Nestlé Good food, Good life

Half-Year Report
January–June 2020

Letter to our shareholders

Dear fellow shareholders,

Foreword

The *Half-Year Report* contains certain financial performance measures not defined by IFRS, which are used by management to assess the financial and operational performance of the Group. It includes among others:

– Organic growth, Real internal growth and Pricing;
– Underlying Trading operating profit margin and Trading operating profit margin;
– Net financial debt;
– Free cash flow; and
– Underlying earnings per share as reported and in constant currency.

Management believes that these non-IFRS financial performance measures provide useful information regarding the Group's financial and operating performance.

The "*Alternative Performance Measures*" document published under www.nestle.com/investors/publications defines these non-IFRS financial performance measures.

Introduction

COVID-19 continues to impact people around the world. We stand with all those affected and are committed to helping where we can. I would like to thank every member of the Nestlé team for their dedication and hard work in the face of incredible challenges. Our priorities remain the same; keeping our people safe, assuring continued supply of essential food and beverages to consumers and caring for our communities and business partners through financial and in-kind support.

Nestlé has remained resilient in a rapidly changing environment, delivering solid organic growth and improved margins in the first half. These results demonstrate the agility of our business and the strength of our diversified portfolio across geographies, product categories and channels. With consumer behavior evolving faster than ever, we are adapting to this new reality by strengthening our innovation, leveraging our digital capabilities and executing with speed. Our engaged teams and their commitment to deliver business results while driving progress against our societal and environmental commitments make us a stronger company every day.

Group results

Group sales

Organic growth reached 2.8%, with RIG of 2.6%. Pricing contributed 0.2% and was positive in all three Zones in the second quarter.

After a stronger-than-expected start to the year, organic growth moderated in the second quarter to 1.3%, reflecting the severe impact of movement restrictions on out-of-home businesses and some consumer destocking. In the first half, Nestlé saw sustained momentum in the Americas and positive sales development in Zone EMENA. Zone AOA saw a sales decrease, with growth turning positive in the second quarter. Organic growth was 4.1% in developed markets, based entirely on RIG. Growth in emerging markets was 1.1%.

By product category, the largest growth contributor was *Purina* PetCare, led by its premium brands *Purina Pro Plan* and *Purina ONE*. Dairy saw high single-digit growth, based on strong demand for fortified milks such as *Nido* and *Bear Brand*, as well as *Coffee mate*. Prepared dishes and cooking aids grew at a mid single-digit rate, with strong momentum in frozen foods. Vegetarian and plant-based food products grew by 40%, supported by further expansion of *Garden Gourmet* in Europe and increased growth for *Sweet Earth* in the United States. Coffee remained resilient, with low single-digit growth, as a double-digit sales increase for coffee at home outweighed a sharp decline in the out-of-home channel. Our Starbucks products continued to grow at a double-digit rate, driven by further global expansion and the launch of new offerings. Nestlé Health Science reported double-digit growth, reflecting elevated demand for products that support health and the immune system. Water and confectionery saw negative growth, due to their high exposure to the out-of-home channel and on-the-go consumption.

Divestitures decreased sales by 5.3%, largely related to the divestment of Nestlé Skin Health and the U.S. ice cream business. Foreign exchange reduced sales by 7.0%, reflecting the appreciation of the Swiss franc versus most currencies. Total reported sales decreased by 9.5% to CHF 41.2 billion.

Business impact of the COVID-19 crisis

The COVID-19 crisis has led to profound changes in operating environments across markets. The global economy has entered a recession, supply chains have been tested and consumer behavior has changed at a rapid pace. Nestlé quickly deployed effective measures to address this new reality. The company's supply chain has proven resilient, as manufacturing and distribution facilities continued to operate without significant disruptions. With shifting consumer habits, Nestlé has been developing solutions to meet increased demand for at-home consumption, products that support health and boost the immune system as well as affordable offerings. The company has also accelerated the development of its digital capabilities and expanded e-commerce and online communication.

In the first half, the effects of COVID-19 on organic growth varied materially by geography, product category and sales channel, depending on the timing of outbreaks, scope of restrictions and consumer behavior:

– Geographies: The majority of markets saw slower growth in the second quarter. This trend reflected the full effect of out-of-home channel closures and consumer destocking after pantry building in March. North America remained resilient. China posted a double-digit sales decline, with growth improving to almost flat in the second quarter as movement restrictions eased.
– Product categories: Demand for at-home consumption, trusted brands and personal health products increased. *Purina* PetCare, dairy, culinary, coffee at-home and Nestlé Health Science products reported strong growth. Water and confectionery posted sales declines, reflecting a high exposure to the out-of-home channel, on-the-go consumption and impulse buying. Most categories saw consumer destocking in the second quarter.
– Sales channels: All markets saw a significant shift from out-of-home and on-the-go products to at-home consumption. Retail sales significantly accelerated. Out-of-home channels posted negative growth, with significant sales declines for Nestlé Professional, water and Nespresso boutiques. E-commerce sales grew by 48.9%, reaching 12.4% of total Group sales.

In the first half, COVID-19 related costs were CHF 290 million, including expenses for bonuses paid to frontline workers, employee safety protocols, donations and other staff and customer allowances. In addition, the Group absorbed costs of CHF 120 million related to staff and facilities made idle due to lockdown measures.

Consumer-facing marketing expenses* decreased. In many markets in-store activation could not be implemented during COVID-19 related lockdowns. Nestlé increased media spend, particularly in digital channels, to support brand building and consumer engagement. Lower media rates allowed for increased consumer reach.

The exact financial impact of COVID-19 for the full year remains difficult to quantify and will depend on the duration and economic consequences of this crisis as well as the speed of recovery in the out-of-home channel.

Underlying Trading operating profit

Underlying trading operating profit decreased by 7.9% to CHF 7.2 billion. The underlying trading operating profit margin reached 17.4%, an increase of 30 basis points in constant currency and on a reported basis.

Margin expansion was supported by portfolio management and stronger operating performance. Reduced in-store activation during lockdowns and lower structural costs more than offset COVID-19 related costs and commodity inflation.

Restructuring expenses and net other trading items were CHF 186 million. Trading operating profit decreased by 1.2% to CHF 7.0 billion. The trading operating profit margin reached 16.9%, an increase of 140 basis points in constant currency and on a reported basis.

Net financial expenses and Income tax

Net financial expenses decreased by 11.3% to CHF 447 million, largely reflecting a reduction in average net debt.

The Group reported tax rate decreased by 40 basis points to 27.1%. The underlying tax rate was stable at 21.4%.

Net profit and Earnings per share

Net profit grew by 18.3% to CHF 5.9 billion. Net profit margin increased by 340 basis points to 14.3%, benefiting from one-off income related to divestitures and improved operating performance.

Earnings per share increased by 22.2% to CHF 2.06 on a reported basis. Underlying earnings per share increased by 0.5% in constant currency, and decreased by 5.9% on a reported basis to CHF 2.01. Divestitures and lower contributions from associates and joint ventures had a negative impact of 4.4%. Nestlé's share buyback program contributed 1.4% to the underlying earnings per share increase, net of finance costs.

* In constant currency, excluding divestitures of Nestlé Skin Health and the U.S. ice cream business.

Cash flow

Free cash flow decreased by 19.1% to CHF 3.3 billion. This reduction was mainly due to the delay of a dividend payment by an associate company from April to July, the impact of foreign exchange rates and divestitures. When adjusted for this dividend payment, free cash flow increased by 40 basis points to 9.3% of sales, reflecting improved capital discipline and stronger operating performance.

Share buyback program

In the first half, the Group repurchased CHF 4.2 billion of Nestlé shares as part of the three-year CHF 20 billion share buyback program, which began in January.

