	0.017	0.026	0.017	0.025
1 Australian Dollar	AUD	0.715	0.810	0.838	0.741	0.816
100 Japanese Yen	JPY	0.761	0.827	0.879	0.790	0.869

Notes

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