Half-Yearly Report

Good Food, Good Life

January–June 2012

Shareholder information

Stock exchange listing
Nestlé S.A. shares are listed on the SIX Swiss Exchange (ISIN code: CH0038863350). American Depositary Receipts (ADRs) (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 on-line as a PDF file in English, French and German.

The Company offers the possibility of depositing, free of charge, Nestlé S.A. shares traded on the SIX Swiss Exchange.

Nestlé URL: www.nestle.com

Important dates
18 October 2012
2012 Nine months sales figures

14 February 2013
2012 Full Year Results

11 April 2013
146th Annual General Meeting, “Beaulieu Lausanne”, Lausanne (Switzerland)

Letter to shareholders

Fellow shareholders,

Our first-half performance shows the relevance of our strategic roadmap in today's new reality and demonstrates our swift and disciplined execution behind it, making the right choices at the right time. We continue to drive innovation globally, ranging from popularly positioned products (PPPs) to super premium offerings. We are continually opening new routes-to-market to reach emerging consumers, and using new media to increase both our direct engagement with consumers and our return on brand investment. This approach has delivered profitable growth in both emerging and developed markets. Our first-half top line growth and our trading operating profit margin, together with our focus on capital efficiency, allow us to reconfirm our full-year outlook.

First-half results

In the first half of 2012, the Nestlé Group's organic growth was 6.6%, composed of real internal growth of 2.9% and pricing of 3.7%. The impact of foreign exchange eased to –1.8%. Acquisitions, net of divestitures, contributed 2.7%. Total Group sales increased 7.5% to CHF 44.1 billion.

As expected, input cost pressure resulted in an increase in the cost of goods sold, of 50 basis points. This was mitigated by savings from Nestlé Continuous Excellence implemented throughout all our structures and activities, as well as timely pricing. Distribution costs decreased by 30 basis points, mainly due to the cumulative effects in mix and efficiencies. Marketing and administration costs were down 20 basis points. Consumer facing marketing spend is up in constant currencies and is being used more efficiently and effectively, increasing the return on investment in our brands and support for launch activities globally. We continued to invest in R&D (unchanged at 1.6% of sales), driving our innovation.

The Group's trading operating profit (TOP) was CHF 6.6 billion, up 6.3% from CHF 6.2 billion in the first half of 2011. The margin was 15.0%, in line with our expectation that our margin performance would be second-half weighted. Net profit was CHF 5.1 billion, up 8.9% from CHF 4.7 billion. The underlying earnings per share (EPS) rose 12.4% in constant currencies. The reported EPS was CHF 1.61 up 10.3% from CHF 1.46 in the first half 2011.

The Group's operating cash flow was CHF 5.1 billion, up from CHF 2.1 billion in 2011, due to improvements in operations and working capital.

Business review

The Nestlé Group continued to grow in all regions of the world: the Americas achieved organic growth of 6.4%, Europe 2.6% and Asia, Oceania and Africa 12.6%. Our business grew 12.9% in emerging markets and 2.6% in developed markets.

Zone Americas: Sales CHF 13.4 billion, 5.7% organic growth, –0.1% real internal growth; 17.4% TOP margin, +10 basis points.

Almost all categories contributed to the Zone's growth, while the trading environment, particularly in North America, remained challenging.

In North America, where consumer confidence continued to be low, several food categories were under pressure including frozen food. In pizza, however, we were able to further improve our leading position driven by *DiGiorno* with new ranges such as *Pizza Dipping Strips* and *Italian Style Favorites*. The innovations and related communications in *Lean Cuisine* resulted in a return to growth. In ice cream, we saw growth in super-premium and snacks, but not in the premium category. *Coffee-mate* delivered high single-digit growth, continuing to build on the 2011 launch of *Coffee-mate Natural Bliss* its range of natural liquid creamers. Soluble coffee and confectionery contributed positively thanks to core brands, PPPs and innovations such as *Nescafé Memento* and *Skinny Cow*. Petcare continued to outperform the market, driven by expansion into new channels and new product innovation such as *Beneful Baked Delights*, and *Friskies Plus*, as well as a push into the specialty channel.

In Latin America, the two largest markets Brazil and Mexico had a good start to the year as did the southern countries of South America. Among categories, the key growth drivers were soluble coffee, with *Nescafé Dolca* and *Nescafé Dolce Gusto*, and chocolate, with the *KitKat* launch and *Garoto* brand in Brazil. Launches included *Acticol* milk in Chile and Mexico and peelable ice cream, already a success in Zone Asia, Oceania and Africa. Petcare achieved double-digit growth in the region, with highlights being *Purina Proplan*, *Dog Chow*, *Cat Chow* and *Friskies*.

The Zone's trading operating profit margin of 17.4% improved 10 basis points.