Net debt

Net debt increased to CHF 33.4 billion as at June 30, 2020, compared to CHF 27.1 billion at December 31, 2019. The increase reflected the dividend payment of CHF 7.7 billion and share buybacks of CHF 4.2 billion, which more than offset free cash flow generation and a net cash inflow from divestitures and acquisitions.

Portfolio management

In January, Nestlé completed the sale of its U.S. ice cream business for USD 4 billion to Froneri, the successful global joint venture with PAI Partners. The Group closed the sale of a 60% stake in its Herta charcuterie (cold cuts and meat-based products) business to Casa Tarradellas in June.

In April, Nestlé completed the acquisition of Lily's Kitchen, a premium natural pet food business. In May, the Group completed the purchase of the Zenpep business from Allergan. In July, Nestlé completed the acquisition of a majority stake in Vital Proteins, America's leading collagen products brand.

Strategic developments

In May, Nestlé announced the decision to explore strategic options, including a potential sale, for the majority of the Waters business in North America. As part of this process, the Group agreed to sell the Canadian *Nestlé Pure Life* business to Ice River Springs in July. The strategic review of the Yinlu peanut milk and canned rice porridge businesses in China is ongoing. Both reviews are expected to be completed in early 2021.

Zone Americas (AMS)

Sales	CHF 16.7 billion
Organic growth	+5.3%
Real internal growth	+5.1%
Underlying Trading operating profit margin	18.9%
Underlying Trading operating profit margin	+60 basis points
Trading operating profit margin	18.8%
Trading operating profit margin	+330 basis points

- 5.3% organic growth: 5.1% RIG; 0.2% pricing.
- North America saw mid single-digit organic growth, with strong RIG and negative pricing.
- Latin America maintained mid single-digit organic growth, with positive RIG and pricing.
- The underlying trading operating profit margin increased by 60 basis points to 18.9%.

Organic growth reached 5.3%, supported by robust RIG of 5.1%. Pricing contributed 0.2% and turned positive in the second quarter, with broad-based improvements. Divestitures reduced sales by 5.3%, largely related to the divestment of the U.S. ice cream business. Foreign exchange had a negative impact of 7.7%, mainly due to currency depreciations in Latin America. Reported sales in Zone AMS decreased by 7.7% to CHF 16.7 billion.

North America grew at a mid single-digit rate, supported by strong RIG in most product categories. The largest growth contributor was *Purina* PetCare, which saw continued strong momentum in e-commerce and in premium brands, such as *Purina Pro Plan*, *Purina ONE* and *Fancy Feast*. The launch of *Pro Plan LiveClear*, the first allergen-reducing cat food, resonated strongly with cat owners. In the beverages category, Starbucks at-home products, *Nescafé* and *Coffee mate* grew at double-digit rates. Frozen food accelerated to double-digit growth, with increased sales for *DiGiorno*, *Hot Pockets* and *Stouffer's*. Baking products, including *Toll House* and *Carnation*, continued to see exceptional demand. Water reported negative growth, impacted by reduced sales in the out-of-home channel. International premium brands saw positive growth in the United States, led by *S.Pellegrino*. Nestlé Professional posted a double-digit sales decline, in line with channel dynamics.

Latin America maintained mid single-digit growth, with positive contributions from most geographies and product categories. Sales in Brazil grew at a high single-digit rate. *Ninho*, *NAN* and *Nescafé* all saw elevated consumer demand. Chile reached high single-digit growth, led by dairy. Mexico saw low single-digit growth. By product category, the key growth platforms were dairy, *Purina* PetCare and coffee. Confectionery reported negative growth due to reduced demand for on-the-go products, but market share improved overall.

The Zone's underlying trading operating profit margin increased by 60 basis points. Portfolio management, reduced in-store activation during lockdowns and the Direct-Store-Delivery transformation more than offset COVID-19 related costs and commodity inflation.

Zone Europe, Middle East and North Africa (EMENA)

Sales	CHF 10.0 billion
Organic growth	+2.4%
Real internal growth	+2.8%
Underlying Trading operating profit margin	18.3%
Underlying Trading operating profit margin	+40 basis points
Trading operating profit margin	17.6%
Trading operating profit margin	+70 basis points

– 2.4% organic growth: 2.8% RIG; –0.4% pricing.
– Western Europe saw low single-digit growth with solid RIG, partially offset by slightly negative pricing.
– Central and Eastern Europe had mid single-digit organic growth, with strong RIG. Pricing was negative.
– Middle East and North Africa posted low single-digit organic growth. RIG and pricing were positive.
– The underlying trading operating profit margin grew by 40 basis points to 18.3%.

Organic growth was 2.4%, with solid RIG of 2.8%, supported by favorable mix. Pricing decreased by 0.4%, turning positive in the second quarter with improvements across all sub-regions. Divestitures reduced sales by 0.5% and foreign exchange negatively impacted sales by 7.0%. Reported sales in Zone EMENA decreased by 5.1% to CHF 10.0 billion.

Zone EMENA grew at a low single-digit rate. After an exceptionally strong start to the year, organic growth turned negative in the second quarter due to a sharp sales decline in the out-of-home channel, particularly for water, and Nestlé Professional. Overall, the other product categories performed well and posted high single-digit growth. The Zone saw continued market share gains in most geographies and product categories, particularly in pet food, coffee and culinary products. Each region saw positive growth, with strong momentum in Russia.

By product category, coffee, *Purina* PetCare and culinary products all grew at a double-digit rate. Coffee was supported by strong momentum for *Nescafé* and Starbucks products. In PetCare, *Felix*, *Purina ONE* and *Tails.com* were the key growth platforms. Lily's Kitchen, the newly acquired premium pet food business, also performed strongly. Culinary saw elevated demand across all segments, particularly *Maggi* and *Garden Gourmet*'s plant-based products. Infant nutrition decelerated to low single-digit growth, reflecting consumer destocking. Growth in confectionery turned slightly negative, following reduced demand for impulse and gifting products. Water gained market share but recorded negative growth due to a substantial sales drop in the out-of-home channel. Nestlé Professional saw a double-digit sales decline, in line with channel dynamics.

The Zone's underlying trading operating profit margin increased by 40 basis points. Reduced in-store activation during lockdowns and lower commodity spend outweighed COVID-19 related costs.

Zone Asia, Oceania and sub-Saharan Africa (AOA)

Sales	CHF 10.1 billion
Organic growth	–2.2%
Real internal growth	–2.7%
Underlying Trading operating profit margin	22.7%
Underlying Trading operating profit margin	–20 basis points
Trading operating profit margin	22.2%
Trading operating profit margin	0 basis point

– –2.2% organic growth: –2.7% RIG; 0.5% pricing.
– China posted a double-digit decline in organic growth, mainly due to negative RIG. Pricing was negative.
– South-East Asia saw mid single-digit organic growth, with a balanced contribution from RIG and pricing.
– South Asia reported mid single-digit organic growth, mainly based on pricing. RIG was slightly positive.
– Sub-Saharan Africa recorded double-digit organic growth, led by strong RIG.
– Japan and Oceania had negative organic growth, with negative RIG and pricing.
– The underlying trading operating profit margin decreased by 20 basis points to 22.7%.

Organic growth was –2.2%, with RIG of –2.7% and pricing of 0.5%. Divestitures and acquisitions had no impact on sales. Foreign exchange reduced sales by 6.3%. Reported sales in Zone AOA decreased by 8.5% to CHF 10.1 billion.

Zone AOA reported negative organic growth, as a double-digit decline in China outweighed mid single-digit growth in the other regions. The Zone returned to positive growth in the second quarter, helped by improved trading conditions in China.

After a difficult start to the year, sales in China recovered and growth was almost flat in the second quarter. The improvement was broad-based across product categories. Coffee, dairy, ice cream, culinary and confectionery all returned to positive growth. The contraction in Wyeth infant formula sales moderated. In June, Wyeth launched the locally manufactured *Belsol* infant formula brand, strengthening its offering in the super premium segment and in lower-tier cities. Infant cereals and *Purina* PetCare continued to grow at strong double-digit rates. E-commerce sales gained momentum, driven by *Nescafé* and Starbucks products.

South-East Asia saw mid single-digit growth. Sales in the Philippines grew at a double-digit rate, with elevated consumer demand for *Bear Brand*, *Milo* and *Maggi*. Indonesia delivered high single-digit growth, led by *Bear Brand* and *Dancow*. South Asia reported mid single-digit growth. India performed well, supported by *NAN*, *Everyday* and *Nescafé*. *Maggi* saw solid growth, despite temporary supply chain constraints in the second quarter. Sub-Saharan Africa grew at a double-digit rate, led by strong sales development in South Africa. Japan and Oceania decelerated and saw negative growth, as increased sales across product categories in Oceania were more than offset by a decline in Japan.

By product category, the largest growth contribution came from *Purina* PetCare, *Milo* powder and dairy. In coffee, there was continued strong demand for Starbucks products. Outside of China, infant nutrition saw good sales momentum. Nestlé Professional, confectionery, ready-to-drink products and water all posted negative growth due to their exposure to the out-of-home channel.

The Zone's underlying trading operating profit margin decreased by 20 basis points. Commodity inflation and COVID-19 related costs outweighed reduced in-store activation during lockdowns.

Other businesses

Sales	CHF 4.4 billion
Organic growth	+6.1%
Real internal growth	+5.5%
Underlying Trading operating profit margin	22.2%
Underlying Trading operating profit margin	+260 basis points
Trading operating profit margin	22.2%
Trading operating profit margin	+260 basis points

- 6.1% organic growth: 5.5% RIG; 0.6% pricing.
- Nespresso reported mid single-digit organic growth, with positive RIG and pricing.
- Nestlé Health Science saw double-digit organic growth, entirely driven by RIG.
- The underlying trading operating profit margin increased by 260 basis points to 22.2%.

Organic growth of 6.1% was based on strong RIG of 5.5% and pricing of 0.6%. Divestitures reduced sales by 24.9%, largely related to the divestment of Nestlé Skin Health. Foreign exchange negatively impacted sales by 6.0%. Reported sales in Other Businesses decreased by 24.8% to CHF 4.4 billion.

Nespresso grew at a mid single-digit rate, supported by significant sales acceleration for e-commerce and the *Vertuo* system. North America saw strong double-digit growth, with continued market share gains. AOA grew at a double-digit rate, with positive contributions from most markets. Sales in Europe decreased, reflecting significantly reduced demand in the out-of-home channel and boutique closures. Globally, at the end of June, 86% of boutiques had reopened. In July, Nespresso announced a CHF 160 million investment in the expansion of its Romont production center in Switzerland to meet growing consumer demand worldwide.

Nestlé Health Science posted double-digit growth, boosted by strong momentum for consumer and medical nutrition products. Vitamins, minerals and supplements that support overall health and the immune system continued to experience elevated demand. *Garden of Life* and *Pure Encapsulations* saw increased growth, particularly in e-commerce. *Persona*, the subscription-based personalized vitamin business, more than tripled its sales. Medical Nutrition experienced strong sales, particularly in pediatric food allergy, adult medical care and *Vitaflo* products for rare genetic diseases.

The underlying trading operating profit margin of Other Businesses increased by 260 basis points, with positive contributions from both Nespresso and Nestlé Health Science.

Our business as a force for good: Accelerating our Nestlé Needs YOUth program

More than one in six young people are out of work due to the COVID-19 pandemic while those who remain employed have seen their working hours cut, according to the International Labour Organization (ILO). Particularly in low- and middle-income countries, up to 75% of young people work in the informal economy with no job security and little to no social protection.

Nestlé Needs YOUth is our workforce initiative that provides job and training opportunities for young people across the globe. Amid the pandemic, we have scaled up online training to ensure continuity of our internship and apprenticeship programs. We are also working with public and private institutions in many countries to create new programs to help young people develop the skills and resiliency they need to be successful in today's challenging job market. Examples include:

- In West Africa more than 1000 young people receive support through the Youth Agripreneurship Development Program (YADIS), which was initiated by Nestlé and our regional partners in 2019. When the pandemic started to spread, YADIS offered extra training and mentorship to help the young farmers enlarge their fields and increase their crop yields. To further ensure their long-term success, Nestlé has committed to buy maize from them for the year.
- In Mexico, over the course of only three months, Nestlé organized 6000 individual live coaching sessions on vocational guidance, employability and innovation. We also developed an entrepreneurship program to support young innovators through mentoring and strategic support for their businesses, helping them overcome challenges and find opportunities to grow.
- In the UK 170 apprentices benefited from 30 different virtual training programs offered live or through pre-recorded sessions. Thanks to this effort, the vast majority of apprentices were able to continue development in their specific occupation – from engineering to finance and data science.
- In the United States our campus recruiting program hired 138 interns and trainees of all ages who were integrated remotely. Apprentices across nine factories are receiving on-the-job training and virtual classroom instruction.

We are deeply concerned about social, racial and economic inequalities. We continue to work on fostering an inclusive culture at work and in our communities, particularly in the United States where the pain of racial inequity has been brought to the forefront of public awareness. As part of this work, Nestlé is donating USD 1.5 million to the National Urban League, UNCF and other organizations dedicated to ending racial discrimination and providing economic empowerment through education and job training.
From 2021, our company holiday calendar in the United States will include Juneteenth, a day of reflection that commemorates the freeing of enslaved people in America on June 19, 1865.

Outlook 2020

We expect full-year organic sales growth between 2% and 3%. The underlying trading operating profit margin is expected to improve. Underlying earnings per share in constant currency and capital efficiency are expected to increase. This guidance is based on our current knowledge of COVID-19 developments and assumes no material deterioration versus present conditions.

Paul Bulcke
Chairman of the Board

U. Mark Schneider
Chief Executive Officer

Key figures (consolidated)

Key figures in CHF

In millions (except for data per share)	January–June 2020	January–June 2019
Results		
Sales	41 152	45 456
Underlying Trading operating profit *	7 156	7 773
as % of sales	17.4%	17.1%
Trading operating profit *	6 970	7 058
as % of sales	16.9%	15.5%
Profit for the period attributable to shareholders of the parent (Net profit)	5 883	4 972
as % of sales	14.3%	10.9%
Balance sheet and cash flow statement		
Equity attributable to shareholders of the parent (a)	44 150	50 173
Net financial debt */(a)	33 441	38 344
Operating cash flow	4 185	5 159
Free cash flow *	3 278	4 050
Capital additions	2 788	1 658
Data per share		
Weighted average number of shares outstanding (in millions of units)	2 860	2 954
Basic earnings per share	2.06	1.68
Market capitalization	**297 641**	**296 342**

* Certain financial performance measures are not defined by IFRS. For further details, refer to the document "Alternative Performance Measures" published under www.nestle.com/investors/publications.

(a) Situation as at June 30.

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 2020	January–June 2019	January–June 2020	January–June 2019
	in USD	in USD	in EUR	in EUR
Sales	42 608	45 512	38 669	40 243
Underlying Trading operating profit *	7 409	7 782	6 724	6 881
Trading operating profit *	7 216	7 067	6 549	6 248
Profit for the period attributable to shareholders of the parent (Net profit)	6 092	4 978	5 529	4 401
Equity attributable to shareholders of the parent [(a)]	46 359	51 457	41 344	45 223
Basic earnings per share	2.13	1.68	1.94	1.49
Market capitalization	312 533	303 925	278 724	267 104

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(a) Situation as at June 30.