Zone Europe: Sales CHF 7.4 billion, 2.4% organic growth, 0.1% real internal growth; 15.4% TOP margin, –100 basis points.

The key contributors to the Zone's growth, in an environment which deteriorated during the year particularly in Southern Europe, were innovation and roll-outs in premium and PPPs. Overall the Zone was able to hold market share gains made in 2011.

In Western Europe, France, the Great Britain and the Benelux regions were highlights, while there was also growth in the Iberian region, Italy and Greece.

In Central and Eastern Europe, the Ukraine, Adriatic and Romanian markets continued to deliver strong performances. In Russia, where trading conditions have been tough for a while, our business experienced a pick-up in growth.

Billionaire brands such as *Nescafé*, *KitKat* and *Herta* and innovation platforms such as *Nescafé Dolce Gusto* continued to drive growth in their categories. Ice cream saw good growth in Greece, Russia and Italy, but the season had a poor start in Northern Europe. Our PPPs continued to grow well above the Zone average, examples being *Nescafé 3-in-1* soluble coffee and *Pirulo Jungly*, our peelable ice cream. Petcare had a strong first half continuing its growth momentum, with key brands such as *Gourmet*, *ONE*, *Pro Plan* and *Felix* performing strongly.

The Zone's trading operating profit margin declined by 100 basis points versus half year 2011. This performance comes after a 200 basis points improvement in the first half of last year, which was due to lower restructuring and pension costs. The Zone continued to increase its operational performance and efficiencies in 2012, with increased savings from Nestlé Continuous Excellence, and it benefited from bringing increased value to its categories through innovation and renovation.

Zone Asia, Oceania and Africa: Sales CHF 9.2 billion, 11.6% organic growth, 8.0% real internal growth, TOP margin of 18.9%, –60 basis points.

The Zone continued to post double-digit growth, building on a strong 2011, as we embraced the many opportunities in the region while at the same time consolidating our positions. The main drivers of this performance were brand investment and product innovation, deeper and wider distribution with a multi-tier strategy from PPPs to premiumisation, while investing in capacity and capabilities for future growth. Yinlu and Hsu Fu Chi, our two new Chinese partnerships, continued to integrate well and make good progress.

The emerging markets delivered double-digit growth in almost all geographies and categories, most notably in Greater China, Africa and the Middle East. In China there was a strong performance in ready-to-drink with *Nescafé Smoovlatté*, in ambient culinary with *Totole*, and in confectionery with *Shark* wafer. Our new partnerships are enhancing significantly our footprint in China. Africa's growth was driven by PPPs, many of which are fortified with micronutrients to help counter the region's micronutrient deficiencies. In Egypt we built on the success of innovations in ice cream and in South Africa we launched sachets for the extremely popular *Nescafé Ricoffy*. The Middle East had an outstanding performance with *KitKat*, *Nido* fortified milks and growing up milks, and *Nescafé*. India continued to do well thanks to *KitKat*, *Munch* and *Maggi* noodles.

Amongst the Zone's developed markets Japan's growth accelerated during the year with innovations such as *Nescafé Barista* and *Nescafé Dolce Gusto*. *KitKat* also had a strong first half. The renewed growth in Japan was also driven by strong digital communication in the areas of consumer relationship marketing and e-commerce.

The Zone's like-for-like trading operating profit margin improved, whereas the reported figure of 18.9% shows the expected dilution from the partnerships in China, which remain accretive in both cash flow and earnings per share.

Nestlé Waters: Sales CHF 3.6 billion, 5.6% organic growth, 3.5% real internal growth; TOP margin of 10.0%, +140 basis points.

Nestlé Waters' growth was driven by North America and emerging markets. The water category continued to evolve positively overall. *Nestlé Pure Life* drove our geographic expansion in emerging markets, as did our international brands *Perrier* and *S.Pellegrino* globally.

North America maintained its momentum from 2011 both in the retail and home and office channels. All tiers of our business, from *Nestlé Pure Life* at the value end, to the regional waters such as *Poland Spring* and *Ice Mountain*, to the premium international sparkling waters such as *Perrier* and *S.Pellegrino* contributed to this performance.

Growth in Europe was impacted by a slow start generally to the season in contrast to 2011. However there was double-digit growth in the UK thanks to the strong performance of *Nestlé Pure Life* and *Buxton*. *Perrier* also had a strong start, helped by its new advertisement "The Drop" which generated 3.6 million YouTube views in less than a month.

The emerging markets delivered double-digit growth with *Nestlé Pure Life* and the local brands, such as *Al Manhal* in Saudi Arabia, *Minéré* in Thailand and *Baraka* in Egypt contributing.

The trading operating profit margin for Nestlé Waters increased by 140 basis points thanks to continued growth, product mix, effective pricing and cost management initiatives.

Nestlé Nutrition: Sales CHF 3.8 billion, 5.7% organic growth, 2.0% real internal growth; TOP margin of 20.6%, –50 basis points.