Consolidated income statement for the six months ended June 30, 2020

In millions of CHF	Notes	January–June 2020	January–June 2019
Sales	3	**41 152**	**45 456**
Other revenue		151	158
Cost of goods sold		(21 139)	(22 768)
Distribution expenses		(3 899)	(4 241)
Marketing and administration expenses		(8 375)	(10 032)
Research and development costs		(734)	(800)
Other trading income	5	73	89
Other trading expenses	5	(259)	(804)
Trading operating profit	3	**6 970**	**7 058**
Other operating income	5	1 656	142
Other operating expenses	5	(793)	(466)
Operating profit		**7 833**	**6 734**
Financial income		73	110
Financial expense		(520)	(614)
Profit before taxes, associates and joint ventures		**7 386**	**6 230**
Taxes		(1 998)	(1 711)
Income from associates and joint ventures	6	640	600
Profit for the period		**6 028**	**5 119**
of which attributable to non-controlling interests		145	147
of which attributable to shareholders of the parent (Net profit)		5 883	4 972
As percentages of sales			
Trading operating profit		16.9%	15.5%
Profit for the period attributable to shareholders of the parent (Net profit)		14.3%	10.9%
Earnings per share (in CHF)			
Basic earnings per share		2.06	1.68
Diluted earnings per share		2.05	1.68

Consolidated statement of comprehensive income for the six months ended June 30, 2020

In millions of CHF	Notes	January–June 2020	January–June 2019
Profit for the period recognized in the income statement		**6 028**	**5 119**
Currency retranslations, net of taxes		(1 144)	(560)
Fair value changes and recycling on cash flow hedges, net of taxes		(113)	(47)
Share of other comprehensive income of associates and joint ventures		(43)	20
Items that are or may be reclassified subsequently to the income statement		(1 300)	(587)
Remeasurement of defined benefit plans, net of taxes	12.4	(374)	(203)
Fair value changes on equity instruments, net of taxes		14	—
Share of other comprehensive income of associates and joint ventures		(6)	(14)
Items that will never be reclassified to the income statement		(366)	(217)
Other comprehensive income for the period		**(1 666)**	**(804)**
Total comprehensive income for the period		**4 362**	**4 315**
of which attributable to non-controlling interests		99	196
of which attributable to shareholders of the parent		4 263	4 119

Consolidated balance sheet as at June 30, 2020

In millions of CHF	Notes	June 30, 2020	December 31, 2019
Assets			
Current assets			
Cash and cash equivalents		3 467	7 469
Short-term investments		1 812	2 794
Inventories		10 454	9 343
Trade and other receivables		10 565	11 766
Prepayments and accrued income		798	498
Derivative assets		259	254
Current income tax assets		573	768
Assets held for sale	2	233	2 771
Total current assets		**28 161**	**35 663**
Non-current assets			
Property, plant and equipment		26 735	28 762
Goodwill		28 013	28 896
Intangible assets		18 522	17 824
Investments in associates and joint ventures		12 649	11 505
Financial assets		2 591	2 611
Employee benefits assets		419	510
Current income tax assets		—	55
Deferred tax assets		2 113	2 114
Total non-current assets		**91 042**	**92 277**
Total assets		**119 203**	**127 940**

In millions of CHF	Notes	June 30, 2020	December 31, 2019
Liabilities and equity			
Current liabilities			
Financial debt		12 266	14 032
Trade and other payables		16 767	18 803
Accruals and deferred income		4 380	4 492
Provisions		614	802
Derivative liabilities		644	420
Current income tax liabilities		2 994	2 673
Liabilities directly associated with assets held for sale	2	81	393
Total current liabilities		**37 746**	**41 615**
Non-current liabilities			
Financial debt		26 127	23 132
Employee benefits liabilities		6 126	6 151
Provisions		1 016	1 162
Deferred tax liabilities		2 779	2 589
Other payables		390	429
Total non-current liabilities		**36 438**	**33 463**
Total liabilities		**74 184**	**75 078**
Equity			
Share capital	8	298	298
Treasury shares		(13 644)	(9 752)
Translation reserve		(22 626)	(21 526)
Other reserves		(288)	(45)
Retained earnings		80 410	83 060
Total equity attributable to shareholders of the parent		**44 150**	**52 035**
Non-controlling interests		869	827
Total equity		**45 019**	**52 862**
Total liabilities and equity		**119 203**	**127 940**

Consolidated cash flow statement for the six months ended June 30, 2020

In millions of CHF	Notes	January–June 2020	January–June 2019
Operating activities			
Operating profit	7	7 833	6 734
Depreciation and amortization		1 708	1 864
Impairment		493	333
Net result on disposal of businesses		(1 482)	95
Other non-cash items of income and expense		35	(12)
Cash flow before changes in operating assets and liabilities	7	**8 587**	**9 014**
Decrease/(increase) in working capital		(2 339)	(2 510)
Variation of other operating assets and liabilities		(418)	(40)
Cash generated from operations		**5 830**	**6 464**
Interest paid		(466)	(514)
Interest received		60	88
Taxes paid		(1 288)	(1 497)
Dividends and interest from associates and joint ventures		49	618
Operating cash flow		**4 185**	**5 159**
Investing activities			
Capital expenditure		(875)	(1 079)
Expenditure on intangible assets		(101)	(222)
Acquisition of businesses	2	(1 586)	(52)
Disposal of businesses	2	3 764	21
Investments (net of divestments) in associates and joint ventures		(208)	(569)
Inflows (net of outflows) from treasury investments		933	5 375
Other investing activities		69	192
Investing cash flow		**1 996**	**3 666**
Financing activities			
Dividend paid to shareholders of the parent	8	(7 700)	(7 230)
Dividends paid to non-controlling interests		(60)	(195)
Acquisition (net of disposal) of non-controlling interests		3	5
Purchase (net of sale) of treasury shares		(4 232)	(4 149)
Inflows from bonds and other non-current financial debt		4 742	16
Outflows from bonds and other non-current financial debt		(1 949)	(1 156)
Inflows/(outflows) from current financial debt		(823)	3 937
Financing cash flow		**(10 019)**	**(8 772)**
Currency retranslations		(164)	(89)
Increase/(decrease) in cash and cash equivalents		**(4 002)**	**(36)**
Cash and cash equivalents at beginning of year		7 469	4 640
Cash and cash equivalents at end of period		**3 467**	**4 604**

Consolidated statement of changes in equity for the six months ended June 30, 2020

In millions of CHF

	Share capital	Treasury shares	Translation reserve	Other reserves	Retained earnings	**Total equity attributable to shareholders of the parent**	Non-controlling interests	**Total equity**
Equity as at January 1, 2019	**306**	**(6 948)**	**(20 432)**	**(183)**	**84 620**	**57 363**	**1 040**	**58 403**
Profit for the period	—	—	—	—	4 972	**4 972**	147	**5 119**
Other comprehensive income for the period	—	—	(614)	(23)	(216)	**(853)**	49	**(804)**
Total comprehensive income for the period	—	—	(614)	(23)	4 756	**4 119**	196	**4 315**
Dividends	—	—	—	—	(7 230)	**(7 230)**	(195)	**(7 425)**
Movement of treasury shares	—	(4 389)	—	—	152	**(4 237)**	—	**(4 237)**
Equity compensation plans	—	258	—	—	(180)	**78**	(1)	**77**
Changes in non-controlling interests	—	—	—	—	(15)	**(15)**	—	**(15)**
Reduction in share capital [(a)]	(8)	6 862	—	—	(6 854)	**—**	—	**—**
Total transactions with owners	(8)	2 731	—	—	(14 127)	**(11 404)**	(196)	**(11 600)**
Other movements	—	—	—	98	(3)	**95**	1	**96**
Equity as at June 30, 2019	**298**	**(4 217)**	**(21 046)**	**(108)**	**75 246**	**50 173**	**1 041**	**51 214**
Equity as at January 1, 2020	**298**	**(9 752)**	**(21 526)**	**(45)**	**83 060**	**52 035**	**827**	**52 862**
Profit for the period	—	—	—	—	5 883	**5 883**	145	**6 028**
Other comprehensive income for the period	—	—	(1 100)	(158)	(362)	**(1 620)**	(46)	**(1 666)**
Total comprehensive income for the period	—	—	(1 100)	(158)	5 521	**4 263**	99	**4 362**
Dividends	—	—	—	—	(7 700)	**(7 700)**	(60)	**(7 760)**
Movement of treasury shares	—	(4 239)	—	—	(1)	**(4 240)**	—	**(4 240)**
Equity compensation plans	—	347	—	—	(275)	**72**	(3)	**69**
Changes in non-controlling interests	—	—	—	—	(7)	**(7)**	6	**(1)**
Total transactions with owners	—	(3 892)	—	—	(7 983)	**(11 875)**	(57)	**(11 932)**
Other movements	—	—	—	(85)	(188)	**(273)**	—	**(273)**
Equity as at June 30, 2020	**298**	**(13 644)**	**(22 626)**	**(288)**	**80 410**	**44 150**	**869**	**45 019**