Infant Nutrition achieved double-digit growth across the emerging markets, a performance which resulted in share gains in many markets. In spite of slower category growth in developed markets, our infant formula business was nonetheless able to deliver double-digit growth globally. In Latin America we continued to build on the momentum across our existing product range, helped by the newly launched anti-reflux infant formula *Nestlé NAN AR* and a new *Gerber* shelf-stable infant dairy product. South Asia had successful launches with *Lactogen Gut Comfort* and *Baby&Me*, a maternal nutritional supplement. In South East Asia we continued the roll out of our anti-colic formula. In general, infant cereals continued to do well with the probiotics expansion started in late 2011 with the Middle East a highlight.

In Performance Nutrition a major revamp of our portfolio to refocus on high-performance athletes, combined with successful product launches, drove strong momentum and good growth. Our Weight Management business, Jenny Craig, remained challenged in North America, affected by the economic and competitive environment. We are taking corrective actions.

Nestlé Nutrition's trading operating profit margin was 20.6%, down 50 basis points, reflecting the challenges at Jenny Craig.

Other: Sales CHF 6.7 billion, 9.6% organic growth, 6.6% real internal growth; TOP margin of 17.6%, +10 basis points.

Nestlé Professional showed good growth for the first half of 2012, both in beverages and food, in the face of ongoing challenges in the out of home industry in some parts of the world. Emerging markets, which represent around a third of Nestlé Professional's sales, delivered double-digit organic growth. In beverages, our investment behind our proprietary systems *Nescafé Alegria* and *Nescafé Milano* delivered accelerated growth, whilst *Viaggi by Nescafé*, building on its success in France, was rolled out to customers in the UK, Italy and Switzerland.

Nespresso continued to deliver high double-digit growth in a tough economic and competitive environment. It launched a limited edition, *Naora*, relaunched *Kazaar* due to popular demand, and continued to expand with new boutiques around the world. As announced, Nespresso is building a third factory in Switzerland in order to meet growing demand.

Nestlé Health Science (NHSc) delivered a solid performance with double-digit growth in North America and the emerging markets. The work of the Nestlé Institute of Health Sciences is enhancing our capabilities to address specific medical conditions through personalised nutritional solutions, as do the acquisitions, Prometheus and Vitaflo, in both gastro-intestinal diagnostics and the treatment of metabolic disorders. Following the period close, NHSc acquired a stake in Accera. Its key brand *Axona*, a medical food on the market in the USA, is for the clinical dietary management of mild to moderate Alzheimer's disease.

Cereal Partners Worldwide continued to deliver strong growth in emerging markets, in contrast to softness across Europe. The realignment of Beverage Partners Worldwide is on track. The pharmaceutical joint ventures, Galderma and Laboratoires innéov, posted double-digit growth driven by dermatology.

Outlook

We expect the tough trading environment, especially in developed markets, to continue in the second half. However, we have started the year in line with our expectations. The actions and initiatives we have in place combined with some expected easing in input cost pressures in the second half allow us to confirm our guidance for the full year: we are well positioned to deliver the Nestlé Model of organic growth of 5% to 6%, improved margin and underlying earnings per share in constant currencies.

Peter Brabeck-Letmathe
Chairman of the Board

Paul Bulcke
Chief Executive Officer

Key figures (consolidated)

Key figures in CHF

In millions of CHF (except for per share data)		January–June 2012	January–June 2011
Sales		44 097	41 004
Trading operating profit		6 599	6 210
as % of sales		*15.0%*	*15.1%*
Profit for the period attributable to shareholders of the parent (Net profit)		5 120	4 703
as % of sales		*11.6%*	*11.5%*
Equity attributable to shareholders of the parent, end June		56 087	51 764
Market capitalisation, end June		180 263	166 388
Operating cash flow [(a)]		5 125	2 073
Capital expenditure		1 689	1 409
as % of sales		*3.8%*	*3.4%*
Free cash flow [(b)]		3 090	415
Net financial debt		15 013	14 508
Per share			
Basic earnings per share	CHF	1.61	1.46
Diluted earnings per share	CHF	1.60	1.46
Equity attributable to shareholders of the parent, end June	CHF	17.62	16.07

(a) 2011 comparatives have been restated following the changes in the cash flow statement described in Note 1 – Accounting policies.
(b) Operating cash flow less capital expenditure, sale of property, plant and equipment, expenditure and sale of intangible assets, investments (net of disinvestments) in associates and other investing cash flows. Compared with previous period, movements with non-controlling interests are no longer deducted. 2011 comparatives have been restated accordingly.