(a) Reduction in share capital, see Note 8.

Notes

1. Accounting policies

Basis of preparation

These Condensed Interim Financial Statements are the unaudited Condensed Interim Consolidated Financial Statements (hereafter "the Condensed Interim Financial Statements") of Nestlé S.A., a company registered in Switzerland, and its subsidiaries for the six-month period ended June 30, 2020. 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 December 31, 2019.

The accounting conventions and accounting policies are the same as those applied in the Consolidated Financial Statements for the year ended December 31, 2019 (as described in Note 1 and highlighted with a grey background in the relevant notes), except for the changes in accounting standards and changes in presentation mentioned below.

The preparation of the Condensed 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 Condensed Interim Financial Statements remain the same as those applied to the Consolidated Financial Statements for the year ended December 31, 2019, except for the impact of the COVID-19 pandemic (see Note 12).

Changes in presentation – analyses by segment

Following a change of business structure, effective as from January 1, 2020, Nestlé Waters has been managed as a Regionally Managed Business instead of a Globally Managed Business and consequently reported as part of Zone EMENA, Zone AMS and Zone AOA. This change impacts the Underlying and Trading operating profit of Unallocated items.

2019 comparatives have been adjusted (see Note 3).

Changes in accounting standards

In May 2020 the IASB issued COVID-19-Related Rent Concessions (Amendments to IFRS 16), which provides a practical expedient to not assess whether specific types of rent concessions related to COVID-19 are lease modifications. The Group has applied this amendment in these Condensed Interim Financial Statements (see Note 12). There was no impact on the prior period comparative figures.

A number of other standards have been modified on miscellaneous points with effect from January 1, 2020, which have no material impact on the Group's Financial Statements. These include Definition of a Business (Amendments to IFRS 3), Definition of Material (Amendments to IAS 1 and IAS 8) and Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7).

2. Scope of consolidation, acquisitions and disposals of businesses and assets held for sale

2.1 Modification of the scope of consolidation

Acquisitions

The significant acquisition during the 2020 interim period is:

– Zenpep, North America – nutritional health products (Nutrition and Health Science) – 100%, May.

There were no other significant acquisitions during the first six months of 2020 and no significant acquisitions during the comparative period.

Cash outflows for the 2020 interim period are mainly related to the acquisition of Zenpep and those of the comparative period mainly related to non-significant acquisitions.

Disposals

The significant disposal during the 2020 interim period is:

– US Ice Cream business, North America – ice cream (Milk products and Ice cream) – 100%, end of January.

The Herta charcuterie business has been disposed of during the 2020 interim period among other non-significant disposals. There were no significant disposals during the comparative period.

Cash inflows during the 2020 interim period are related mainly to the US Ice Cream business and other non-significant disposals. Cash inflows of the comparative period are related to non-significant disposals.

2.2 Acquisitions of businesses

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

In millions of CHF

			2020	2019
	Zenpep	Other	**Total**	**Total**
Property, plant and equipment	—	30	**30**	—
Intangible assets [(a)]	1 152	69	**1 221**	16
Inventories and other assets	38	56	**94**	1
Financial debt	—	(1)	**(1)**	—
Employee benefits, deferred taxes and provisions	—	(13)	**(13)**	—
Other liabilities	(6)	(29)	**(35)**	—
Fair value of identifiable net assets	**1 184**	**112**	**1 296**	**17**

(a) Mainly intellectual property rights, customer lists, trademarks and trade names, composed of CHF 0.9 billion (2019: CHF 0.01 billion) of finite life and of CHF 0.3 billion (2019: CHF nil) of indefinite life intangible assets.

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

The goodwill arising on acquisitions and the cash outflow are:

In millions of CHF

			2020	2019
	Zenpep	Other	Total	Total
Fair value of consideration transferred	**1 300**	**307**	**1 607**	**38**
Fair value of identifiable net assets	(1 184)	(112)	**(1 296)**	**(17)**
Goodwill	**116**	**195**	**311**	**21**

In millions of CHF

			2020	2019
	Zenpep	Other	Total	Total
Fair value of consideration transferred	**1 300**	**307**	**1 607**	**38**
Cash and cash equivalents acquired	—	(4)	**(4)**	**—**
Consideration payable	(38)	(5)	**(43)**	**(8)**
Payment of consideration payable on prior years acquisitions	—	26	**26**	**22**
Cash outflow on acquisitions	**1 262**	**324**	**1 586**	**52**

The consideration transferred consists of payments made in cash with some consideration remaining payable.

Zenpep

On May 11, 2020, Nestlé acquired the Zenpep gastrointestinal medication business from Allergan. This expands Nestlé Health Science Medical Nutrition business and complements its portfolio of therapeutic products. *Zenpep*, available in the United States, is a medication for people who cannot digest food properly because their pancreas does not provide enough enzymes to break down fat, protein and carbohydrates. The goodwill arising on this acquisition includes elements such as market share and growth potential in the areas of digestive diseases through current Nestlé Health Science Medical Nutrition business. It is expected to be deductible for tax purposes.

Sales and profit for the period of the Zenpep business included in the 2020 Condensed Interim Financial Statements amount respectively to CHF 41 million and CHF 3 million. The Group's total sales and profit for the period would have respectively amounted to CHF 41 254 million and CHF 6039 million if the acquisition had been effective January 1, 2020.

Acquisition-related costs

Acquisition-related costs have been recognized under other operating expenses in the income statement (see Note 4.2) for an amount of CHF 13 million (2019: CHF 7 million).

Acquisition after June 30, 2020

In early July, the Group closed the non-significant acquisition of a majority stake in Vital Proteins, an American collagen brand and a lifestyle and wellness platform offering supplements, beverages, and food products.

2.3 Disposals of businesses

The gain on disposal of businesses of the 2020 interim period is mainly composed of the gain on disposal of the US Ice Cream business (part of the Zone AMS operating segment) and the gain on disposal of the Herta charcuterie business, included in Other.

In millions of CHF	January–June 2020			January–June 2019
	US Ice Cream	Other	**Total**	**Total**
Property, plant and equipment	453	259	**712**	**76**
Goodwill and intangible assets	1 673	141	**1 814**	**16**
Cash, cash equivalents and short-term investments	1	45	**46**	**9**
Inventories	189	56	**245**	**8**
Other assets	41	121	**162**	**101**
Financial liabilities	(36)	(16)	**(52)**	**(20)**
Deferred tax liabilities	(85)	(29)	**(114)**	**(2)**
Other liabilities	—	(257)	**(257)**	**(52)**
Net assets disposed of or impaired after classification as held for sale	**2 236**	**320**	**2 556**	**136**
Cumulative other comprehensive income items, net, reclassified to income statement	612	77	**689**	**—**
Profit/(loss) on disposals, net of disposal costs and impairments of assets held for sale	1 072	410	**1 482**	**(95)**
Total disposal consideration, net of disposal costs	**3 920**	**807**	**4 727**	**41**
Cash and cash equivalents disposed of	(1)	(45)	**(46)**	**—**
Disposal costs not yet paid	14	5	**19**	**22**
Loan granted to Froneri	(582)	—	**(582)**	**—**
Shares in Herta associate	—	(273)	**(273)**	**—**
Consideration receivable	—	(81)	**(81)**	**(46)**
Receipt of consideration receivable on prior years' disposals	—	—	**—**	**4**
Cash inflow on disposals, net of disposal costs	**3 351**	**413**	**3 764**	**21**

The loss on disposal of businesses of the 2020 interim and comparative period was composed of non-significant disposals.

2.4 Assets held for sale

There are no significant assets held for sale and liabilities directly associated with assets held for sale as of June 30, 2020.

As of December 31, 2019, assets held for sale and liabilities directly associated with assets held for sale were mainly composed of the US Ice Cream business and the Herta charcuterie business. Both businesses have been disposed of during the 2020 interim period (see Note 2.3).

In millions of CHF	June 30, 2020	December 31, 2019		
	Total	US Ice Cream	Other	**Total**
Property, plant and equipment	**168**	442	301	**743**
Goodwill and intangible assets	**36**	1 670	—	**1 670**
Inventories	**7**	162	33	**195**
Deferred taxes	**—**	—	12	**12**
Other assets	**22**	36	115	**151**
Assets held for sale	**233**	**2 310**	**461**	**2 771**
Financial liabilities	**(1)**	(21)	(17)	**(38)**
Deferred taxes	**(6)**	(100)	(26)	**(126)**
Employee benefits and provisions	**(1)**	—	(42)	**(42)**
Other liabilities	**(73)**	(11)	(176)	**(187)**
Liabilities directly associated with assets held for sale	**(81)**	**(132)**	**(261)**	**(393)**
Net assets held for sale	**152**	**2 178**	**200**	**2 378**

3. Analyses by segment

3.1 Operating segments

Revenue and results

In millions of CHF — January–June 2020

	Sales (a)	Underlying Trading operating profit (b)	Trading operating profit	Net other trading income/(expenses) (c)	of which impairment of property, plant and equipment	of which restructuring costs	Depreciation and amortization
Zone EMENA	10 029	1 840	1 764	(76)	(18)	(51)	(425)
Zone AMS	16 674	3 150	3 129	(21)	(10)	1	(616)
Zone AOA	10 062	2 282	2 234	(48)	(28)	(18)	(355)
Other businesses (d)	4 387	976	976	—	1	1	(254)
Unallocated items (e)	—	(1 092)	(1 133)	(41)	(19)	1	(58)
Total	**41 152**	**7 156**	**6 970**	**(186)**	**(74)**	**(66)**	**(1 708)**

In millions of CHF — January–June 2019 *

	Sales (a)	Underlying Trading operating profit (b)	Trading operating profit	Net other trading income/(expenses) (c)	of which impairment of property, plant and equipment	of which restructuring costs	Depreciation and amortization
Zone EMENA	10 572	1 891	1 790	(101)	(12)	(94)	(438)
Zone AMS	18 059	3 309	2 800	(509)	(214)	(183)	(659)
Zone AOA	10 994	2 518	2 439	(79)	(32)	(12)	(391)
Other businesses (d)	5 831	1 144	1 140	(4)	19	(9)	(266)
Unallocated items (e)	—	(1 089)	(1 111)	(22)	—	(8)	(110)
Total	**45 456**	**7 773**	**7 058**	**(715)**	**(239)**	**(306)**	**(1 864)**

* 2019 comparatives adjusted following a change of business structure, see Note 1 Accounting policies, Changes in presentation – analyses by segment.

(a) Inter-segment sales are not significant.
(b) Trading operating profit before Net other trading income/(expenses).
(c) Included in Trading operating profit.
(d) Mainly Nespresso, Nestlé Health Science and in addition Nestlé Skin Health in 2019 (until beginning of October 2019).
(e) Mainly corporate expenses as well as research and development costs.

Other information

In millions of CHF	January–June 2020		January–June 2019 *	
	Impairment of goodwill and non-commercialized intangible assets (c)	Impairment of intangible assets (d)	Impairment of goodwill and non-commercialized intangible assets (c)	Impairment of intangible assets (d)
Zone EMENA	—	—	(52)	—
Zone AMS	(30)	—	(25)	(9)
Zone AOA	—	—	(8)	—
Other businesses (a)	(389)	—	—	—
Unallocated items (b)	—	—	—	—
Total	**(419)**	**—**	**(85)**	**(9)**

* 2019 comparatives adjusted following a change of business structure, see Note 1 Accounting policies, Changes in presentation – analyses by segment.

(a) Mainly Nespresso, Nestlé Health Science and in addition Nestlé Skin Health in 2019 (until beginning of October 2019).
(b) Mainly corporate and research and development assets.
(c) Included in Operating profit.
(d) Included in Trading operating profit.

3.2 Products
Revenue and results

In millions of CHF — January–June 2020

	Sales	Underlying Trading operating profit (a)	Trading operating profit	Net other trading income/(expenses) (b)	of which impairment of property, plant and equipment	of which restructuring costs
Powdered and Liquid Beverages	10 740	2 456	2 420	(36)	(4)	(6)
Water	3 229	272	244	(28)	(13)	(4)
Milk products and Ice cream	5 392	1 231	1 214	(17)	(8)	(4)
Nutrition and Health Science	6 010	1 401	1 392	(9)	—	(2)
Prepared dishes and cooking aids	5 827	1 071	1 056	(15)	(3)	(41)
Confectionery	2 973	280	226	(54)	(28)	(12)
PetCare	6 981	1 537	1 551	14	1	2
Unallocated items (c)	—	(1 092)	(1 133)	(41)	(19)	1
Total	**41 152**	**7 156**	**6 970**	**(186)**	**(74)**	**(66)**

In millions of CHF — January–June 2019 *

	Sales	Underlying Trading operating profit (a)	Trading operating profit	Net other trading income/(expenses) (b)	of which impairment of property, plant and equipment	of which restructuring costs
Powdered and Liquid Beverages	11 367	2 619	2 577	(42)	(12)	(18)
Water	3 786	455	312	(143)	(32)	(87)
Milk products and Ice cream	6 539	1 236	1 026	(210)	(97)	(61)
Nutrition and Health Science	7 822	1 800	1 756	(44)	(5)	(17)
Prepared dishes and cooking aids	5 938	1 025	809	(216)	(85)	(84)
Confectionery	3 450	408	378	(30)	(8)	(12)
PetCare	6 554	1 319	1 311	(8)	—	(19)
Unallocated items (c)	—	(1 089)	(1 111)	(22)	—	(8)
Total	**45 456**	**7 773**	**7 058**	**(715)**	**(239)**	**(306)**

* 2019 comparatives adjusted following a change of business structure, see Note 1 Accounting policies, Changes in presentation – analyses by segment.

(a) Trading operating profit before Net other trading income/(expenses).
(b) Included in Trading operating profit.
(c) Mainly corporate expenses as well as research and development costs.

Other information

In millions of CHF	January–June 2020		January–June 2019 *	
	Impairment of goodwill and non-commercialized intangible assets (b)	Impairment of intangible assets (c)	Impairment of goodwill and non-commercialized intangible assets (b)	Impairment of intangible assets (c)
Powdered and Liquid Beverages	(383)	—	(18)	—
Water	—	—	(13)	—
Milk products and Ice cream	—	—	(10)	(5)
Nutrition and Health Science	(6)	—	—	—
Prepared dishes and cooking aids	(30)	—	(10)	(4)
Confectionery	—	—	(28)	—
PetCare	—	—	—	—
Unallocated items (a)	—	—	(6)	—
Total	**(419)**	**—**	**(85)**	**(9)**

* 2019 comparatives adjusted following a change of business structure, see Note 1 Accounting policies, Changes in presentation – analyses by segment.