Principal key figures in USD (illustrative)

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

In millions of USD (except for per share data)		January–June 2012	January–June 2011
Sales		47 490	45 351
Trading operating profit		7 107	6 869
Profit for the period attributable to shareholders of the parent (Net profit)		5 514	5 201
Equity attributable to shareholders of the parent, end June		58 835	62 194
Market capitalisation, end June		189 094	199 913
Per share			
Basic earnings per share	USD	1.73	1.61
Equity attributable to shareholders of the parent, end June	USD	18.48	19.31

Principal key figures in EUR (illustrative)

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

In millions of EUR (except for per share data)		January–June 2012	January–June 2011
Sales		36 609	32 309
Trading operating profit		5 478	4 893
Profit for the period attributable to shareholders of the parent (Net profit)		4 250	3 705
Equity attributable to shareholders of the parent, end June		46 682	42 876
Market capitalisation, end June		150 033	137 819
Per share			
Basic earnings per share	EUR	1.34	1.15
Equity attributable to shareholders of the parent, end June	EUR	14.67	13.31

Principal exchange rates

CHF per		June 2012	December 2011	June 2011	January–June 2012	January–June 2011
			Ending rates		Weighted average rates	
1 US Dollar	USD	0.953	0.940	0.832	0.929	0.904
1 Euro	EUR	1.201	1.217	1.207	1.205	1.269
1 Pound Sterling	GBP	1.494	1.450	1.339	1.465	1.463
100 Brazilian Reais	BRL	45.611	50.124	52.925	49.899	55.358
100 Japanese Yen	JPY	1.196	1.212	1.035	1.163	1.105
100 Mexican Pesos	MXN	7.059	6.712	7.087	7.011	7.617
1 Canadian Dollar	CAD	0.931	0.921	0.860	0.924	0.921
1 Australian Dollar	AUD	0.971	0.954	0.894	0.958	0.934
100 Philippine Pesos	PHP	2.260	2.144	1.919	2.165	2.081
100 Chinese Yuan Renminbi	CNY	15.004	14.926	12.872	14.699	13.852

Consolidated income statement for the period ended 30 June 2012

In millions of CHF	Notes	January–June 2012	January–June 2011
Sales	3	**44 097**	**41 004**
Other revenue		65	68
Cost of goods sold		(23 178)	(21 352)
Distribution expenses		(3 960)	(3 804)
Marketing and administration expenses		(9 573)	(8 961)
Research and development costs		(729)	(671)
Other trading income	5	75	22
Other trading expenses	5	(198)	(96)
Trading operating profit	3	**6 599**	**6 210**
Other operating income		34	95
Other operating expenses		(83)	(142)
Operating profit		**6 550**	**6 163**
Financial income		95	42
Financial expense		(293)	(368)
Profit before taxes and associates		**6 352**	**5 837**
Taxes		(1 629)	(1 504)
Share of results of associates	6	602	539
Profit for the period		**5 325**	**4 872**
of which attributable to non-controlling interests		205	169
of which attributable to shareholders of the parent (Net profit)		5 120	4 703
As percentages of sales			
Trading operating profit		15.0%	15.1%
Profit for the period attributable to shareholders of the parent (Net profit)		11.6%	11.5%
Earnings per share (in CHF)			
Basic earnings per share		1.61	1.46
Diluted earnings per share		1.60	1.46

Consolidated statement of comprehensive income for the period ended 30 June 2012

In millions of CHF	January–June 2012	January–June 2011
Profit for the period recognised in the income statement	**5 325**	**4 872**
Currency retranslations	224	(4 848)
Fair value adjustments on available-for-sale financial instruments		
– Unrealised results	96	(80)
– Recognition of realised results in the income statement	12	4
Fair value adjustments on cash flow hedges		
– Recognised in hedging reserve	45	(21)
– Removed from hedging reserve	62	2
Actuarial gains/(losses) on defined benefit schemes	(1 524)	(161)
Share of other comprehensive income of associates	155	265
Taxes	407	29
Other comprehensive income for the period	**(523)**	**(4 810)**
Total comprehensive income for the period	**4 802**	**62**
of which attributable to non-controlling interests	179	117
of which attributable to shareholders of the parent	4 623	(55)

Consolidated balance sheet as at 30 June 2012

In millions of CHF	30 June 2012	31 December 2011	30 June 2011
Assets			
Current assets			
Cash and cash equivalents	4 983	4 938	2 833
Short-term investments	4 838	3 050	4 129
Inventories	9 784	9 255	8 885
Trade and other receivables	13 333	13 340	11 946
Prepayments and accrued income	1 103	900	1 002
Derivative assets	892	731	1 068
Current income tax assets	932	1 094	964
Assets held for sale	12	16	22
Total current assets	**35 877**	**33 324**	**30 849**
Non-current assets			
Property, plant and equipment	24 421	23 971	20 114
Goodwill	29 326	29 008	24 753
Intangible assets	9 355	9 356	7 328
Investments in associates	8 882	8 629	7 976
Financial assets	5 273	7 161	7 679
Employee benefits assets	115	127	125
Current income tax assets	36	39	61
Deferred tax assets	2 920	2 476	1 805
Total non-current assets	**80 328**	**80 767**	**69 841**
Total assets	**116 205**	**114 091**	**100 690**