(a) Mainly corporate and research and development assets.
(b) Included in Operating profit.
(c) Included in Trading operating profit.

3.3 Sales by geographic area (country and type of market)

In millions of CHF	January–June 2020	January–June 2019
EMENA	**12 085**	**13 143**
France	2 045	2 203
United Kingdom	1 328	1 392
Germany	1 193	1 314
Russia	762	786
Italy	722	847
Spain	690	759
Switzerland	541	568
Rest of EMENA	4 804	5 274
AMS	**18 355**	**20 459**
United States	12 753	13 932
Brazil	1 344	1 751
Mexico	1 248	1 441
Canada	959	995
Rest of AMS	2 051	2 340
AOA	**10 712**	**11 854**
Greater China Region	2 718	3 430
Philippines	1 446	1 321
India	790	821
Japan	728	848
Indonesia	667	664
Rest of AOA	4 363	4 770
Total sales	**41 152**	**45 456**
of which developed markets	23 987	26 121
of which emerging markets	17 165	19 335

3.4 Reconciliation from Underlying Trading operating profit to profit before taxes, associates and joint ventures

In millions of CHF	January–June 2020	January–June 2019
Underlying Trading operating profit (a)	**7 156**	**7 773**
Net other trading income/(expenses)	(186)	(715)
Trading operating profit	**6 970**	**7 058**
Impairment of goodwill and non-commercialized intangible assets	(419)	(85)
Net other operating income/(expenses) excluding impairment of goodwill and non-commercialized intangible assets	1 282	(239)
Operating profit	**7 833**	**6 734**
Net financial income/(expense)	(447)	(504)
Profit before taxes, associates and joint ventures	**7 386**	**6 230**

(a) Trading operating profit before Net other trading income/(expenses).

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 2020	January–June 2019
Other trading income	**73**	**89**
Restructuring costs	(66)	(306)
Impairment of property, plant and equipment and intangible assets (a)	(74)	(248)
Litigations and onerous contracts	(105)	(171)
Miscellaneous trading expenses	(14)	(79)
Other trading expenses (b)	**(259)**	**(804)**
Total net other trading income/(expenses)	**(186)**	**(715)**

(a) Excluding non-commercialized intangible assets.
(b) January–June 2019: included one-off costs of CHF 395 million related to the decision by the Group, in the second quarter of 2019, to exit the Direct-Store-Delivery (DSD) network in the USA for Frozen Pizza and Ice Cream. Those costs included impairment charges related to property, plant and equipment which will no longer be used as a result of the exit of the DSD network; restructuring costs; and onerous contracts and other expenses.

5.2 Net other operating income/(expenses)

In millions of CHF	Notes	January–June 2020	January–June 2019
Profit on disposal of businesses	2	1 609	73
Miscellaneous operating income		47	69
Other operating income		**1 656**	**142**
Loss on disposal of businesses	2	(127)	(168)
Impairment of goodwill and non-commercialized intangible assets (a)		(419)	(85)
Miscellaneous operating expenses		(247)	(213)
Other operating expenses		**(793)**	**(466)**
Total net other operating income/(expenses)		**863**	**(324)**

(a) Of which CHF 6 million (January–June 2019: CHF nil) of non-commercialized intangible assets.

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 2020	January–June 2019
Profit for the period	**6 028**	**5 119**
Income from associates and joint ventures	(640)	(600)
Taxes	1 998	1 711
Financial income	(73)	(110)
Financial expense	520	614
Operating profit	**7 833**	**6 734**
Depreciation of property, plant and equipment	1 571	1 757
Impairment of property, plant and equipment	74	239
Impairment of goodwill	413	85
Amortization of intangible assets	137	107
Impairment of intangible assets	6	9
Net result on disposal of businesses	(1 482)	95
Net result on disposal of assets	(27)	19
Non-cash items in financial assets and liabilities	(1)	(86)
Equity compensation plans	61	63
Other	2	(8)
Non-cash items of income and expense	**754**	**2 280**
Cash flow before changes in operating assets and liabilities	**8 587**	**9 014**

8. Equity

8.1 Share capital

In 2019 the share capital changed as a consequence of the share buyback program launched in July 2017 and completed at the end of December 2019. The cancellation of 87 000 000 shares was approved at the Annual General Meeting on April 11, 2019, reducing the share capital from CHF 306 million to CHF 298 million.

At June 30, 2020, the share capital of Nestlé S.A. is composed of 2 976 000 000 registered shares with a nominal value of CHF 0.10 each.

Linked to the share buyback program mentioned above, the Annual General Meeting on April 23, 2020, approved a further cancellation of share of 95 000 000 shares reducing the share capital from CHF 298 million to CHF 288 million. It has been registered on July 1, 2020.

Started in January 2020, a share buyback program of up to CHF 20 billion was still ongoing at end of June 2020, and is expected to be completed by the end of December 2022. It is subject to market conditions and strategic opportunities.

8.2 Dividend

The dividend related to 2019 was paid on April 29, 2020, in accordance with the decision taken at the Annual General Meeting on April 23, 2020. Shareholders approved the proposed dividend of CHF 2.70 per share, resulting in a total dividend of CHF 7700 million.

9. Fair value of financial instruments

9.1 Fair value hierarchy

In millions of CHF	June 30, 2020	December 31, 2019
Derivative assets	33	135
Bonds and debt funds	1 774	573
Equity and equity funds	243	211
Other financial assets	12	3
Derivative liabilities	(92)	(22)
Prices quoted in active markets (Level 1)	**1 970**	**900**
Derivative assets	226	119
Bonds and debt funds	512	488
Equity and equity funds	203	248
Other financial assets	697	720
Derivative liabilities	(552)	(398)
Valuation techniques based on observable market data (Level 2)	**1 086**	**1 177**
Valuation techniques based on unobservable input (Level 3)	**104**	**91**
Total financial instruments at fair value	**3 160**	**2 168**

The fair values categorized in level 2 above were determined as follows:
- Derivatives are valued based on discounted contractual cash flows using risk adjusted discount rates and relying on observable market data for interest rates and foreign exchange rates; and
- The other level 2 investments are based on a valuation model derived from the most recently published observable financial prices for similar assets in active markets.

There have been no significant transfers between the different hierarchy levels in the 2020 and the 2019 interim periods.

9.2 Carrying amount and fair value

As at June 30, 2020, the carrying amount of bonds issued is CHF 25.4 billion (December 31, 2019: CHF 22.5 billion), compared to a fair value of CHF 27.6 billion (December 31, 2019: CHF 23.9 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

In millions of CHF								January–June 2020
Issuer		Face value in millions	Coupon	Effective interest rates	Year of issue/ maturity	Comments		Amount
New issues								
Nestlé Finance International Ltd., Luxembourg	EUR	650	0.00%	0.05%	2020–2024			690
	EUR	1 000	1.13%	1.27%	2020–2026			1 055
	EUR	850	0.13%	0.25%	2020–2027			896
	EUR	1 000	1.50%	1.63%	2020–2030			1 052
	EUR	1 000	0.38%	0.56%	2020–2032			1 042
Total new issues								**4 735**
Repayments								
Nestlé Finance International Ltd., Luxembourg	EUR	500	1.25%	1.30%	2013–2020			(532)
Nestlé Holdings, Inc., USA	AUD	250	4.25%	4.43%	2014–2020	(a)		(218)
	USD	650	2.13%	2.27%	2014–2020			(628)
	NOK	1 000	2.75%	2.85%	2014–2020	(a)		(162)
Total repayments								**(1 540)**

(a) Subject to derivatives that create debts in the currency of the issuer.