In millions of CHF	Notes	30 June 2012	31 December 2011	30 June 2011
Liabilities and equity				
Current liabilities				
Financial debt		17 864	16 100	14 905
Trade and other payables		12 794	13 584	11 137
Accruals and deferred income		2 785	2 909	2 433
Provisions		478	576	509
Derivative liabilities		558	646	677
Current income tax liabilities		1 449	1 417	1 195
Total current liabilities		**35 928**	**35 232**	**30 856**
Non-current liabilities				
Financial debt		6 970	6 207	6 565
Employee benefits liabilities		8 308	7 105	4 653
Provisions		2 891	3 094	3 332
Deferred tax liabilities		2 263	2 060	1 352
Other payables		2 183	2 119	1 460
Total non-current liabilities		**22 615**	**20 585**	**17 362**
Total liabilities		**58 543**	**55 817**	**48 218**
Equity				
Share capital	8	322	330	330
Treasury shares		(2 028)	(6 722)	(5 991)
Translation reserve		(16 677)	(16 927)	(20 588)
Retained earnings and other reserves		74 470	80 116	78 013
Total equity attributable to shareholders of the parent		**56 087**	**56 797**	**51 764**
Non-controlling interests		1 575	1 477	708
Total equity		**57 662**	**58 274**	**52 472**
Total liabilities and equity		**116 205**	**114 091**	**100 690**

Consolidated cash flow statement for the period ended 30 June 2012

In millions of CHF	Notes	January–June 2012	January–June 2011 [a]
Operating activities			
Operating profit	7	6 550	6 163
Non-cash items of income and expense	7	1 668	1 578
Cash flow before changes in operating assets and liabilities		**8 218**	**7 741**
Decrease/(increase) in working capital		(1 533)	(3 403)
Variation of other operating assets and liabilities		(343)	(587)
Cash generated from operations		**6 342**	**3 751**
Net cash flows from treasury activities [b]		(136)	(816)
Taxes paid		(1 524)	(1 266)
Dividends from associates		443	404
Operating cash flow		**5 125**	**2 073**
Investing activities			
Capital expenditure		(1 689)	(1 409)
Expenditure on intangible assets		(207)	(131)
Sale of property, plant and equipment		77	30
Acquisition of businesses	2	(18)	(708)
Disposal of businesses	2	5	4
Investments (net of disinvestments) in associates		(42)	9
Outflows from non-current financial investments		(62)	(1 863)
Inflows from non-current financial investments		720	—
Inflows/(outflows) from short-term financial investments		(210)	3 900
Other investing cash flows		(174)	(157)
Cash flow from investing activities		**(1 600)**	**(325)**
Financing activities			
Dividend paid to shareholders of the parent	8	(6 213)	(5 939)
Dividends paid to non-controlling interests		(100)	(144)
Acquisition (net of disposal) of non-controlling interests		(129)	(8)
Purchase of treasury shares		(206)	(4 329)
Sale of treasury shares		848	380
Inflows from bonds and other non-current financial debt		983	561
Outflows from bonds and other non-current financial debt		(1 052)	(1 740)
Inflows/(outflows) from current financial debt		2 357	4 310
Cash flow from financing activities		**(3 512)**	**(6 909)**
Currency retranslations		32	(63)
Increase/(decrease) in cash and cash equivalents		**45**	**(5 224)**
Cash and cash equivalents at beginning of year		4 938	8 057
Cash and cash equivalents at end of period		**4 983**	**2 833**

(a) 2011 comparatives have been restated following the changes in the cash flow statement described in Note 1 – Accounting policies.
(b) Interest paid amounts to CHF 245 million (2011: CHF 215 million) and interest received to CHF 28 million (2011: CHF 26 million).