11. Impairment testing

11.1 CGUs identified for testing Goodwill

The Group reviewed the Cash Generating Units (CGUs) identified for testing goodwill to re-align them with the way in which management monitors goodwill and manages the operations. This as a result of the change in business organization and operating segments related to Nestlé Waters described in Note 1 which was announced in mid-October 2019 and took effect on January 1, 2020, and similar changes to formerly Globally Managed Businesses (GMB) over the past several years.

As a consequence of this review, with effect from January 1, 2020, the CGUs are generally defined at the level of the product category per Zone, or at the level of the GMB if the products are managed on a global basis. The number of CGUs identified for testing goodwill declined from more than 50 to approximately 35.

The recoverable amount of these CGUs will usually be determined based on their fair value less costs of disposal but occasionally based on their value in use. The fair value less costs of disposal corresponds to their future projected cash flows discounted at an appropriate post-tax discount rate which would be used by a market participant.

11.2 Impairment charges during the period

Impairment charges of CHF 419 million related to non-significant impairments of goodwill and non-commercialized intangible assets (mainly in Other businesses) were recognized, primarily as a result of revisions to projected cash flows after taking into consideration the impact of the COVID-19 pandemic (see Note 12.2). Impairment charges of CHF 74 million related to property, plant and equipment were recognized during the first half of 2020 (see Notes 3 and 5.1), due to the Group's ongoing rationalization of production facilities.

The impairment charges in the corresponding period of 2019 were mainly related to property, plant and equipment, particularly items no longer needed as a result of the exit from the Direct-Store-Delivery (DSD) network in the USA for frozen Pizza and Ice Cream.

12. Impacts of COVID-19

On March 11, 2020, the World Health Organization designated a new coronavirus disease ("COVID-19") as a global pandemic. Governments around the world have implemented public health and social measures to slow the transmission of the virus. These include physical and social distancing measures (cancellation of events and limitations on mass gatherings, orders to stay at or work from home, closure of schools), movement measures (significant restrictions on domestic and international travel, implementing quarantines or isolation of arriving travelers). These measures have had a significant impact on certain businesses (particularly tourism, retail and restaurants), leading to economic fallout and uncertainty.

The Group has assessed the consequences of the COVID-19 pandemic on the Interim Financial Statements, specifically considering the impacts on key judgements and significant estimates as detailed on page 73 of the Consolidated Financial Statements of the Nestlé Group 2019. The Group will continue to monitor these areas of increased risk for material changes.

12.1 Liquidity and financing

The Group had sufficient liquidity and access to committed credit facilities to meet all short-term financial obligations. Several measures have been taken to secure further liquidity such as issuing Eurobonds in April and May 2020 totaling EUR 4.5 billion, extending debt maturities and reducing the weight of commercial papers. The ratio non-current debt to net debt has increased from 62% in June 2019 to 78% in June 2020.

Counterparty and foreign exchange risk continue to be actively managed, in line with the Group's normal risk management approach as described on pages 123 to 129 of the Consolidated Financial Statements of the Nestlé Group 2019.

12.2 Impairment of Goodwill, intangible assets and property, plant and equipment

Impairment tests have been performed using forecasted cash flows which take into account the foreseeable impacts of the COVID-19 related measures and economic outlook. This particularly relates to scenarios where out-of-home and on-the-go consumption does not return to former levels in a sustained manner and where government agencies periodically re-impose physical and social distancing measures. This impacts notably our businesses in out-of-home channels.

As a result of these revised forecasts, an impairment charge related to goodwill has been recognized in Other operating expenses (see Notes 3, 5.2 and 11.2).

12.3 Working capital and supply chain

Working capital increased compared to December 2019, as a result of higher levels of raw and packaging material inventories to ensure that production and sales continued despite potential disruptions. Trade receivables and trade payables were lower than December 2019 levels due to seasonal factors.

Customer receivables balances are reviewed closely and changes in creditworthiness, including those related to COVID-19, are integrated into the assessment of credit risk and expected credit losses. Forward-looking information about the expected economic effects of the pandemic have been considered. At the end of June 2020 this has particularly affected customers in the out-of-home channel, where the impact of public health and social measures have been severe. The resulting increase in allowances for bad debts of CHF 30 million has been reflected in the trade and other receivables.

12.4 Post-employment benefits

Net post-employment benefits have been impacted by a loss of CHF 374 million (net of taxes of CHF 94 million) linked to re-measurement on defined benefit plans due to an increase of asset values of CHF 295 million which was more than offset by an increase of defined benefit obligations of CHF 763 million due to lower discount rates in average across the Group.

12.5 Impact on Operating Profit

Due to the pervasive effects of COVID-19 it is not possible to precisely identify and quantify all impacts on the Operating Profit of the Group.

The main COVID-19 related incremental costs affecting the results are estimated at CHF 290 million, as follows:

In millions of CHF

Type of cost	Approximate amount
Wage premiums and bonuses for front line workers, safety related costs (gloves, masks, cleaning and sanitizing, screening), meals, allowances and benefits	230
Donations to governments and charities	60
Unsaleable inventories and other incremental expenses	40
COVID-19 related assistance and rent relief (a)	(40)
Incremental costs	**290**
Approximate allocation by function:	
Cost of goods sold	110
Distribution expenses	10
Marketing and administration expenses	90
Other operating expenses	80
Incremental costs	**290**

(a) The Group recorded temporary cost reductions of CHF 34 million under economic stimulus policies implemented unilaterally by governments and applicable to all companies, and CHF 6 million of COVID-19 related rent relief (see Note 1) from lessors.

In addition, the Group absorbed around CHF 100 million of salaries of staff made idle and depreciation of around CHF 20 million related to boutiques and other facilities/sites closed due to public health and social measures imposed by government authorities.

COVID-19 related measures also led to reductions of travel, training and meeting expenses, among others. In addition, many markets could not implement in-store activations during COVID-19 related lockdowns.

13. Events after the balance sheet date

As at July 29, 2020, except the registration of the reduction of share capital mentioned in Note 8.1, the Group has no subsequent events which either warrant a modification of the value of its assets and liabilities or any additional disclosure.

Principal exchange rates

CHF per		June 2020	December 2019	June 2019	January–June 2020	January–June 2019
			Ending rates		Weighted average rates	
1 US Dollar	USD	0.952	0.969	0.975	0.966	0.999
1 Euro	EUR	1.068	1.086	1.109	1.064	1.130
100 Chinese Yuan Renminbi	CNY	13.472	13.911	14.202	13.729	14.720
100 Brazilian Reais	BRL	17.502	24.042	25.235	19.710	25.994
100 Philippine Pesos	PHP	1.910	1.912	1.903	1.908	1.916
1 Pound Sterling	GBP	1.169	1.272	1.236	1.215	1.294
100 Mexican Pesos	MXN	4.122	5.124	5.082	4.509	5.214
1 Canadian Dollar	CAD	0.696	0.743	0.745	0.706	0.750
100 Japanese Yen	JPY	0.885	0.892	0.905	0.893	0.909
1 Australian Dollar	AUD	0.653	0.679	0.684	0.633	0.706
100 Russian Rubles	RUB	1.356	1.563	1.544	1.385	1.535

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

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October 21, 2020
2020 Nine months sales figures

February 18, 2021
2020 Full-Year Results

April 15, 2021
154th Annual General Meeting, Beaulieu Lausanne, Lausanne (Switzerland)

The *Half-Year Report* contains forward looking statements which reflect Management's current views and estimates. The forward looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those contained in the forward looking statements. Potential risks and uncertainties include such factors as general economic conditions, foreign exchange fluctuations, competitive product and pricing pressures, and regulatory developments.

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