Consolidated statement of changes in equity for the period ended 30 June 2012

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 31 December 2010	347	(11 108)	(15 794)	88 422	61 867	731	62 598
Profit for the period				4 703	4 703	169	4 872
Other comprehensive income for the period			(4 794)	36	(4 758)	(52)	(4 810)
Total comprehensive income for the period			(4 794)	4 739	(55)	117	62
Dividend paid to shareholders of the parent				(5 939)	(5 939)		(5 939)
Dividends paid to non-controlling interests						(144)	(144)
Movement of treasury shares [(a)]		(3 872)		(435)	(4 307)		(4 307)
Equity compensation plans		163		(60)	103		103
Changes in non-controlling interests				(1)	(1)	4	3
Adjustment for hyperinflation [(b)]				96	96		96
Reduction in share capital	(17)	8 826		(8 809)	—		—
Total transactions with owners	(17)	5 117		(15 148)	(10 048)	(140)	(10 188)
Equity as at 30 June 2011	330	(5 991)	(20 588)	78 013	51 764	708	52 472
Equity as at 31 December 2011	330	(6 722)	(16 927)	80 116	56 797	1 477	58 274
Profit for the period				5 120	**5 120**	205	**5 325**
Other comprehensive income for the period			250	(747)	**(497)**	(26)	**(523)**
Total comprehensive income for the period			250	4 373	**4 623**	179	**4 802**
Dividend paid to shareholders of the parent				(6 213)	**(6 213)**		**(6 213)**
Dividends paid to non-controlling interests						(100)	**(100)**
Movement of treasury shares [(a)]		559		297	**856**		**856**
Equity compensation plans		204		(108)	**96**		**96**
Changes in non-controlling interests				(113)	**(113)**	19	**(94)**
Adjustment for hyperinflation [(b)]				41	**41**		**41**
Reduction in share capital	(8)	3 931		(3 923)	**—**		**—**
Total transactions with owners	(8)	4 694		(10 019)	**(5 333)**	(81)	**(5 414)**
Equity as at 30 June 2012	322	(2 028)	(16 677)	74 470	56 087	1 575	57 662

(a) Movements reported under retained earnings and other reserves mainly relate to written put options on own shares.
(b) Relates to Venezuela, considered as a hyperinflationary economy.

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 2012. 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 2011.

The accounting conventions and accounting policies are the same as those applied in the Consolidated Financial Statements for the year ended 31 December 2011, except for the changes in presentation mentioned below.

New or amended IFRS standards and interpretations that are effective for the 2012 reporting year are either not applicable to the Group, or do not have a material impact on the Interim Financial Statements.

The preparation of the Interim Financial Statements requires management to make estimates, judgments and assumptions that affect the application of policies, reported amounts of revenues, expenses, assets and liabilities and disclosures. The key sources of estimation uncertainty within these Interim Financial Statements remain the same as those applied to the Consolidated Financial Statements for the year ended 31 December 2011.

Changes in presentation – Consolidated cash flow statement

The Group has enhanced the presentation of its cash flow statement.

In line with the income statement, the Group now presents cash generated from its operations separately from its treasury activities and taxes paid. In addition, dividends received from associates have been reclassified from investing activities to operating activities.

The start of the cash flow statement is now operating profit, with a reconciliation of the profit for the period to the operating profit given in the Notes. Due to the above changes, variations of assets and liabilities and non-cash items relating to treasury activities, tax and share of results of associates are removed from the following line items: non-cash items of income and expense, decrease/(increase) in working capital and/or variation of other operating assets and liabilities.

In addition, the inflows/(outflows) from short-term financial investments are reclassified from financing activities to investing activities. Dividends paid to non-controlling interests and acquisitions (net of disposals) of non-controlling interests are now presented as two separate line items. Finally, cash flows relating to bonds and cash flows from other non-current financial debt are now presented together due to the cash flows relating to other non-current financial debt being not significant in comparison to the cash flows relating to bonds.

June 2011 comparatives have been restated for all these changes.

Changes in IFRS that may affect the Group after 30 June 2012

The following new standards and amendments to existing standards have been published and are mandatory for the accounting period beginning on 1 January 2013, unless otherwise stated. The Group has not early adopted them.

IFRS 9 – Financial Instruments

The standard addresses the classification, measurement and derecognition of financial assets and financial liabilities. 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 if they relate to equity investments that are not held for trading. Such gains and losses are never reclassified to the income statement at a later date. There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the Group does not have any such liabilities. This standard is effective for the accounting period beginning on 1 January 2015.

IFRS 10 – Consolidated Financial Statements

This standard introduces a new single control model as the basis for consolidation applicable to all investees. It also introduces a changed definition of control. It is not expected to have a material impact on the Group's Financial Statements.

IFRS 11 – Joint Arrangements

This standard establishes principles for the financial reporting by parties to a joint arrangement. The standard will affect the Group's accounting for companies over which the Group exercises joint control with partners. The current proportionate consolidation method will be replaced by the equity method. This change will affect almost all Financial Statement line items resulting in decreasing revenues and expenses, assets and liabilities. Nevertheless, profit for the period and equity will remain unchanged.

IFRS 12 – Disclosure of Interests in Other Entities

This standard combines, enhances and replaces disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group will modify its disclosures accordingly.

IFRS 13 – Fair Value Measurement

This standard applies when other IFRS require or permit fair value measurements. It defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. It is not expected to have a material impact on the Group's Financial Statements.

IAS 19 Revised 2011 – Employee Benefits

The amendments that are expected to have the most significant impact include:

- replacement of the expected return on plan assets and interest costs on the defined benefit obligation with a single net interest component. This net interest component will be calculated by applying the discount rate to the net defined benefit liability (or asset) and recognised with the net financing cost;
- immediate recognition of all past service costs.

These changes will affect the profit for the period and the earnings per share by increasing employee benefit costs of the Group. They will also impact the amounts presented in other comprehensive income, and the net employee benefits liabilities/(assets) in the balance sheet.

Improvements and other amendments to IFRS/IAS

A number of standards have been modified on miscellaneous points. Such changes include IAS 1 – Presentation of Financial Statements, which requires entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to the income statement in the future. 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.

2.2 Acquisitions

Cash outflows in the first six months of 2012 are related to several non significant acquisitions. The Group's sales and profit for the period are not significantly impacted by these acquisitions. Cash outflows of the comparative period were mainly impacted by the acquisition of Q-Med by our joint venture Galderma and other several non significant acquisitions.

Valuation

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

Acquisition-related costs

2012 acquisition-related costs have been recognised under other operating expenses in the Income Statement for an amount of CHF 15 million (2011: CHF 12 million).

2.3 Disposals

Cash inflows recognised in the first six months of 2012 and 2011 are related to several non significant disposals. The Group's sales and profit for the period are not significantly impacted by them.

2.4. Other information on future acquisitions

On 23 April 2012, the Group announced the acquisition of the Pfizer Nutrition business for USD 11.85 billion. The consideration will be paid in cash.

Pfizer Nutrition is a dynamic, high-quality infant nutrition business that complements Nestlé's existing portfolio with strong brands in key segments and geographies. It will enhance the Group's infant nutrition business, building on Nestlé's growth-focused strategy, global presence and pioneering research and development. 2012 sales of the Pfizer Nutrition business are estimated USD 2.4 billion. 85% of these sales are in emerging markets, many of them with large, fast-growing populations.

The transaction is subject to regulatory approval. Nestlé is anticipating to take control of the Pfizer Nutrition business by the first half of 2013, assuming the receipt of the required regulatory clearances and satisfaction of other closing conditions.

3. Analyses by segment

3.1 Operating segments

In millions of CHF						January–June 2012
	Sales (a)	Trading operating profit	Net other trading income/(expenses) *	of which impairment of assets other than goodwill	of which restructuring costs	Impairment of goodwill
Zone Europe	7 379	1 137	(27)	(6)	(18)	—
Zone Americas	13 419	2 334	(37)	—	8	—
Zone Asia, Oceania and Africa	9 192	1 737	(4)	(3)	(6)	—
Nestlé Waters	3 555	354	(6)	(4)	(4)	(1)
Nestlé Nutrition	3 831	788	(8)	—	(2)	—
Other (b)	6 721	1 182	(36)	(1)	(7)	(1)
Unallocated items (c)		(933)	(5)	—	—	(1)
Total	**44 097**	**6 599**	**(123)**	**(14)**	**(29)**	**(3)**

* included in Trading operating profit

In millions of CHF						January–June 2011
	Sales (a)	Trading operating profit	Net other trading income/(expenses) *	of which impairment of assets other than goodwill	of which restructuring costs	Impairment of goodwill
Zone Europe	7 521	1 234	(23)	5	(11)	—
Zone Americas	12 769	2 215	(30)	(14)	4	—
Zone Asia, Oceania and Africa	7 466	1 454	(4)	(2)	(2)	(5)
Nestlé Waters	3 372	290	(4)	(1)	(3)	(2)
Nestlé Nutrition	3 725	785	(4)	—	(2)	—
Other (b)	6 151	1 077	(13)	—	(7)	(2)
Unallocated items (c)		(845)	4	—	—	—
Total	**41 004**	**6 210**	**(74)**	**(12)**	**(21)**	**(9)**

* included in Trading operating profit

(a) Inter-segment sales are not significant.
(b) Mainly Nespresso, Nestlé Professional, Nestlé Health Science, Food and Beverages Joint Ventures and Pharma Joint Ventures managed on a worldwide basis.
(c) Mainly corporate expenses as well as research and development costs.

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

3.2 Products

In millions of CHF						January–June 2012
	Sales	Trading operating profit	Net other trading income/(expenses) *	of which impairment of assets other than goodwill	of which restructuring costs	Impairment of goodwill
Powdered and Liquid Beverages	9 620	2 276	(38)	(6)	(10)	—
Water	3 558	354	(6)	(4)	(4)	(1)
Milk products and Ice cream	9 078	1 309	(34)	—	(8)	—
Nutrition and HealthCare	5 207	966	(15)	—	(3)	—
Prepared dishes and cooking aids	6 888	915	(17)	(2)	(2)	(1)
Confectionery	4 560	638	(34)	(2)	(9)	—
PetCare	5 186	1 074	26	—	7	—
Unallocated items [(a)]		(933)	(5)	—	—	(1)
Total	**44 097**	**6 599**	**(123)**	**(14)**	**(29)**	**(3)**

* included in Trading operating profit

In millions of CHF						January–June 2011
	Sales	Trading operating profit	Net other trading income/(expenses) *	of which impairment of assets other than goodwill	of which restructuring costs	Impairment of goodwill
Powdered and Liquid Beverages	8 894	2 159	(15)	—	(5)	(2)
Water	3 375	291	(4)	(1)	(3)	(2)
Milk products and Ice cream	8 137	1 147	(26)	(7)	(4)	—
Nutrition and HealthCare	4 884	928	(10)	—	(6)	—
Prepared dishes and cooking aids	6 848	918	(10)	(2)	(4)	—
Confectionery	4 078	655	(15)	—	(3)	(5)
PetCare	4 788	957	2	(2)	4	—
Unallocated items [(a)]		(845)	4	—	—	—
Total	**41 004**	**6 210**	**(74)**	**(12)**	**(21)**	**(9)**

* included in Trading operating profit

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

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

3.3 Reconciliation from trading operating profit to profit before taxes and associates

In millions of CHF	January–June 2012	January–June 2011
Trading operating profit	6 599	6 210
Impairment of goodwill	(3)	(9)
Net other operating income/(expenses) excluding impairment of goodwill	(46)	(38)
Operating profit	**6 550**	**6 163**
Net financing cost	(198)	(326)
Profit before taxes and associates	**6 352**	**5 837**

4. Seasonality

The business of the Group does not present pronounced cyclical patterns, seasonal evolutions in some countries or product groups being compensated within the Group.

5. Net other trading income/(expenses)

In millions of CHF	January–June 2012	January–June 2011
Profit on disposal of property, plant and equipment	27	2
Miscellaneous trading income	48	20
Other trading income	**75**	**22**
Loss on disposal of property, plant and equipment	(8)	(8)
Restructuring costs	(29)	(21)
Impairment of assets other than goodwill	(14)	(12)
Litigations and onerous contracts [(a)]	(109)	(20)
Miscellaneous trading expenses	(38)	(35)
Other trading expenses	**(198)**	**(96)**
Total net other trading income/(expenses)	**(123)**	**(74)**

(a) It relates mainly to numerous separate legal cases (for example labour, civil and tax litigations) as well as several separate onerous contracts, predominantly in Latin America.

6. Share of results of associates

This item mainly includes our share of the estimated results of L'Oréal.

7. Cash flow before changes in operating assets and liabilities

In millions of CHF	January–June 2012	January–June 2011 [(a)]
Profit for the period	5 325	4 872
Share of results of associates	(602)	(539)
Taxes	1 629	1 504
Net financing cost	198	326
Operating profit	**6 550**	**6 163**
Depreciation of property, plant and equipment	1 309	1 214
Impairment of property, plant and equipment	14	12
Impairment of goodwill	3	9
Amortisation of intangible assets	244	271
Net result on disposal of assets	8	(39)
Non-cash items in financial assets and liabilities	(2)	15
Equity compensation plans	80	82
Other	12	14
Non-cash items of income and expense	**1 668**	**1 578**
Cash flow before changes in operating assets and liabilities	**8 218**	**7 741**

(a) 2011 comparatives have been restated following the changes in the cash flow statement described in Note 1 – Accounting policies.

8. Equity

8.1 Share capital

The share capital changed twice in the last two financial years as a consequence of the Share Buy-Back programmes. The cancellation of shares was approved at the Annual General Meetings on 14 April 2011 and 19 April 2012. In 2011, the share capital was reduced by 165 000 000 shares from CHF 347 million to CHF 330 million. In 2012, the share capital was further reduced by 75 200 000 shares from CHF 330 million to CHF 322 million.

At 30 June 2012, the share capital of Nestlé S.A. is composed of 3 224 800 000 of registered shares with a nominal value of CHF 0.10 each.

8.2 Dividend

The dividend related to 2011 was paid on 26 April 2012 in accordance with the decision taken at the Annual General Meeting on 19 April 2012. Shareholders approved the proposed dividend of CHF 1.95 per share, resulting in a total dividend of CHF 6213 million.

9. Bonds

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

In millions of CHF						January–June 2012
Issuer	Face value in millions	Coupon	Effective interest rates	Year of issue/ maturity	Comments	Carrying amount
New issues						
Nestlé Holdings, Inc., USA	USD 900	1.38%	1.46%	2012–2017		832
Nestlé Finance International Ltd, Luxembourg	AUD 125	4.63%	4.86%	2012–2017	(a)	116
Total new issues						**948**
Repayments						
Nestlé Finance International Ltd, Luxembourg	CHF 1075	1.25%	1.40%	2009–2012	(a)	(1 077)
Other					(b)	67
Total repayments						**(1 010)**

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

10. Events after the balance sheet date

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

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